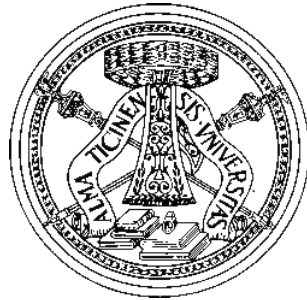


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**Illegal Oil Trade as a Source of Terrorism
Financing: the Case of the Islamic State of Iraq
and al-Sham**

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Abstract

The aim of this research is to assess the role of illegal oil trade in financing the activities of territory-controlling terrorist organizations, especially focusing on the leading case represented by the Islamic State of Iraq and al-Sham.

After introducing the phenomenon of terrorism in the West Asia region and its different manifestations as various categories of terrorist organizations, this work focuses on all the most significant possible methods of terrorism financing, before focusing on the Islamic State and illegal oil trade.

ISIS is depicted as a one-of-a-kind terrorist organization able to achieve an unprecedented level of territorial control and therefore to take advantage of sources of funding never available to any other terrorist group before, among which the most interesting is regarded to be illegal oil trade, which has brought to the Islamic State an estimate of 600 million USD per year during its period of peak activity.

In conclusion, this work frames the relationship between terrorism and the oil market in the context of geopolitical risk, describing how terrorist attacks can move crude barrel prices, and advancing the hypothesis that ISIS could have voluntarily exploited this mechanism to grow its financial wealth.

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Introduction

In the last twenty-five years, especially after the September 11th, 2001, terrorist attacks that hit New York City and the Pentagon building in the United States of America, the West Asia region has been publicly associated — thanks also to the complicity of politicians and news outlets — with global terrorism. This connection is, without a shadow of a doubt, extremely simplistic and xenophobic; nevertheless, it cannot be ignored that indeed the Persian Gulf Muslim monarchies, Iran, Iraq, Syria, and Afghanistan have witnessed and hosted the birth and growth of various different organizations, some of which have then developed into a threat to regional and global security.

Terrorist activity, especially if carried out on a large scale or with major political, ideological, or military objectives, is an expensive endeavour. It requires maintaining an organizational and operational structure of paid militants and, in some instances, bureaucrats, to plan and enact attacks in various parts of the world, and to spread the organization's ideological views through different propaganda means. Therefore, terrorist groups are always looking to find new sources of funding of various kinds, from donations by charities and wealthy individuals to illegal trade of goods and commodities, and state-sponsorship.

The emergence of the Islamic State of Iraq and al-Sham in the global framework, especially since 2014, profoundly changed the whole landscape of terrorist activity, and therefore of counterterrorism efforts. ISIS has proved that a criminal group can indeed conquer large portions of territory in different states, taking advantage of the weaknesses of unstable and challenged governments, and exploit those lands and the resources they provide to find another and completely new way of funding their activities, that is to say illegally trading oil extracted from the fields and wells they control. The main focus of this research, therefore, is indeed the role of oil trade in terrorism financing, and especially how the Islamic State's territorial nature played a fundamental role in making Al-Baghdadi's self-proclaimed caliphate the wealthiest terrorist organization that has ever existed until today. To do so, this work is divided into four chapters.

The first chapter is dedicated to the study of the history of terrorist activity in the West Asia region. After describing how terrorism has developed in those territories and the main political, ideological, and economic causes that have helped its growth, a possible

categorization of terrorist organizations into three different groups is proposed according to their main features. Groups belonging to the first kind are defined as the “transnational terrorist organizations”, of which the most notorious is Osama bin Laden’s Al-Qaeda. These groups, despite of course originating in one place, are not specifically tied to any particular country — as is shown by the survival of Al-Qaeda’s structure despite its frequent geographical relocation — and their main strategy is based on the establishment of an international network of affiliates which allows the central command on the one hand to be seen as an ideological pillar and to pursue its aims far beyond the limits of its own geographical reach, and on the other hand to have various safe harbours in different parts of the world where to find shelter in case of military or financial hardship caused by counterterrorism efforts.

The second category of terrorist organizations is those groups who are born as militant factions and that evolve over time to become political actors embedded in their country’s legitimate system. The frontrunner of these is the Lebanese party/terrorist group Hezbollah, which was born in the context of the country’s civil war as a militant Shi’a group but has then developed into a political party which has taken part in and dominated Lebanese politics since the mid-2000s. These groups, despite necessarily having to at least apparently respect the boundaries of the national political system, often experience various advantages, such as a significant availability of resources, thanks to the possibility to redirect funds from the state’s coffers, and a difficulty in fighting their terrorist activity for foreign countries due to their hybrid status which grants them a certain level of deniability and protection from negative influences coming from outside the country.

The third and last category of terrorist organizations considered by this work is that of groups which are able to directly control more or less large portions of territory within one or more states. The main examples of this practice are, even though with different levels of success and different goals, the Yemeni group Ansar Allah, known as the Houthis, and indeed the Islamic State of Iraq and al-Sham. While ISIS has managed to gain enormous financial wealth from its territorial control, which is spread between two different countries — Iraq and Syria —, the Houthis have on the other hand achieved a much more solid political control on a major portion of Yemen, effectively replacing the internationally recognized government in most of the country’s territory, a goal which

ISIS has managed to achieve only in the territories it controlled, and without ever really challenging the existence of Baghdad's and Damascus's recognized authorities.

The second chapter of this research is dedicated to a deep analysis of the different channels through which terrorist organizations can fund their activities. The first section presents an initial focus on how those funds are actually spent by these groups, a field which has been relatively underexplored by the literature due to the obvious difficulty in finding reliable witnesses on the operational and organizational expenses of terrorist organizations. In the following sections, various financing methods are assessed and put in relation to the different kinds of structures described in chapter one. First of all, terrorists use both criminal activities and legal trade to finance their actions, such as drug smuggling, kidnapping for ransom, human and antiquities trafficking, frauds, selling of counterfeit goods, and cigarettes smuggling among illegal businesses, and car dealerships and restaurant franchises concerning legal activities.

Another major method of terrorism financing is state sponsorship. Traditionally, various countries have supported terrorist organizations with which they share common ideological and political views, or pragmatic targets. The advantage in this kind of relationship is mutual: on the one hand, the terrorist organization gains access to a significant level of financial resources and often military equipment as well, and on the other hand the terrorism-sponsoring country can push the terrorist group into courses of action that meet its geopolitical or ideological strategies, while avoiding direct intervention and being able to keep deniability.

The last method of terrorism financing examined in the second chapter is that of donations, charity and personal support to terrorist organizations. There are many notorious cases of entities disguised as charities which in reality used the donations they received to fund terrorist activity in the West Asia region moving funds through various and complex channels, and it is also known that in many instances the profits of the *zakat*, the Muslim commanded almsgiving, have been channelled into terrorism financing. Furthermore, both wealthy and common individuals have deliberately chosen to support terrorist groups whose ideological views they shared and believed in.

Finally, chapter two concludes with a brief report on how the fight against terrorism financing has become probably the most efficient counterterrorism method and how this challenge is tackled by national and international authorities.

The third chapter constitutes the central core of this research effort, moving the attention to the Islamic State and its illegal oil trade. The opening section is devoted to a brief historical account of the role of petroleum in West Asia, from the beginning of extraction and commercialization in Iran and Saudi Arabia totally controlled by major foreign oil firms, to the emancipation of national governments and the establishment of national oil organizations such as NIOC and Saudi ARAMCO, to the foundation of OAPEC and the establishment of the informal petrodollar system.

The rest of the chapter is totally dedicated to the Islamic State of Iraq and al-Sham. The first aspect examined is its evolution from Al-Qaeda in Iraq, a local affiliate of Bin Laden's organization, to an independent group which was able to establish itself as probably the most dangerous global terrorist organization which, despite a short period of peak activity rapidly ended by international joint counterterrorism efforts, has represented a serious security threat for its enemies worldwide, more than any other group had ever done before.

Later on, ISIS's territorial control and how this provided the caliphate with unprecedented sources of financing is deeply analysed. By directly exercising para-state power on significant portions of territory between Iraq and Syria, the IS was able to gain enormous financial wealth by extorting from the local population a high share of their salaries, collecting taxes, managing agricultural activities, controlling phosphate and cement plants, selling the antiquities looted from the archaeological sites they conquered, using the funds contained in the national bank branches of their controlled regions, and, most interestingly, illegally extracting and selling oil from the fields and wells in the sites on which they exercised direct power.

This illegal oil trade is probably the most peculiar activity carried out by the Islamic State and maybe also the one which best represents the complexity of the organizational and administrative structure of the caliphate, which despite the lack of technical equipment and adequate expertise, even though they were able to hire or coerce skilled workers to keep operating their oil fields, was able to keep selling crude oil barrels for a total estimated value of 1.5 to 3 million USD per day, for about two years, acquiring a level of financial resources unprecedented for a terrorist organization.

Chapter four concludes this research by connecting terrorism and the global oil market through the transmission channel of geopolitical risk. According to various studies,

indeed, terrorism is one of those adverse geopolitical events which have a significant negative effect on different macroeconomic and financial variables, such as GDP, stock market index values, treasury bond yields, inflation, and foreign trade. The oil market is affected as well, especially by those terrorist actions which directly affect crude availability both by reducing production and disrupting the supply chain, which cause an increase in the crude barrel price on the international commodity market. Uniting all these elements, this research ultimately advances a hypothesis of a possible market manipulation effort carried out by ISIS during the years of its peak activity by attacking oil infrastructure in order to raise the price of oil globally and therefore be able to sell its illegal oil at a higher rate as well.

1. Terrorism and armed non-state actors in West Asia

1.1 The origins of terrorism in the West Asia region

Between 66 and 72 AD, in Judaea, a Jewish resistance group known as *Sicarii* or *Zealots* worked to provoke riots against the leading Roman elite through assassinations, kidnappings, and large-scale poisonings. Their favourite targets were those members of Jewish society who decided to collaborate with the Romans, and their aim was to demonstrate that those collaborators could not be protected by the ruling elite. Therefore, those Jewish victims were not themselves the main objectives of the *Sicarii*'s actions, but they were a means to an end.

For the next 2000 years, this way of reaching one's aims through terror and fear has been perpetuated and refined by different groups and actors such as French post-revolutionary Jacobins, the anarchists of the late-19th century, Irish rebels of 1919-1921, and ultimately extremist and armed non-state groups in the West Asia region.¹ Furthermore, non-state actors — which are those on which this work is focused — are not the only kind of social organization that has employed terrorist methods throughout history. Legitimately recognized states themselves, for instance, have often resorted to violent means with the objective to coerce or scare either their own population, in the case of authoritarian regimes, or the population of an enemy nation, for example through terror bombings.

Defining what a terrorist act is has been a difficult challenge undertaken by many political scientists and international relations scholars since the 1990s. Moving from Schmid², Nielsen³ summarizes six main possible definitions of the concept, for example Chomsky's⁴, according to whom terrorism is "the use of coercive means aimed at civilian populations in an effort to achieve political, religious or other aims", or Primoratz's⁵, who defines terrorism as "the deliberate use of violence, or threat of its use, against innocent people, with the aim of intimidating them, or other people, into a course of action they would otherwise not take". These two attempts to theorize terrorism can be regarded as

¹ Garrison, A. (2003): "Terrorism: The Nature of Its History." *Criminal Justice Studies: A Critical Journal of Crime, Law and Society*, 16:1, pp. 39–52.

² Schmid, A. P. (1983): "Political Terrorism: A Research Guide to Concepts, Theories, Data Bases and Literature." New Brunswick, NJ.

³ Nielsen, K. (2003): "On the Moral Justifiability of Terrorism (State and Otherwise)." *Osgoode Hall Law Journal*, 41.2/3, p. 429.

⁴ Chomsky, N. (2001): "U.S. – A Leading Terrorist State." *Monthly Review*, 53(6), p. 10.

⁵ Primoratz, I. (1990): "What Is Terrorism?" *Journal of Applied Philosophy*, 7(2), p. 129.

particularly useful because they give less importance to the category of the aim intended by the perpetrator of the act, whether political, religious, economic, or otherwise, instead emphasizing the supposed “innocence” of the victims (another concept on which scholars have produced a rich and diverse debate), and especially the aim to intimidate people who are beyond the primary targets of the attack itself – whose identity is, in most cases, incidental – and to coerce them into a course of action different from the one they would autonomously choose.

Since the end of the 1980s, the region commonly known as “Middle East” (which in this work will be referred to as “West Asia” due to the historical and geographical neutrality of this definition) has come to the center of international attention due to an alarming surge in the number of armed organizations classified by many countries as “terrorist” which have developed in its territory. The reason why the nature of these groups can allow their classification in the category of the “terrorist organizations” is that they choose to operate mostly through ways of action that can be defined as terrorism, but this doesn’t mean neither that they do not engage in any other type of activity, nor that they are the only actor that choose terrorism as a way of action, at least in some instances. These organizations’ structure is very complex and their activities are multifaceted, especially in the cases of those groups which have both a political and an armed branch, but for the sake of this work the organizations considered can indeed be regarded through the methodological lenses suitable for the study of terrorism and terrorist groups.

There are different theories that try to explain the concentration of these groups in the region. Kitschelt⁶ has argued that the main explanation is political-economic rather than cultural: government and institutions of the country involved do not support the development of “viable capitalist markets”. Instead, ruling elites prefer to implement economic policies known as “import substituting industrialization” (ISI) strategies, reached through the overvaluation of currencies to discourage exports and facilitate imports and state control of vital industries, therefore leading people to deprivation and poverty, a condition which potential leaders and extremist political ideologues can exploit to frame their own enemies as the causes of the population’s distress, gaining proselytes among those affected.⁷ Furthermore, according to Kitschelt’s view, the region is

⁶ Kitschelt, H. (2004): “Origins of International Terrorism in the Middle East.” *Internationale Politik und Gesellschaft*, 1/2004, pp. 159–188.

⁷ *ivi*, p. 164.

characterized by predatory rulers, allowed to exploit their position to enrich themselves due to the absence of institutional checks on the extension of their power. To support this argument, he quotes Diamond's classification of political regimes world-wide, based on Freedom House ratings, according to which West Asia is the only region of the world which shows "no single full liberal democracy with well-protected civil and political rights, aside from Israel. Turkey qualifies as an ambiguous regime, Lebanon, Iran and Yemen as competitive authoritarian, and all others as hegemonic electoral authoritarian or closed authoritarian".⁸

The most interesting aspect of Kitschelt's analysis is his focus on the connection between the diffusion of Islam and the difficulty for democracy to develop in those countries. Through a careful review of the thriving existing literature on the determinants of democracy and the quality of institutions, the author finds that there is no significant correlation between the practice of Islam by the majority of a country's population and the presence or absence of democratic institutions and processes. It is, indeed, a phenomenon peculiar to the West Asia region, which doesn't seem to affect other Muslim-majority countries like Indonesia or Bangladesh which, although not perfectly, have experienced strong democratic phases throughout their recent history. Therefore, other factors, Kitschelt concludes, must be held accountable for the struggles of democracy in West Asia and the consequential diffusion of terrorist movements, as he confirms his emphasis on economic and political explanations.⁹

Nevertheless, even though it is clear that Islam itself is not a cause either for the lack of democratic institutions or for the development of terrorist groups and methods, the Islamist root – different from Islamic¹⁰ – of some of the most infamous terrorist organizations active in West Asia since the 1980s is undeniable.

The word "Islamism" can be used to define those currents of Islam which have the final and specific goal to re-establish a seventh century-like Islamic caliphate governed by a foundational interpretation of the Quran. According to this view, all Arab governments are to be condemned and eradicated, since they are seen as collaborators of Western powers, deemed as infidels (this aspect will be declined more specifically in the next

⁸ *ivi*, p. 163.

⁹ *ivi*, p. 166.

¹⁰ Matthes, J. et al. (2020): "Who Differentiates between Muslims and Islamist Terrorists in Terrorism News Coverage? An Actor-Based Approach." *Journalism Studies*, 21(15), pp. 2135–2153.

sections); and it is precisely the fight against infidels that builds the bridge between Islamism and armed terrorism.¹¹ Prevailing over those “moderate extremists” who believe that Islam can prevail through the conversion of non-believers, the supporters of the need to use armed force to remove them from Arab and holy territories undertake the violent struggle commonly referred to as *jihad* (a misinterpretation of the Muslim concept of struggle to improve oneself, known as *Great jihad*, and the fight in the name of God, known as *Lesser jihad*).¹²

Two Islamic movements are commonly associated with Islamist terrorism and considered its ideological foundation: *Qutbism* and *Wahhabism*, both linked to a Salafist view of Islam, generally willing to go back to the purity of the first true believers.

Inspired by the Egyptian Sayyid Qutb and by his *Milestones*, written while in prison, Qutbism holds Islamic law, known as *sharia*, in the highest regard, seeing it as the key element of society, indispensable for laying the bases for the diffusion of Islam itself. The preferred means of spreading the implementation of sharia are both offensive and defensive jihad, against non-Muslim territories and against those infidels trying to occupy Muslim territories, and in particular against the demonized West and the Jews. Qutbist thought is considered to be the founding ideology of Al-Qaeda especially due to its influence on its second and current leader, Ayman al-Zawahiri. The organization especially drew inspiration from the teachings of Muhammad abd-al-Salam Faraj, the ideologue of the armed group which killed Egyptian President Anwar Sadat in 1981, who quoted a 14th-century *fatwa* (religious-legal opinion by an Islamic jurist) allowing (and also compelling) Muslims to fight and kill the Mongols invading Syria, drawing a parallel with the supposed legitimacy of the killing of Sadat as one of those rulers corrupted by the West who are “rebels against the Laws of God”.¹³¹⁴

Wahhabism is inextricably linked to the royal house of Saud since its founder Muhammad ibn Abd al-Wahhab joined Muhammad ibn Saud to establish the Emirate of Diriyah, commonly known as the first Saudi state, lasting from 1744 to 1818. Still today, in

¹¹ Garrison (2003), pp. 48-50.

¹² Robinson, G. E. (2021): "Introduction: The Birth of Islamism and Jihadism." In *Global Jihad: A Brief History*. Stanford, CA: Stanford University Press, pp. 1–34.

¹³ Eikmeier, D. C. (2007): "Qutbism: An Ideology of Islamic-Fascism." *Parameters*, XXXVII (1), pp. 85–98.

¹⁴ For a better contextualization and explanation of Ibn Taymiyyah's fatwa and his later exploitation by terrorist leaders, see Maghribi, H. et al. (2023): "The Contextual Origin of Ibn Taymiyyah's Thought on Jihad." *Progresiva: Jurnal Pemikiran dan Pendidikan Islam*, 12(1), pp. 17–34.

modern Saudi Arabia, the minister of religion is a member of the Al Ash-Sheikh family, composed of the descendants of al-Wahhab. Due to this entrenchment in the political life of the kingdom, Wahhabism has developed as a conservative and traditionalist movement, which has been often accused of laying a fertile ground for extremists and terrorists to grow.¹⁵

Despite the major role of religious beliefs and preaching in the formation and operations of terrorist groups, it is not possible to ignore how global powers – namely the U.S. and, in a lesser way, Britain – have provoked such a high level of rage and wish for revenge. Since the 19th century, and especially in the aftermath of the First World War, Britain has acted as the major colonial power in West Asia (thus the origin of the “Middle East” definition, as seen from Britain’s geographical perspective). The fall of the Ottoman Empire as a consequence of the global conflict led winning powers to arbitrarily draw the borders of new nations shaped in accordance with British interests regardless of ethnic, cultural or religious stratification of the peoples living there. It is safe to say that this colonial policy can be regarded as the first and main cause of the tensions that characterized the region during the whole 20th-century and beyond. While in 1971 British presence in West Asia formally ended, its influential role was immediately taken over by Washington, whose aggressive and Cold War-oriented foreign policy led to disastrous consequences that ultimately contributed to generate the main terrorist organizations analyzed by this work, through a series of short-sighted decisions which will be considered more thoroughly in the next chapters.¹⁶

According to Barzegar, West Asia-based armed struggle is a new form of terrorism, which in the first two decades of the 21st century has acquired an international dimension rather than regional or national, and has been a constant threat to global peace and security.¹⁷ The forerunner of this declared war against the U.S. and its allies has been the infamous *Al-Qaeda*.

¹⁵ Encyclopaedia Britannica: "Wahhābī." <https://www.britannica.com/topic/Wahhabism>, visited in 2026.

¹⁶ Barzegar, K. (2005): "The Middle East and the 'New Terrorism.'" ISYP Journal on Science and World Affairs, Vol. 1, No. 2, pp. 115-117.

¹⁷ *ivi*, p. 114

1.2 Al-Qaeda and transnational Jihadist terrorism

It is safe to affirm that Cold War dynamics played a major role in contributing to the birth of one of the most notorious Sunni West Asian terrorist groups of the last decades.

In 1979 the communist regime of Afghanistan was facing serious difficulties due to frequent attacks by Muslim guerrilla fighters. The conflict for Afghanistan was quickly recognized by Muslim fighters as jihad to defend Islam from the Russian invader, and therefore those fighters became globally known as *mujahideen*, strugglers, those who fight for *jihad*, internationalizing a situation that was internal until then. Nevertheless, this was not a quest of one-man armies: various militant organizations were established to organize fighters and better direct forces against the enemy, coordinated since 1984 by the *Maktab al-Khadamat* (MAK, Services Offices). Its main functions were recruitment and training of foreign volunteer fighters, and also coordinating aid and supply distribution to avoid the frequent corruption episodes that had occurred since the beginning of the war. Headquartered in Peshawar, the MAK had among its members a wealthy Saudi businessman who contributed greatly to its financing in its early years, Osama bin Laden. However, tensions and disagreement between him and the leader of the MAK, Abdullah Azzam, grew very soon. Azzam was indeed willing to expand the scope of the organization, trying to cultivate the establishment of an Islamic state in Afghanistan after the defeat of the Soviets. Even if Osama was not opposed to this final goal, he didn't believe that the MAK was the right body through which it was achievable, while he thought that this diversion would have weakened its primary role in financing Afghan mujahideen, also due to the organizational and administrative problems that had hit the MAK since 1986.

Divergences on training of fighters led Osama to build his own facility in Jaji, known as al-Masada, which became the birthplace of Al-Qaeda, born conventionally in 1988 when Osama established a database in Peshawar to keep track of the dead and alive mujahideen (the name of the file was, indeed, *Al-Qaeda*, which literally translates as "the base").¹⁸ Soon he was joined by many foreign fighters, especially Egyptian, among which were those who would have later become the first military commanders of his group. During

¹⁸ Farrall, L. (2017): "Revisiting al-Qaida's Foundation and Early History." *Perspectives on Terrorism*, 11(6), pp. 17–37.

the final years of the Afghan-Soviet war, Osama's organization was able to show multiple times its superiority when compared to its Afghan allies.

After the USSR withdrew from Afghanistan in 1989, Osama bin Laden went back to Saudi Arabia in order to gather his fighters and to prepare them for what he had identified as their next enemy, the Yemeni communists. At the same time, bin Laden's emissaries engaged in talks with Sudanese Islamist foreign minister Hassan al-Turabi to discuss the possibility of establishing a base in Sudan. Nevertheless, Al-Qaeda's future, together with the history of the region, was dramatically changed by the Iraqi invasion of Kuwait in 1990. When the Saudi monarchy requested the deployment of American troops on Saudi soil – which includes, most importantly, the two holy cities of Mecca and Medina – Osama offered Crown Prince and Defense Minister Sultan to replace U.S. soldiers with his own mujahideen, a proposal which was refused and that led the leader of Al-Qaeda to be placed under house arrest after his public denunciation of the role of the House of Saud in the occupation of the Holy Lands by infidels.

In 1991 Osama was exiled to Sudan, where he was able to keep Al-Qaeda operations running thanks to the support of al-Turabi and the broader cooperation of the newly established Islamist government of Omar al-Bashir. Osama's verbal attacks on the Saudi regime didn't cease, and in 1993 his citizenship was revoked and his family was pressured to cut off his funding and to publicly disown him.

In 1996 Osama and his organization were forced out of Sudan as well due to a broader retaliation against jihadist groups after Egyptian Islamic Jihad (EIJ) attempted to assassinate Egyptian President Hosni Mubarak. In the same year, the Taliban had finally managed to seize control of Afghanistan, and this gave Al-Qaeda a perfect ground to continue its operations, while financially and administratively supporting the Taliban government in exchange.¹⁹ While in Afghanistan, Osama officially turned his organization fully against the U.S. and its allies issuing the *Declaration of War against the Americans Occupying the Land of the Two Holy Places*, calling on all Muslims to get together to fight especially the United States and Israel. This fatwa was reaffirmed in 1998 through the World Islamic Front for Combat Against the Jews and Crusaders. From that year, Al-Qaeda conducted its most infamous terrorist attacks, for example, the 1998 bombings of U.S. embassies in Kenya and Tanzania, the 2000 attack on the *USS Cole* in

¹⁹ Cragin, R. K. (2008): "Early History of Al-Qa'ida." *The Historical Journal*, 51(4), pp. 1047–1067.

Yemen, and the September 2001 hijackings and plane crashes on the World Trade Center in New York City and on the Pentagon facility in Virginia. These attacks led the United States to concentrate all their efforts in the Global War on Terrorism declared in the aftermath of the 9/11 attack by U.S. President G.W. Bush, which targeted especially militant Islamist factions (mainly Al-Qaeda) and those regimes which allegedly supported them, such as the Taliban or the Ba'athist government in Iraq. These actions, according to the report drafted by Crawford and Lutz for the *Costs of War* project, caused 940,000 direct deaths – of which 432,000 were civilians – and about 3.5 million indirect deaths.²⁰ Afghanistan was invaded in 2001 (*Operation Enduring Freedom*), and by 2002 the Taliban regime had lost almost its entire territorial control except for a small portion of land in the Tora Bora mountain region. Ultimately, after years of searching and investigation, in 2010 U.S. intelligence services were able to follow a series of Al-Qaeda couriers to a compound in Abbottabad, Pakistan, where on May 2nd, 2011, Osama bin Laden was killed by American Navy SEAL soldiers.²¹

Despite these efforts, Al-Qaeda thrived in the first decade of the 21st century, especially thanks to the surge in the establishment of new affiliate groups like Al-Qaeda in the Arabian Peninsula (AQAP), Al-Qaeda in Iraq (AQI), and Al-Qaeda in the Islamic Maghreb (AQIM).²²

Immediately after Osama's death his deputy Ayman al-Zawahiri succeeded him in the leadership of the organization. Under his rule, Al-Qaeda has gone back to a more regional approach and has worked more as an ideological and legitimizing center for Sunni terrorist organizations in West Asia rather than acting directly on its own. For instance, Al-Zawahiri publicly expressed his support for the Syrian rebels against the regime of Bashar al-Assad in 2012, helped on the ground by Al-Qaeda through its support for the Jabhat al-Nusra group, even though this particular front was later shaken by the actions of the Al-Qaeda in Iraq leader Abu Bakr al-Baghdadi, which will be examined later in a dedicated chapter of this work.²³

²⁰ Crawford, N. C. and Lutz, C. (2021): "Human Cost of Post-9/11 Wars: Direct War Deaths in Major War Zones." Costs of War Project, Watson Institute for International and Public Affairs, Brown University.

²¹ Ray, M. and Tabor, N. (2025): "Killing of Osama bin Laden." Encyclopaedia Britannica.

²² Cragin, R. K. (2014): "A Recent History of Al-Qa'ida." *The Historical Journal*, 57(3), p. 807.

²³ *ivi*, p. 818.

Ayman al-Zawahiri was allegedly killed by a U.S. drone in Kabul, Afghanistan on July 31st, 2022. Neither Al-Qaeda nor the Taliban, who regained control of the country in 2021, have confirmed his death, and the organization has not publicly designated a successor, even though according to the United Nations the leader of the group is Sayf al-Adl, based in Iran.²⁴

Like all Islamist organizations, Al-Qaeda has always had the final goal to establish an Islamic Caliphate on a 7th-century model. Nevertheless, since the establishment of his organization, Osama bin Laden has emphasized the need for foundations for this final aim to be reached and has directed the attention to the fight against infidels occupying Arab lands. On this matter, Al-Zawahiri has been a prolific writer until his death, and through the organization's media he has often outlined the characteristics of Al-Qaeda's methodologies and targets, highlighting its main orientation against "the head of the infidels, America and its ally Israel, and second, against its local allies who run our countries" (al-Zawahiri; as quoted in Vasilieva and Zherlitsyna).²⁵

A very distinctive element of Al-Qaeda is its relationship with its various associates. In 2004 the first one, Al-Qaeda in Iraq, was founded by Abu Musab al-Zarqawi. In 2006 it was renamed as the Islamic State of Iraq (ISI), and since 2011 it operated in Syria as the Nusra Front. After al-Baghdadi's failed attempt to subsume the Nusra Front in ISIS, in 2017 it formed Hayat Tahrir al-Sham, together with other Syrian groups, and it progressively distanced itself from Al-Qaeda, with the notable exception of the Hurras al-Din group.

With regard to Saudi Arabia, in 2009 the remnants of Al-Qaeda in the country, targeted by the government and the U.S. since 2005, joined Yemeni cells to form Al-Qaeda in the Arabian Peninsula, which progressively gained importance as one of the main terrorist groups in Yemen and also the most effective Al-Qaeda affiliate in the field of planning foreign operations against Europe and the U.S.

Other groups, which weren't born as splinters of Al-Qaeda, later decided to join its efforts attracted by its allure and to pledge their alliance to Osama's organization. Al-Qaeda in

²⁴ Thomas, C. and Martin, A. G. (2024): "Al Qaeda: Background, Current Status, and U.S. Policy." Congressional Research Service, IF11854, p. 1.

²⁵ Vasilieva, A. M. and Zherlitsyna, N. A. (2022): "The Evolution of Al-Qaeda: Between Regional Conflicts and a Globalist Perspective." Herald of the Russian Academy of Sciences, 92(Suppl. 13), p. S1242.

the Islamic Maghreb, for instance, was born originally in the context of the 1990s Algerian civil war and rebranded as AQIM only in 2006. Its most important faction is the Group for Supporting Islam and Muslims (JNIM), formed in 2017 and active especially in Mali and Burkina Faso.

As of today, the richest and best organized affiliate of Al-Qaeda is the Somali Al-Shabaab, which pledged alliance in 2012. According to U.S. officials, it has between 7,000 and 12,000 fighters and generates over \$100 million in annual revenues.²⁶ Since the mid-2000s the group has been able to seize territory within Somalia, and in 2023 the government launched an ineffective offensive against the group.

Finally, the most recent Al-Qaeda affiliate is Al-Qaeda in the Indian Subcontinent (AQIS), formed in 2014 merging many different jihadist groups in India, Pakistan, and Afghanistan.²⁷

This significant number of affiliate groups is just the latest development of a strategy that Smith defined as “transnational terrorism”.²⁸ According to him, since its establishment Al-Qaeda has worked through “an informal horizontal structure, comprising more than 24 constituent terrorist organizations, combined with a formal vertical structure”, with Osama bin Laden at the apex. This multi-cellular structure, spread worldwide, gave Al-Qaeda an unparalleled ability among terrorist groups to move and act quickly. As Smith reports, U.S. president Bush’s declarations in the aftermath of the 9/11 attack in which he explicitly planned to attack any nation that hosted Al-Qaeda terrorists were practically meaningless due to the fact that even allied nations of the United States harbored members of the group (e.g. Germany, as declared by officials years later).²⁹ It is known today that during its existence Al-Qaeda cells have existed and operated in West Asia, Europe, North America, South and Southeast Asia, and even in South America in the so-called “triple border area” between Argentina, Brazil, and Paraguay, historically a safe harbor for illegal activities by many Islamist organizations.

²⁶ Thomas and Martin (2024), p. 2.

²⁷ *ibid.*

²⁸ Smith, P. J. (2002): "Transnational Terrorism and the al Qaeda Model: Confronting New Realities." *Parameters*, 32(2), pp. 33–46.

²⁹ *ivi*, p. 37.

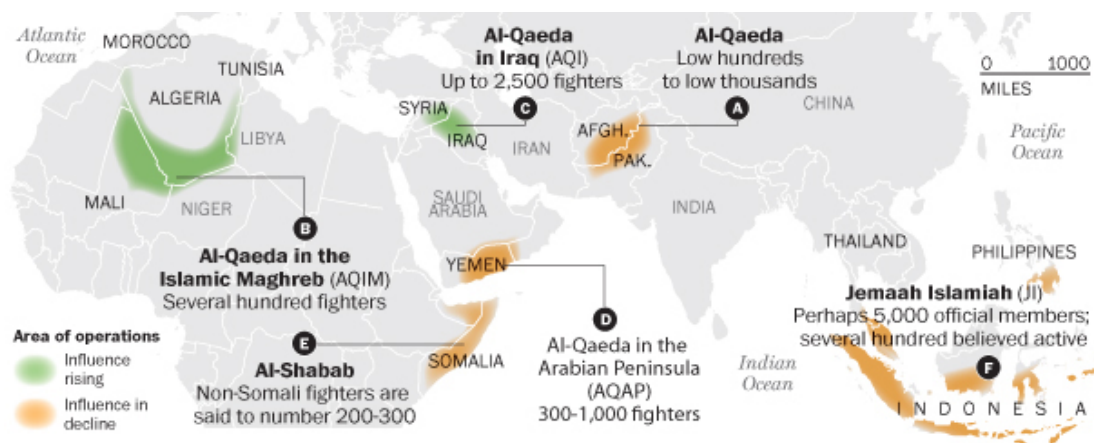


Fig. 1: map of Al-Qaeda territorial reach as of February 2013 (Fisher, M., Atlantic Council).³⁰

However, other authors such as Barber have tried to diminish the emphasis on Al-Qaeda's role within the terrorist network, acknowledging its ideological and inspirational leadership but downplaying the operational control it is able to exercise on its affiliates and other armed groups.³¹ It is indisputable, anyway, that Al-Qaeda has been, until now, the recognized terrorist organization most able to operate outside its birth region, West Asia, exporting its methods and attacks in different parts of the world. The case is very different for organizations such as the Lebanese Hezbollah which, with some exceptions, has directed its efforts mainly toward Lebanese territory and on the support for the Palestinian cause.

1.3 Hezbollah as a hybrid political-terrorist organization

To understand the development of Hezbollah in the context of West Asia it is first necessary to briefly look at Lebanese history in the second half of the 20th century, and especially at the civil war that devastated the country from 1975 to 1990. The two main causes that led to the beginning of the conflict, which took place in the already deeply divided social structure of the country, torn by the hard sectarian division and distribution of power institutionalized by the 1943 National Pact, were the corrupt and polarizing presidency of the Maronite Suleiman Franjeh, elected in 1970, and the resented presence

³⁰ Fisher, M. (2013): "Map of Al Qaeda's Global Network." The Washington Post, republished by Atlantic Council (NATOSource), February 4.

³¹ Barber, V. (2015): "The Evolution of Al Qaeda's Global Network and Al Qaeda Core's Position within It: A Network Analysis." *Perspectives on Terrorism*, 9(6), pp. 2–35.

of the PLO militias in the country, which had established their basis there after the Black September (1970-1971) in Jordan.

Soon after its outburst, the conflict internationalized with Syrian invasion of the country in 1976, surprisingly not to support the PLO and the Muslim factions, but instead to prevent the disintegration of the country into multiple entities. In response to this action, and also to the continuous raids of the PLO militias, Israel intervened first in 1978 and then most significantly in June 1982, when its troops invaded the country reaching well over its stated goal – securing the southern part of Lebanon directly bordering its territory – arriving as far as the outskirts of Beirut and laying siege to the capital. After the infamous massacre in the Palestinian refugee camps of Sabra and Shatila, perpetrated by Christian militias with the permission and acquiescence of Israeli forces, by 1985 Israel almost fully withdrew from Lebanon, and the conflict descended into a continuous guerrilla fought by factions which didn't always respect the traditional sectarian division, with Muslim and Christian armed groups fighting also against their own co-religionists. In October 1989, finally, the Ta'if Accord was concluded in Saudi Arabia to restore the Lebanese government reducing the power of the Maronite president in relation to the Sunni prime minister and the Shi'a speaker of the National Assembly. The agreement also included the permission for Syrian forces to remain in the country for two years and, most interestingly, it imposed the disarmament of all militias. Syria, however, used its influence on the country to grant permission for one militia to keep its weapons and to control Shi'a areas along the border with Israel.³²

Founded in the first half of the 1980s as one of the various Shi'a militias fighting against the Israeli occupation during the civil war, Hezbollah ("Party of God") immediately affirmed itself as the biggest challenger for the traditionally leading organization within the Lebanese Shi'a armed framework, the Amal Movement, whose tactics in that period were more moderate when compared to those implemented by Hezbollah's men. Thanks to the aforementioned permission granted by Syria, Hezbollah was able to keep fighting against Israel until its complete withdrawal even from Southern Lebanon in 2000. Therefore, the group kept supporting Syria also in the subsequent development of Lebanese politics in the first decade of the 21st century, especially during the rallies organized against Syrian influence after the assassination of former Prime Minister Rafiq

³² Kingston, P. and Ochsenwald, W. L. (2024): "Lebanese Civil War." Encyclopaedia Britannica.

al-Hariri, when Hezbollah organized the *March 8th* faction to support Syria, which nevertheless withdrew from the country in October 2005. Left without a protecting power, Hezbollah experienced great pressure to disarm, and therefore decided to prove why its weapons were still necessary to fight against its ancestral rival: in July 2006 the organization launched a military operation within Israel capturing two soldiers to keep as prisoners of war. In response, Israel launched a major military campaign against Hezbollah lasting about a month and resulting in the death of more than 1,000 people and the displacement of ~1,000,000.³³ However, the fact that the armed group was able to bring Israel to a stalemate made the war – clearly disastrous in humanitarian and military terms – look like a heroic effort against the historical enemy throughout the Arab world. The 2006 conflict represented a turning point in the history of Hezbollah. Led since 1992 by Secretary General Hassan Nasrallah, the organization tried to exploit its new prestige to grow its role within Lebanese politics. Hezbollah, indeed, was already represented in the government through the *March 8th* bloc members, but it wished to gain even more participation and therefore resigned from the cabinet and asked for the formation of a new one in which its members would gain veto power over the majority of decisions. The tensions between the Western-supported *March 14th* bloc and Hezbollah's faction grew stronger over the succession of President Émile Lahoud, and the country was therefore left without a president for two years. When in May 2008 the government tried to dismantle Hezbollah's telecommunication infrastructure, the group's militiamen took control of parts of Beirut; to solve the stalemate, the government was forced to give Hezbollah veto power within Lebanese politics. During the next years, Hezbollah proved that it was becoming the dominant political force in the country, gaining the ability to form and make governments collapse, like it did in 2010, when it withdrew from the coalition government created with the *March 14th* bloc due to the latter's support for the UN Special Tribunal for Lebanon's investigation into senior Hezbollah members with regard to the assassination of Prime Minister al-Hariri in 2005, or in 2011, when the group backed the formation – and then re-formation, with even more cabinet posts – of the Mikati government, which in its second composition saw no positions assigned to the Western-led political conglomerate.

³³ Zeidan, A. (2026): "Hezbollah." Encyclopaedia Britannica, p. 3.

The 2018 legislative elections gave Hezbollah (again through the March 8th coalition) a true majority and political dominance for the first time, and despite not gaining any direct cabinet post due to its designation as a terrorist organization by some countries, it was able to control some of the most important government appointments through its affiliates. However, that victory was followed by a series of national and international crises, such as general financial instability (that led to protests in 2019), the COVID-19 pandemic, and the 2020 explosion in the port of Beirut. Therefore, the 2022 legislative elections ended the March 8th bloc majority, diminishing Hezbollah's direct influence on the government.

This trajectory shows how the organization has been able to embed itself into Lebanese politics over the last 30 years, moving from being a militant Islamist group to a more structured political party fundamental to the functioning of the country's sectarian balance. Nevertheless, many foreign countries have come to categorize Hezbollah as a terrorist organization due to a series of reasons like its ideological project linked to the physical destruction of Israel, the use of violence against civilians during the 1980s and the 1990s, and the use of terrorism within the Lebanese political landscape. According to Azani, political assassinations, street riots, and the direct control of parts of Lebanese territory or cities are used as means to reach its political goals – the most famous of these actions being the aforementioned alleged killing of Prime Minister Rafiq al-Hariri and the 2008 seizing of parts of Beirut.³⁴ Unsurprisingly, the United States and Israel have been the forerunners among those who classified Hezbollah as a foreign terrorist organization (FTO), followed by the Gulf Cooperation Council states.³⁵ The European Union, on the other hand, in 2013 designated only the military arm of the group as terrorist, while sparing the political wing from this definition. Nevertheless, in 2019 the United Kingdom aligned with the U.S., Israel, and GCC, followed in 2020 by Germany. Despite the formal classification, what is undeniable is Hezbollah's undisputed military capacity, which makes the group one of the most heavily armed non-state actors all over the world. According to the figures quoted by the Council on Foreign Relations, which draws its data from the U.S. State Department and Congress, there are “tens of thousands

³⁴ Azani, E. (2013): "An Overview: Hezbollah as a Terrorist Organization." International Institute for Counter-Terrorism (ICT).

³⁵ These are Saudi Arabia, UAE, Oman, Bahrain, Qatar, and Kuwait.

of supporters and members worldwide”³⁶, quantifiable at about 40,000-50,000 according to the latest figures.³⁷ According to a 2024 estimate, the organization owns between 150,000 and 200,000 rockets and missiles of different range.³⁸

From an ideological point of view, it is possible to clearly identify two phases in Hezbollah’s vision of the world: one from its formal public appearance in 1985 through the first Manifesto to 2009, and another one from the publication of the second Manifesto in 2009 until today. It is useful to compare these two documents to clearly see how some elements have stayed the same and survived the evolution of the organization and its role within Lebanon, while other points show clear differences and reflect these developments.

The 1985 Manifesto, read by the group’s spokesman at the al-Ouzai Mosque in Beirut, opens with a clear statement of affiliation that explicitly subordinates Hezbollah to the leadership of Iran’s Ayatollah Ruhollah Khomeini as the true and righteous Islamic jurist and head of the global *umma* (Muslim community). The objectives of the group are clearly stated in the subsequent paragraphs:

*[...] to expel the Americans, the French, and their allies indefinitely from Lebanon, putting an end to any colonialist entity on our land; to submit the Phalanges to a just power and bring them all to justice for the crimes they have perpetrated against Muslim and Christians; to permit all the sons of our people to determine their future and to choose in all the liberty the form of government they desire. We call upon all of them to pick the option of Islamic government which, alone, is capable of guaranteeing justice and liberty for all. Only an Islamic regime can stop any further tentative attempts of imperialistic infiltration into our country.*³⁹

³⁶ Council on Foreign Relations (2026): "What Is Hezbollah?" Council on Foreign Relations.

³⁷ Thomas, C. and Zanotti, J. (2024): "Lebanese Hezbollah." Congressional Research Service, IF10703.

³⁸ *ibid.*

³⁹ International Institute for Counter-Terrorism (ICT): "The Hizballah Program: An Open Letter." Archived August 21, 2006, via Wayback Machine, (reproducing the translation originally published in Jerusalem Quarterly, no. 48, Fall 1988).

This statement of its objectives makes clear the organization's involvement in the sectarian dynamics of its country, strongly opposing the Phalangist faction and militias and inviting Lebanese people to "freely" choose an Islamic government.

Later in the text, a great part of the document is devoted to Hezbollah's views on Israel and the Palestinian issue:

We see in Israel the vanguard of the United States in our Islamic world [...] particularly as it glorifies the ideas of settlement and expansion, initiated in Palestine, and yearning outward to the extension of the Great Israel, from the Euphrates to the Nile. Our primary assumption in our fight against Israel states that the Zionist entity is aggressive from its inception, and built on lands wrested from their owners, at the expense of the rights of the Muslim people. Therefore our struggle will end only when this identity is obliterated. We recognize no treaty with it, no ceasefire, and no peace agreements [...]. We vigorously condemn all plans for negotiation with Israel, and regard all negotiators as enemies [...]. Therefore we oppose and reject the Camp David Agreements, the proposal of King Fahd, the Fez and Reagan Plan, Brezhnev's and the French-Egyptian proposals, and all other programs that include the recognition [...] of the Zionist entity.⁴⁰

This paragraph represents the explicit foundation of the pivotal role Hezbollah has undertaken in the Palestinian struggle against Israel. Furthermore, it states another important and distinctive point of Hezbollah's ideology, which is its independence both from East and West in the Cold War framework: even though the U.S. remains the first and foremost enemy, together with its West Asian representative, Israel, the USSR is not the right choice either for solving regional issues or, as stated in another section of the Manifesto, to influence and direct Lebanese internal politics.

The 2009 New Manifesto was read by Hassan Nasrallah in November 2009 during a public press conference in Beirut. While the "foreign policy" aspects, such as the opposition to U.S. interference in regional politics, have remained almost the same, with the notable exception of an explicit acknowledgement of its regional allies – especially

⁴⁰ *ibid.*

Syria, as noted by Berti⁴¹ –, the aspect that shows the most striking evolution is Hezbollah's view on its own role within Lebanon's political arena. The call for the establishment of an Islamic government is abandoned in this new document, and it is replaced by an explicit acceptance of Lebanese political and social structure. Again, Berti correctly notes that ever since the organization decided to enter the national political competition for the first time in 1992 it had significantly begun to downplay the final goal of creating an Islamic state, emphasizing instead the importance of the non-coercivity of the conversion to Islam.⁴²

Concerning the most recent developments of Hezbollah, in 2023 and 2024 the organization engaged in a new round of acute fighting against Israel, prompted by the latter's invasion of the Gaza Strip since October 2023. 2024 was probably the worst and most significant year of the group's recent history, since the Israel Defense Forces has managed to kill many of its commanders through targeted strikes and hacked pagers. In September the bombing of South Beirut managed to kill Nasrallah himself, who had led the organization since 1992. In November a ceasefire was reached on the basis of UN Resolution 1701 of 2006.⁴³ However, in 2026 Hezbollah fired missiles at its southern neighbor in response to the killing of Ayatollah Ali Khamenei, and Israel's violent retaliation led the Lebanese government to outlaw the group's military activities for the first time.⁴⁴

1.4 *De facto* territorial control: Ansar Allah and ISIS

After considering an example of a terrorist group which has been able to gain global reach and to implement a form of transnational terrorism – Al-Qaeda – and one that managed to embed itself into its own country's political structure becoming a dominant political entity without challenging the form of government – Hezbollah –, this introductory analysis of the different types of terrorist organizations that developed among Sunni and Shi'a Islamist groups in West Asia concludes with another category of armed

⁴¹ Berti, B. (2010): "The 'Rebirth' of Hizbollah: Analyzing the 2009 Manifesto." Strategic Assessment, 12(4), pp. 93-94.

⁴² *ivi*, pp. 96-97.

⁴³ Zeidan, A. (2026): "Hezbollah." Encyclopaedia Britannica, p. 7.

⁴⁴ Al Jazeera (2026): "Lebanese PM Bans Hezbollah's Military Activities after Attack on Israel." Al Jazeera, March 2. <https://www.aljazeera.com/news/2026/3/2/lebanese-pm-nawaf-salam-announces-ban-on-hezbollah-military-activities>.

organizations, those who have been able to actually gain direct military control of various territories within one or more countries. While the Islamic State of Iraq and al-Sham (ISIS) will be thoroughly considered in a dedicated chapter later on, this section will be devoted to the analysis of Yemeni Ansar Allah, or the Houthis. As was the case for Hezbollah, it is first necessary to understand the continuous status of conflict that has characterized Yemen since 1962 in order to understand this organization and its role in Yemen's recent history.⁴⁵

Religiously, Yemen had been a Zaydi Shi'i Imamate since the 9th century CE until 1962, when a military coup ousted the King and forced the Imam out of the country and established the Yemen Arab Republic in Northern Yemen. For the first time in the country's history, Zaydi religious primacy was challenged when the government of the new entity, to strengthen its ties with its powerful neighbor Saudi Arabia, started promoting Wahhabism within Yemen. This strategy reached its peak when President Ali Abdullah Saleh, who took power in 1978, established a Wahhabi seminar in the Saada region, the center of Zaydi influence, in order to create sectarian division to better rule the country. This movement was perceived as an existential threat by the Zaydis, who in the 1990s began to gain political status when they united in the Al-Haqq Party within the democratic framework of the newly unified Yemen. The party represented the fiercest parliamentary opposition to the ruling Islah coalition, until 1997 when the President decided to award Al-Haqq the ministry of religious endowments. Nevertheless, in that same year the most influential member of the party, Hussein al-Houthi, left the parliament and focused on expanding the Believing Youth movement (founded in 1992) in order to counter the flourishing Wahhabi youth organizations. Al-Houthi's group engaged in growing criticisms of President Saleh and especially of his foreign policy after his decision to support the 2003 U.S. invasion of Iraq, and from that moment the organization started to radicalize and to approach the Iranian regime's stances against America and Israel. At the same time, Saleh started crushing the movement and its leaders until 2004 when his government issued an arrest warrant for al-Houthi, who was killed by Yemeni forces in September. This event led to a rebellion widespread in the whole country – especially in the north, but with outbursts also in the southern regions – which led to six

⁴⁵ It is important to remember that the events considered in this paragraph until 1990 are related to Northern Yemen, which in that year was unified with the southern People's Democratic Republic of Yemen.

years of fighting between the Shi'a militants now led by al-Houthi's brother Abdul Malik and the government forces supported by Saudi Arabia. In 2010 a ceasefire was reached between Saleh and al-Houthi, but in February 2012 the president was forced to leave power to his deputy Abd Rabbuh Mansur Hadi under the pressure of the movement sparked by the Arab Spring protests in Tunisia and Egypt. Meanwhile, the supporters of al-Houthi (who since 2011 adopted the official name of Ansar Allah, "partisans of God", and that are commonly known as Houthis, as they will be referred to from now on in this work) had taken advantage of this moment of uncertainty and crackdown to seize power in the northern province of Saada and large sections of northern Yemen.⁴⁶

Hadi was a southern Sunni who enjoyed very little support within his country's population, and especially within the Houthis. At the same time, Saleh was willing to regain his power position, and these factors led to a distinctive and fragile alliance between the former president and the Shi'a movement. Protests against the Hadi government erupted in 2014, and in September the Houthi-Saleh alliance was able to conquer the capital city Sanaa and to force Hadi to flee to Aden, where he established the government after retracting his previous resignation. From there he called for the support of Saudi Arabia to defeat the Houthis, beginning a protracted civil war lasting until today. Meanwhile, in 2017, the Houthis were able to take full and autonomous control of Sanaa, killing Saleh, who had expressed his will to join the Saudi-led coalition, and forcing his militiamen out of the capital.

In 2022, with the Houthis apparently gaining the upper hand over the coalition supporting the Internationally Recognized Government – which since 2017 has seen the schism of the Southern Transitional Council (STC), supported by the UAE – a formal ceasefire was signed and Hadi resigned leaving power to a presidential council. In 2023, however, Saudi-led efforts to end the war were disrupted by the beginning of the Israel-Hamas war: the Houthis began launching missiles toward Israel and attacking ships in the Bab el-Mandeb Strait, jeopardizing transit in one of the most vital maritime chokepoints worldwide.⁴⁷ Since 2024, the U.S. and the UK have been bombing Houthi positions and especially the Hodeidah port facility, fundamental for the group's economy and survival.

⁴⁶ Zeidan, A. (2026): "Houthi movement." Encyclopaedia Britannica, p. 2-4.

⁴⁷ Zeidan (2026), p. 4-7.

Following the announcement of the Gaza peace plan in 2025, in the context of a temporary ceasefire between Israel and Hamas, the Houthis paused their attacks against Israel. However, the U.S.-Israeli killing of Ayatollah Ali Khamenei led the group to resume its operations against Tel Aviv and, since July 2026, against Saudi Arabia, on which Ansar Allah imposed a naval blockade.⁴⁸

While in 2021 U.S. President Joe Biden had revoked the designation of the Houthis as an FTO and ended U.S. support for the Saudi-led coalition, in 2025 President Donald Trump decided to reimpose it due to, according to the U.S. State Department, “the threats to the security of American civilians and personnel in the Middle East, the safety of our closest regional partners, and the stability of global maritime trade”.⁴⁹ At the UN level, since 2022, Ansar Allah has been part of those organizations subjected to a targeted arms embargo under paragraph 14 of Resolution 2216 of 2015 with the following motivations:

*The Houthis have engaged in acts that threaten the peace, security, and stability of Yemen [...] striking civilians and civilian infrastructure [...] implemented a policy of sexual violence and repression against politically active and professional women [...] incited violence against groups including on the basis of religion and nationality, and indiscriminately used landmines and improvised explosive devices on the West Coast of Yemen. The Houthis have also obstructed the delivery of humanitarian assistance to Yemen, or access to, or distribution of, humanitarian assistance in Yemen. The Houthis have also conducted attacks on commercial shipping in the Red Sea using waterborne improvised explosive devices and sea mines [and] perpetrated repeated cross-border terrorist attacks striking civilians and civilian infrastructure in the Kingdom of Saudi Arabia and the United Arab Emirates and threatened to intentionally target civilian sites.*⁵⁰

Nevertheless, as of 2025 only the U.S., Canada, Australia and New Zealand recognize Ansar Allah as a terrorist organization. Some European countries, namely the Netherlands

⁴⁸ Wintour, P. (2026): "Saudi Forces Planning Major Offensive against Houthis in Central Yemen." The Guardian. <https://www.theguardian.com/world/2026/jul/30/saudi-forces-planning-major-offensive-against-houthis-central-yemen>.

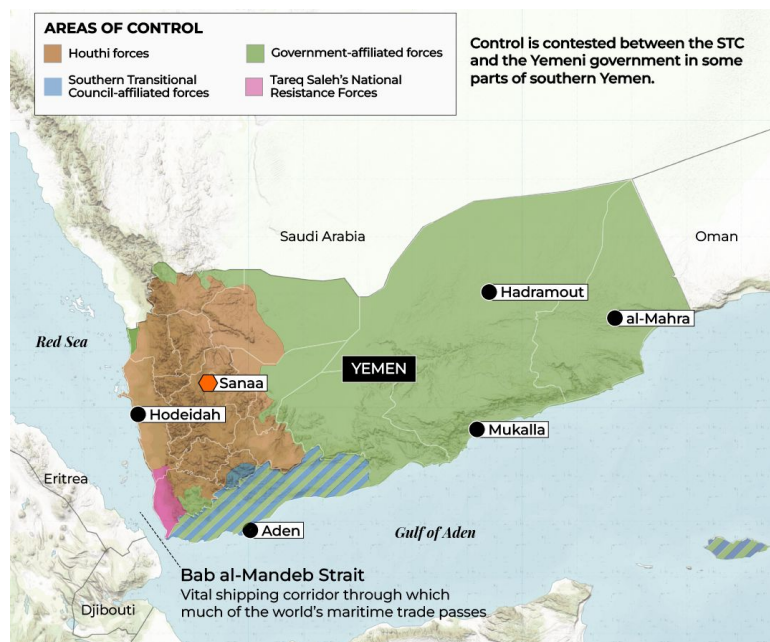
⁴⁹ Rubio, M. (2025): "Designation of Ansarallah as a Foreign Terrorist Organization." U.S. Department of State, Press Statement.

⁵⁰ United Nations Security Council (2022): "The Houthis." Security Council Committee Pursuant to Resolution 2140 (2014), Narrative Summary of Reasons for Listing.

after the group hit a Dutch vessel in the Gulf of Aden in 2025, urged the European Union to designate the group as terrorist.⁵¹

It is clear, however, that when one looks at Ansar Allah in the context of Yemeni politics and history it is much more than a terrorist organization for the country. In contrast with what Hezbollah has done in Lebanon, the Houthis have chosen not to adapt and to embed itself into the country political framework – which, it must be said, took a much more opposing stance toward the group with respect to how the fragmented Lebanese establishment treated Nasrallah's organization –; instead, it chose to revolt against the system and to establish its own government and social structure in the portion of territories it has conquered using violence and terrorist methods.

This strategy of conquest has led the Houthis to rule over between 70 and 80 percent of the Yemeni population as of 2025.⁵² Abdul Malik al-Houthi exercises his influence on the Supreme Political Council, the authority dedicated to appointing and overseeing government members and ministries, while the Parliament is formally composed not only of Ansar Allah, but also by members of the late Saleh's General People's Congress and other Houthi allies.



⁵¹ Maher, H. and Ghobari, M. (2025): "Yemen's Houthis Claim Responsibility for Attack on Dutch-Flagged Ship." Reuters. <https://www.reuters.com/world/middle-east/yemens-houthis-claim-responsibility-attack-dutch-flagged-ship-2025-09-30/>.

⁵² Khoury, N. A. (2025): "Yemen's Houthi Movement Reconsidered." Arab Center Washington DC.

Fig. 2: the division of Yemen between the different forces controlling portions of its territory.⁵³

From the occupied capital city Sanaa, the Houthis gained control of the central bank and of the currency, which they print in competition with the recognized government in Aden, causing disastrous effects on inflation.⁵⁴ They have complete control of the media, telecommunications and occupied ports, where they collect tariffs and taxes on profits, together with the traditional Islamic charity tax (*zakat*). To organize and support this unrecognized government activity, the Houthis have established fully functioning offices resembling a fully-fledged administration, with posts assigned to members of their choice that manage external relations, health, education, social services, and intelligence.

While Houthi financing methods will be discussed in depth in the next chapter of this work, it is useful to look at its military power which has made it possible for the group to resist the Saudi-UAE-IRG coalition. According to the latest estimates, the Houthis can count on about 350,000 soldiers in their army, therefore more than the men available to the Yemeni official forces. Furthermore, through various sponsors the Houthis have assembled an arsenal composed of different ballistic and cruise missiles, together with various models of UAVs.⁵⁵

From a social point of view, the structure established by Ansar Allah has severely restricted women's freedoms and rights, forcing them to always move with a male relative (*mahram*). The only prerogative left to women is to run already existing businesses, in an operation of general promotion of entrepreneurship to support the failing economy of the country.⁵⁶ As reported by the aforementioned UN Security Council motivation, the Houthis exercise within their controlled territory an authoritarian and repressive form of subjugation of the population through disappearances, arbitrary detentions, and arrests of staff members of international organizations and embassies. According to the news agency Reuters, which in 2025 interviewed many Yemenis fleeing from Houthi-controlled territory, Ansar Allah rules through starvation of those who do not comply with its authority and through "using international food aid to force parents to hand over

⁵³ Chughtai, A. and Hussein, M. (2026): "Mapping Who Controls What in Yemen in 2026." Al Jazeera. <https://www.aljazeera.com/news/2026/1/14/mapping-who-controls-what-in-yemen-in-2026>.

⁵⁴ Ardemagni, E. (2024): "Gli Houthi: Storia ed Evoluzione del Movimento Armato Yemenita." ISPI (Istituto per gli Studi di Politica Internazionale), Osservatorio di Politica Internazionale.

⁵⁵ Zakedis, L. (2026): "The Houthis." Middle East Institute, Background, p. 5.

⁵⁶ International Crisis Group (2022): "Huthi Rule." Truce Test: The Huthis and Yemen's War of Narratives, Middle East Report N°233, p. 16.

children to be soldiers in its armed forces”.⁵⁷ The alternative, according to the people interviewed, is to support the group or to starve to death, a situation made even worse by the cut in international aid precisely due to Houthi diversion.

Even though, according to some sources (International Crisis Group)⁵⁸, the Houthi power structure is not a monolithic coalition but an entity formed by different groups with different ideas on the future of Yemen and unified by Zaydism and anger toward Hadi, Saudi Arabia, the U.S. and Israel, it is undisputed that Ansar Allah – and its leader al-Houthi – is the unchallenged ruling entity within the controlled territories.

The analysis conducted in this chapter has shown how West Asia-based terrorist groups, which are often treated as a single entity or at most classified along the usual Sunni-Shi’a division, are indeed very different from each other especially for organizational and operational characteristics. Therefore, the next chapter will be devoted to verifying if different models result in different ways to finance the criminal activities of the aforementioned organizations.

⁵⁷ Reuters (2025): "How the Houthis Rule in Yemen: Prisons, a Personality Cult, and Pilfered Food Aid." Special Report. <https://www.reuters.com/investigations/how-houthis-rule-yemen-prisons-personality-cult-pilfered-food-aid-2025-10-15/>.

⁵⁸ International Crisis Group (2022), p. 14.

2. How terrorist groups finance themselves

2.1 The costs of terrorist activities

Before taking into account the different financing methods used by terrorist groups, it is interesting to briefly focus on a relatively less explored area of the study of terrorism: what kind of expenses these groups incur to pursue their goals, and how they deploy their financial resources. Far from being superfluous, this exercise can have a twofold purpose: on one hand, understanding the cash flows of terrorist organizations can help intelligence agencies and police authorities to identify and disrupt their operations in advance, and on the other hand, more related to the aim of this work, it provides a better perspective when trying to understand how these resources are collected. If one has a clear picture of why terrorist organizations need money, financing sources become less abstract and more understandable.

Regarding this matter, the most comprehensive analysis was conducted by Davis⁵⁹. In her work devoted to the study of terrorism financing, she identified two possible purposes for which terrorist organizations may use the funds they collect illegally — or legally, in a few cases: organizational necessities, which are all those activities required to keep the group running and able to act and to prepare the actions, and operational necessities, which comprise those expenses directly linked to carrying out terrorist attacks.⁶⁰

Beginning with the expenses which fall into the former category, the first considered by Davis are those faced by bigger terrorist organizations to finance the growth of smaller splinter or allied groups, or vice versa by richer affiliates which support the maintenance of a declining or poorer main organizational centre. Al-Qaeda and ISIS are believed to be the first groups which engaged in these patronage activities through cash couriers and banking transfers, with Al-Baghdadi's caliphate spending as much as 100,000 USD per month to finance its Afghanistan-based cells. As noted by Davis, this likely served as an insurance policy during a period in which the Iraqi-Syrian centre of the group was being weakened by coordinated counter-terrorism activities, providing its members at all levels with a safe stronghold where they could escape.⁶¹ To provide an example of patronage

⁵⁹ Davis, J. (2021): "Deploying Funds." *Illicit Money: Financing Terrorism in the Twenty-First Century*. Boulder, CO/London: Lynne Rienner Publishers.

⁶⁰ *ivi*, p. 115-116.

⁶¹ *ivi*, p. 120.

working in the opposite direction, from the affiliates to the centre, Davis mentions Al-Qaeda in Iraq's support for its Pakistan-based main organization due to the latter's financial struggles in 2006-2007.⁶²

Due to the high level of commitment implied by participation in a terrorist attack or, more generally, in the activities of a terrorist group, these organizations must spend a significant part of their finances on propaganda and recruitment efforts. This is one of the domains of terrorists' organizational expenses which has changed the most in recent years due to the evolution of the media and the platforms through which potential recruits can be reached, moving from printed pamphlets and booklets to the internet and social media content production. This change has necessarily lowered the amount of money required to disseminate the group's ideological products, even though website-hosting expenses are still believed to be significant and probably funded through new financial instruments such as cryptocurrencies (which will be discussed more thoroughly in the next sections).⁶³

Practical expenses linked to recruitment are even more impactful than those related to propaganda. Recruiters have to travel to potential recruitment pools for members, and their expenses have to be funded by the group's wealth, and often also those who are recruited get some kind of immediate economic reward, such as the financing of travel and living expenses during the recruitment period and, if necessary, the relocation required for training and for joining the organization's activity, or even forms of "signing bonuses" that can go directly to the recruit or to their family (especially if they decide to send their sons to join the organization).⁶⁴

Intelligence gathering is another key line item in the balance sheets of terrorist organizations, even though it is obviously the most securely guarded and kept secret by these groups. However, according to Davis, it is known for example that Hamas bribed officials to infiltrate the Palestinian Authority intelligence agencies. Bribes are believed to be the most efficient way for illegal organizations to gather information, although counter-intelligence technical equipment and services such as encrypted telephones and VPNs are also becoming more and more widespread among terrorist groups.⁶⁵

⁶² *ibid.*

⁶³ *ivi*, p. 121.

⁶⁴ *ivi*, p. 122.

⁶⁵ *ibid.*

As described in the previous chapter, and this will be even more deeply analysed in the next one, some terrorist organizations manage to control territories of varying size, in which they often establish state-like social services and support activities. For those groups, these duties become the most expensive line item in their balance sheets, also to try to gain popular support from the peoples of the territories they control, who often live under strict and authoritarian regimes but can be relieved at least by some sort of parastate support structure. For example, Davis reports that it has been estimated that in the early 2000s Hamas spent 95 percent of its resources on its welfare activities “including schools, scholarship funds, hospitals, garbage collection, and rebuilding roads and businesses when they are destroyed”.⁶⁶ While Al-Shabaab is known to have provided the funds to set up a Covid-19 assessment centre in Jilib, usually territory-controlling terrorist organizations provide governance and social assistance such as hospitals, police services, tax collection, schools, and in some instances even humanitarian aid, mobile clinics, blood banks, and ambulance services. By contrast, internally, the main expenses of terrorist groups towards their members are salaries, which are paid to allow militants to focus almost full-time on their activities. Salaries are organized in a pyramidal structure as in almost every business activity, with higher-rank members earning more than those at the base. Figures are usually low to avoid recruiting people who are not committed and who are only in search of a way to survive, but often the base salary is supplemented by one-off bonus pay checks to help militants in need of financial assistance or to reward particularly productive or efficient members.⁶⁷ This pay scheme is of course not valid for the senior leadership of terrorist organizations, whose net worth is often nearly identical to the financial capabilities of the group itself, due to leaders’ habit of drawing directly from the organizations’ resources. Davis mentions some examples of this behavior, such as Taliban leaders buying mansions and expensive cars, or the aforementioned Hassan Nasrallah having an estimated personal net worth of more than 250 million US USD thanks to Hezbollah’s illegal activities.⁶⁸

Finally, the most infamous expenses incurred by terrorist organizations are those directly necessary to organize and carry out attacks on the population and infrastructures, or to

⁶⁶ *ivi*, p. 125.

⁶⁷ *ivi*, p. 123.

⁶⁸ *ivi*, p. 127.

gain territory according to the group's objectives. These costs include weapons, ammunition, training, and logistics, even though arms are often provided by allied governments or handcrafted by those organizations able to do it. Regarding the financing of specific operations, according to some estimates Hezbollah has spent up to 100,000 USD for a single attack, while for example 20,000 USD were given by Al-Qaeda to the man who bombed the El Ghriba synagogue in Djerba, Tunisia, in 2002.⁶⁹ Therefore, even though it is widely believed that most terrorist organizations leave the responsibility for organizing the attacks to local cells, especially abroad, it is also known that bigger operations are directly financed by the central command; it is believed, for example, that Al-Qaeda directly spent about half a million USD for the 9/11 attacks, with most of the funds used for flying lessons, renting safehouses, travel for training and coordination, and daily subsistence of the attackers during preparatory activities.⁷⁰ In conclusion, connecting back to the main focus of this work, it is interesting to underline the fact that for those groups aiming to control territory, the first and often one of the most significant expenses is funding their conquest campaigns: according to Davis, it was estimated that Al-Qaeda in the Arabian Peninsula used up to 20 million USD to finance its operation to seize some portions of Yemen between 2011 and 2012.⁷¹ Even though a similarly precise estimate is not available for the Islamic State of Iraq and Al-Sham, it is not an exaggeration to imagine that this figure is likely to be far larger due to the significantly larger extent of the territory controlled by ISIS at its peak. This hypothesis, together with an estimated 3 to 10 million USD spent each month to pay salaries to its more than 30,000 militants⁷², must be taken into consideration when ISIS's structure and sources of revenues are analysed specifically in the next chapter. Meanwhile, the following section will be devoted to a broader description of the most widespread financing methods exploited by terrorist groups to raise the funds necessary to cover the aforementioned expenses.

⁶⁹ *ivi*, p. 117.

⁷⁰ *ivi*, p. 129.

⁷¹ *ivi*, p. 116.

⁷² The New York Times (2015): "To Hurt ISIS, Squeeze the Cash Flow." March 3.

2.2 Different methods of financing

Terrorism financing analysis is an activity that is as complex as it is important, and which plays a pivotal role in trying to detect and stop terrorist activities before they can be implemented with all their tragic consequences. It is at the same time an always evolving effort due to the aforementioned social and technical improvements which characterize human societies in all their aspects, including this infamous one. Innovations such as the diffusion of the internet, social media usage, and new financial instruments provided terrorist organizations with financing methods that are both easier to use and to make untraceable.

Another fundamental distinction must be pointed out. While terrorist financing is usually seen as an activity which involves mostly illegal practices, this is just a part of the problem, and maybe the easier one to combat. Of course, criminal businesses such as drug and human trafficking, kidnapping for ransom, counterfeiting, and extortion are key sources of income for these organizations, but running legal businesses and collecting voluntary donations both by rich and ordinary individuals ideologically committed to their struggle are as important as, if not even more important than illegal means.

This section is therefore devoted to a deep analysis of the most common legal and illegal methods of terrorist financing. The first subsection will be devoted to common criminal activities and the running of legal and illegal businesses; the second one will focus on state sponsorship of terrorism; the third one will analyze private support through sizeable individual donations or smaller charitable contributions.

There is one more aspect to focus on before beginning with this analysis, which is how terrorists can move the funds they are able to collect. Due to the fact that these organizations — or even their individual members, when known — are often included in national or international criminal group lists, accounts and transfers in their name are usually blocked or made difficult by police efforts and financial authorities. Nevertheless, according to the Financial Action Task Force (FATF) established in Paris in 1989 as a 40-member state organization with the aim of fighting money laundering and terrorist financing, the banking sector is still “the most reliable and efficient way to move funds internationally and remains vulnerable to terrorism financing”.⁷³ This preference is due to the rapidity and facility that characterize banking transactions, and also the possibility

⁷³ FATF (2015a): "Emerging Terrorist Financing Risks." Financial Action Task Force, p. 20.

to hide terrorist organizations' movement of funds behind the enormous number of common transfers that happen every day. In particular, the Saudi Islamic banking system is allegedly a major transfer channel for terrorism-devoted funds. According to Raphaeli⁷⁴, this system revolves around the Dar al-Maal al-Islami bank, founded in Switzerland in 1981. Taking advantage of the fact that *zakat* money received or donated by financial institutions is kept off the books, Islamic banks were able to provide a viable way to transfer huge sums to Bin Laden's organization. Al Taqwa bank, in particular, has the strongest proven ties with Al Qaeda. Founded in the 1980s by members of the Muslim Brotherhood, the bank has always had ties with the Bin Laden family and therefore has attracted the attention of U.S. authorities since the beginning of its activities. Therefore, in 2001, the Government of Bahamas, where the institution is incorporated, cancelled its banking license due to its terrorism financing activities and money laundering practices. According to the investigation conducted by the two journalists Michael Isikoff and Mark Hosenball in 2004, the U.S. Treasury Department tried to convince Switzerland's authorities to investigate Al Taqwa's Swiss branch activities. According to the communication between the two governments, the bank used shell accounts and real estate investments to cover up a constant influx of money coming from Kuwait and the UAE into Al Taqwa's vaults, which were then invested to generate a profit for Osama Bin Laden, Al Qaeda, or as a constant ready-to-withdraw cash reserve for the terrorist organization. Even though the leader and co-founder of the bank, Youssef Nada, was living in Switzerland at that time, Swiss banking secrecy laws forbade any legal action without significant evidence.⁷⁵

Another channel through which terrorist organizations can exploit the banking sector to easily move funds is the use of prepaid cards. These instruments can be loaded both in cash and online from another account, and they can be easily transported by a person travelling abroad, effortlessly moving money across borders. However, at the request of counter-terrorism authorities, banks and financial institutions must provide information related to the prepaid cards they issue.⁷⁶

⁷⁴ Raphaeli, N. (2003): "Financing of Terrorism: Sources, Methods, and Channels." *Terrorism and Political Violence*, 15(4), pp. 71-72.

⁷⁵ Isikoff, M. and Hosenball, M. (2004): "Paying for Terror." *MSNBC.com*, February 14.

⁷⁶ FATF (2015a): "Emerging Terrorist Financing Risks." *Financial Action Task Force*, p. 36-37.

The other major method of fund movement exploited by terrorist groups is the *hawala* system. The *hawala* (meaning “remittance”) is an Informal Funds Transfer System (IFTS) recognized by the International Monetary Fund, according to which every year 2 trillion US USD are moved through this channel. The *hawaladar* is a person receiving money from someone willing to transfer a sum to another country, usually operating below the radar from hidden or at least disguised locations. He/she then gives instructions to a contact located in the destination country to pay the agreed sum to the beneficiary in local currency, usually at an exchange rate more favorable than the one applied by mainstream financial institutions. This transfer method is by nature extremely difficult to control for financial or judicial authorities, and two major *hawala* organizations, the already mentioned al-Taqwa bank and al-Barakat, have been identified as channels used by Al-Qaeda to move funds around the world.⁷⁷

Finally — and, maybe, most surprisingly — diplomatic channels are another fundamental way of moving funds for terrorist organizations. Besides the famous case of Princess Haifa al-Faisal’s involuntary economic support for the 9/11 attacks on U.S. territory⁷⁸, two other striking cases are useful to understand the involvement of diplomatic authorities in transferring funds to terrorist organizations, whether or not they are aware. The first one is the use of Saudi Embassies to transfer money by the International Muslim Relief Authority NGO, declared by the U.S. Treasury Department as connected to Al-Qaeda. According to the NGO’s Secretary General, Adnan bin Khalil Basha, who denies the alleged terrorist purposes of his institution, this unusual method for an NGO of transferring funds through embassies is used whenever the organization has not established a branch in a country where money is needed. The other striking case is the one of the Saudi High Commission for Aid to Bosnia, whose offices were raided in 2001 by NATO forces who found materials linked to the 9/11 attacks, the 1998 bombing of U.S. embassies in Kenya and Tanzania and the 2000 attack on USS Cole, together with, as reported by Raphaeli, “maps of government building in Washington, material for forging U.S. State Department Badges [...] and anti-American material geared toward

⁷⁷ Raphaeli (2003), pp. 70-71.

⁷⁸ Between 1999 and 2002, the daughter of King Faisal of Saudi Arabia and wife of the country’s ambassador to the United States provided a monthly allowance to a struggling Saudi family in California. According to various investigations, a significant part of those funds went to two of the perpetrators of the September 11, 2001, attacks to the World Trade Center buildings in New York City and the Pentagon building in Virginia.

children”.⁷⁹ Furthermore, there were also documents proving that Al-Qaeda military leaders’ salaries were paid through Muslim charity proceeds, lists of the organization’s wealthiest donors, and instructions to charities to purchase weapons.

In recent years, the spread of new financial instruments such as blockchain-based cryptocurrencies has provided terrorist organizations with new and almost untraceable channels through which to move large sums, avoiding on the one hand the logistic complications related to the use of intermediaries, on the other hand escaping the scrutiny of anti-financial crime and anti-terrorism task forces that keep the banking sector under strict surveillance. The most widespread cryptocurrency worldwide, Bitcoin (BTC) is also the most used by terrorists to move their funds. Although the mechanism behind BTC doesn’t allow transactions to be hidden, and they are visible on the currency’s blockchain, there is no personal identity information available either on the sender or on the receiver.⁸⁰ Nevertheless, counter-terrorism authorities have been developing new techniques to bypass the anonymity of BTC transactions, which will be discussed in the next section dedicated to the fight against terrorism financing.

Once transferred from one BTC wallet to another, funds can be turned back into fiat currency through different methods such as BTC ATMs and exchange of Bitcoin for the corresponding cash amount in a preferred currency.⁸¹ According to different investigations conducted by hacktivist groups and newspapers, the Islamic State alone reportedly owns at least four different Bitcoin wallets with a total value of about 50 million USD — of which 3 million USD were stored in a wallet directly connected to one of the attackers responsible for November 2015 terrorist actions in France, according to the online activist collective Ghost Security Group⁸² — but there are clearly many more wallets and especially far larger sums inside them both regarding ISIS alone and especially when the whole spectrum of West-Asian terrorist organizations is considered.

⁷⁹ Raphaeli (2003), pp. 72-73-74.

⁸⁰ Irwin, A.S.M. and G. Milad (2016): "The Use of Crypto-Currencies in Funding Violent Jihad." *Journal of Money Laundering Control*, 19(4), pp. 418-419.

⁸¹ *ivi*, pp. 414-419.

⁸² *ivi*, pp. 410-411.

2.2.1 Criminal activities and legal trade

Terrorist organizations can ultimately be regarded as criminal groups, and therefore they have always been involved in “traditional” criminal activities, as well as engaged in different levels of interaction with organized crime groups (OCGs) within the so-called “crime-terror nexus”. According to Alda and Sala⁸³, who expanded the definition proposed by Makarenko, terrorist and organized crime groups typically find themselves interconnected in three possible ways according to the intensity of their relationship^{84 85}: first of all, there is coexistence, which exists when a terrorist organization and an OCG operate in the same geographic area but with low or absent interaction; cooperation means that the groups are aware of the mutual benefits of each other’s activities, and they sometimes resort to working together; when convergence is in place, the terrorist organization and the OCG are actively working together and their businesses and behaviors overlap.⁸⁶

Among criminal activities engaged in by terrorist groups, drug trafficking, cigarette smuggling, and kidnapping for ransom are the most widespread and lucrative, together with oil smuggling which however will be treated in a dedicated section of the next chapter of this work.

Concerning drug trafficking, according to a FATF report on opiate trade in Afghanistan one third of the Taliban’s budget for one year was raised through poppy trade, resulting in an income of more than 100 million USD.⁸⁷ Going back to the aforementioned crime-terror nexus, terrorist organizations can be operationally involved in OCG’s drug trafficking activities through transportation and distribution of illicit substances, protection of criminal facilities (such as Hezbollah’s alleged guarding of heroin and cocaine laboratories in the Bekaa Valley), or even by taxing traffickers with whom they share geographical presence. They can also directly ally with drug-trafficking OCGs on the basis of ideological convergence or opportunistic calculations. For example,

⁸³ Alda, E. and J.L. Sala (2014): "Links between Terrorism, Organized Crime and Crime: The Case of the Sahel Region." *Stability: International Journal of Security & Development*, 3(1).

⁸⁴ Makarenko, T. (2004): "The Crime-Terror Continuum: Tracing the Interplay between Transnational Organised Crime and Terrorism." *Global Crime*, 6(1), 129-145.

⁸⁵ Makarenko, T. (2012): "Europe's Crime-Terror Nexus: Links between Terrorist and Organised Crime Groups in the European Union." European Parliament, Directorate-General for Internal Policies.

⁸⁶ O'Brien, J. (2024): "How Illicit Economies Fund Terrorism." *Vision of Humanity* (Institute for Economics & Peace), March 14, 2024.

⁸⁷ FATF (2015a): "Emerging Terrorist Financing Risks." Financial Action Task Force, p. 16.

Hezbollah is known for trading weapons, which it owns in significant amounts, for drugs and other illicit substances that it can then sell for profit due to their stable and higher prices.⁸⁸ It goes without saying that these activities are not confined to the West Asia region, as it was made even more evident in 2020 when a drug shipment traced back to ISIS was identified in the port of Naples, which is partly controlled by the Italian Camorra OCG.⁸⁹

The most intense form of convergence comes when terrorist groups and OCGs merge for drug trafficking and other criminal activities. The already-mentioned Hezbollah and Taliban can be classified in this category of hybrid organization because their involvement in drug trafficking within the territories in which they are active — and control as political entities — is something that they own and control themselves, dealing with other OCGs but conducting their businesses autonomously.

Besides drug trafficking, smuggling of legal goods (especially cigarettes) is another particularly lucrative activity for terrorist organizations. The reason why this source of income has been kept in growing consideration is the relatively low risk that it implies, due to the less harsh fines and shorter potential imprisonment periods when compared to drug trafficking.⁹⁰ Bindner describes the findings of the investigations conducted by the Center for the Analysis of Terrorism (CAT) in Paris, Lyon and Marseille, where networks of regular retailers and sellers ran parallel businesses within their own legal stores where they sold various counterfeited or smuggled products out of the licit market such as cigarettes, watches, and clothes.⁹¹ According to Bindner, terrorist organizations' involvement in these activities can have different levels of intensity, again in parallel with the aforementioned crime-terror nexus: in some instances, they directly participate in the production, while in other cases they just collect the proceeds of smugglers. For instance, in July 2000 the FBI found cash, weapons, and significant amounts of cigarettes inside a house in North Carolina where smugglers were operating. According to the investigators, smugglers took advantage of the different prices of cigarettes and related taxes in different

⁸⁸ Terenghi, F. (2023): "Drug Trafficking and Terrorism Financing: A Transnational Synthesis." In S.N. Romaniuk (ed.), *Countering Terrorist and Criminal Financing: Theory and Practice*, pp. 117-122.

⁸⁹ Shelley, L.I. (2020): "Illicit Trade and Terrorism." *Perspectives on Terrorism*, 14(4), p. 7.

⁹⁰ As mentioned by Bindner (2016), in France counterfeiters and smugglers can be sentenced to five years of jail and 500,000 euros fines if they act in organized groups, while organized drug trafficking can be punished with thirty years imprisonment and 750,000 euros fines.

⁹¹ Bindner, L. (2016): "Illicit Trade and Terrorism Financing: December 2016 – Interim Results." Center for the Analysis of Terrorism.

U.S. states, buying stocks where it was cheaper and selling them at higher prices in Michigan. The head of this activity, Mohammad Youssef Hammoud, while living a life of luxury thanks to his illegal businesses, which according to officials' estimates netted 3,000 to 10,000 USD for each trip, was also able to send various warfare equipment to Hezbollah through an intermediary.⁹²

Kidnapping for ransom is probably one of the most infamous methods of terrorism financing, and one of those able to capture the attention of public opinion. It is also one of the most lucrative for terrorist groups, since the FATF estimated that each ransom can range between 600,000 and 8 million euros: according to the U.S. government, Al-Qaeda, ISIS, and all their affiliates generated at least 222 million USD in ransom payments between 2008 and 2014. These sums are almost always paid in cash through couriers, but sometimes they can also move through financial institutions or remittance systems.⁹³

To conclude with illegal and criminal businesses exploited by terrorist organizations, it is worth mentioning two more which despite maybe being less known are as important as, and maybe even more alarming than, those mentioned before. First, there is human trafficking. Women are the victims of this activity, which often has a dual use: providing sex slaves to the organizations' own militiamen and generating profits for the group when women are sold. This treatment was especially used by ISIS against the Yazidi community, which the group sees as infidels. Then, there is a less tragic but still dangerous form of financing, which is the removal and selling of antiquities — again, especially by ISIS thanks to its territorial control — from the areas where terrorist organizations operate. Again, there is a dual purpose: besides generating profit to finance their attacks, terrorist organizations on the other hand also have an ideological aim in eliminating objects related to pre-Islamic periods they regard as pagan and heretical.⁹⁴

Legal businesses are also a significant source of revenue for terrorist organizations. While, according to FATF, used car dealerships and restaurant franchises are among those activities most involved in such schemes, there are also examples of bigger legal enterprises which are actually cover-ups or hidden supporters of terrorist activities.⁹⁵ For

⁹² Raphaeli (2003), p. 76.

⁹³ FATF (2015a), p. 18.

⁹⁴ Shelley (2020), p. 10.

⁹⁵ FATF (2015a), p. 19.

example, referring to the studies conducted by Mintz⁹⁶ and Napoleoni⁹⁷, Schneider mentions a long list of apparently legal activity which would in practice be part of the so-called “Al-Qaeda group”:

In Africa, a holding company, Wadi al-Aqiq, a Sudanese construction firm, Al Hijrah⁹⁸, an ostrich farm and shrimp boats in Kenya; in the Middle East shares in the As-Shamil Islamic Bank and large tracks of forest in Turkey; agricultural holdings in Tajikistan in Europe and the United States, holding companies, venture capital firms, banks and import-export companies. The portfolio includes real estate in London, Paris and French Riviera; dairy business in Denmark; wood and paper industries in Norway; and hospital equipment in Sweden.⁹⁹

Reporting this list in its entirety gives a worrying and striking picture of the pervasive diffusion of legal businesses involved in terrorism financing, and the resulting difficulty of eradicating its more disguised sources.

2.2.2 State-sponsored terrorism

Since the beginning of the 21st century, the expression “axis of resistance” has become fairly widespread in the journalistic language. Coined in 2003 by a Libyan newspaper in response to U.S. President Bush’s declaration about the so-called “axis of evil” between Iran, Iraq, and North Korea, it first represented the idea according to which the unifying factor between these countries is not endogenous hatred of America, but a struggle to resist its imperialist expansionism and related invasions and wrongdoings.¹⁰⁰ Today, this

⁹⁶ Mintz, J. (1998): "Bin Laden's Finances Are Moving Target." The Washington Post, August 28, A01.

⁹⁷ Napoleoni, L. (2005): "Terror Incorporated: Tracing the Dollars behind the Terror Networks." New York: Seven Stories Press.

⁹⁸ The *Al-Hijrah for Construction and Development Ltd.* company, directly linked to Osama Bin Laden, was given by the National Islamic Front and the Sudanese military the contract to build the new airport of Port Sudan and the 1200 km-long highway connecting it to Khartoum. This led to another potential terrorism-financing legal business activity, because as reported by Shahar (2001) for the International Institute for Counter-Terrorism (ICT) of the Reichmann University, the Sudanese government paid for a part of these infrastructural projects by giving Bin Laden ownership of the historical Khartoum Tannery. It is legitimate to advance the hypothesis that the proceedings of this new activity in Bin Laden’s portfolio went to finance his terrorist efforts.

⁹⁹ Schneider, F. (2010): "The (Hidden) Financial Flows of Terrorist and Organized Crime Organizations: A Literature Review and Some Preliminary Empirical Results." IZA Discussion Paper No. 4860, pp. 17-18.

¹⁰⁰ Rudin, N. (2025): "The Axis of Resistance." Middle East Institute, December 3, 2025.

definition encompasses a series of non-state actors, mainly regarded by many countries as terrorist organizations, supported and funded by Iran as tools to pursue its regional objectives. Among these, Hezbollah, Hamas, and the Houthis are the most famous worldwide, even though Iran's support also extends to many other minor organizations. This is probably the most notorious example of a state sponsoring one or more terrorist groups.

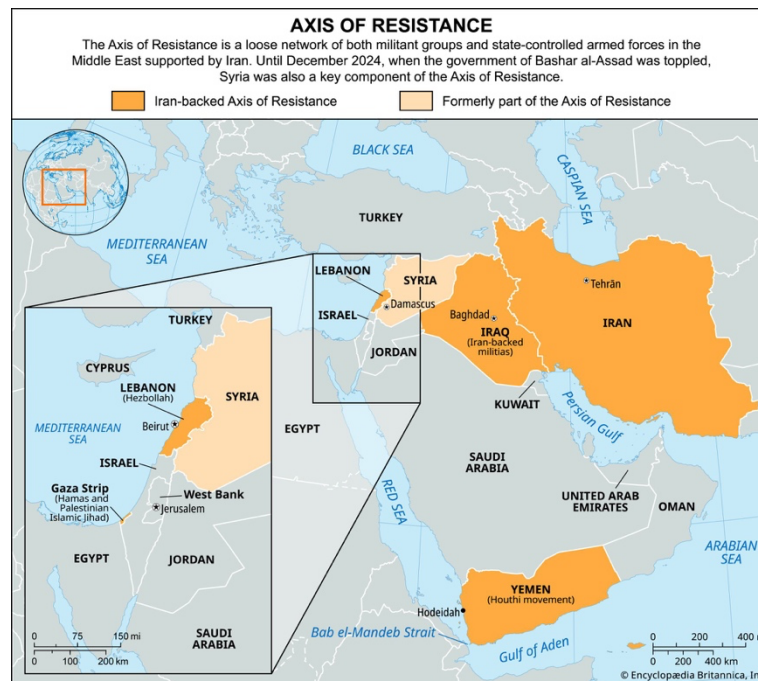


Figure 3: map of the current and former members of Iran-led Axis of Resistance.¹⁰¹

However, this practice is not new and it has experienced a significant evolution over time, and it is still one of the main terrorism financing sources for those groups which have a patron nation-state, so important that, according to various sources such as Bindner¹⁰², Terenghi¹⁰³ and O'Brien¹⁰⁴, it was the decline of this practice after the end of the Cold War that forced terrorist groups to look more intensely into the other ways of financing described in the present section of this work.

¹⁰¹ Zeidan, A. (2026): "Axis of Resistance." Encyclopædia Britannica, last updated August 8, 2026.

¹⁰² Bindner (2016), p. 2.

¹⁰³ Terenghi (2023), p. 116.

¹⁰⁴ O'Brien (2024), p. 3.

Collins¹⁰⁵ gave a useful definition of state sponsorship of terrorism, trying to address the issues of the previous attempts to do so which either lacked specificity, or overemphasized intentionality, or disregarded the distinction between indifference towards terrorists on a country's own soil or abroad, intermittent favor or laxity towards organizations whose objectives align with a country's own geopolitical view, and direct, continuous, and fundamental support for terrorist organizations. According to Collins, state sponsorship of terrorism is "a sovereign state's sustained and significant financial, military, territorial, or logistical assistance to a terrorist organization". This practice can include various forms of support which encompass, among others, providing material assistance such as weapons, military and technological developments, direct monetary influx through various channels, training of militiamen by expert army officers, or even diplomatic cover for terrorist actions.

As Collins interestingly reports, the first examples of state-sponsored terrorist actions can be found at the beginning of the 20th century with Serbia supporting the Black Hand organization which was ultimately responsible for the assassination of Archduke Franz Ferdinand which was the ostensible trigger for the outbreak of World War I. Then, Collins continues, state sponsorship of terrorism underwent three phases which — and this may come as a surprise due to the emphasis placed today on Iran's support of its proxy organizations — have seen a progressive decrease in intensity and frequency of countries providing for non-state organizations. The peak moment was between 1970 and 1989, when it was not only the number of state sponsors of terrorism to be higher — the U.S. itself can be considered in this list due to their support for Nicaragua's Contra rebels — but it was the all-encompassing nature and continuity of states' involvement in funding terrorism that was far higher than any other future period. This was due to both sides of the Cold War division supporting organizations which aligned with their geopolitical interest, and to the establishment in the early 1980s of the so-called "Holy Alliance" between the Ayatollah's Iran, Ba'athist Syria, and especially Qaddafi's Libya, in order to centralize and give a structure to the training, financing, and organization of terrorist groups fighting for the Palestinian cause. As a meaningful example, the December 1985

¹⁰⁵ Collins, S.D. (2014): "State-Sponsored Terrorism: In Decline, Yet Still a Potent Threat." *Politics & Policy*, 42(1), 131-159.

attacks on Rome and Vienna airports were perpetrated by a group armed by Libya and trained by Syria.

The end of the Cold War at the beginning of the 1990s erased the Soviet Union from the list of states sponsoring terrorism, and consequently the U.S. as well, since the dissolution of its main antagonist led to Washington giving up most of its terrorism-supporting activities in favor of a more globally hegemonic geopolitical strategy. The North African-West Asian axis of terrorism sponsorship was weakened by the new global framework as well, since the USSR was the main economic sponsor especially of Libya. Together with Sudan's and Afghanistan's support for Al-Qaeda, beginning from this intermediate phase, Iran has progressively affirmed itself as the most active terrorism-sponsoring state, and this role has been played as well in the low phase of state-sponsored terrorism, which according to Collins began in 2002 and is still going on today, especially due to the decline of Afghanistan's and Pakistan's role due to the U.S.-led coalition's efforts in terrorism fighting after the September 11th attacks.

The most important question related to state-sponsored terrorism, which has already been tangentially addressed by this subsection, is why some countries decide to fund and provide for the necessities of this kind of organization. It is mostly a matter of geopolitical alignment and objectives, and as Lee, Sims and Kornphetcharat¹⁰⁶ correctly noted that states have the possibility to use terrorist organizations as tools for proxy war: through monetary financing, providing weapons, sharing intelligence information, and training fighters, sponsor countries can push these groups, whose aims are often ideologically or pragmatically aligned with the state's, to fight against their own enemies through techniques and practices that an internationally recognized state could never implement without undergoing both harsh responses by the international community and international legal authorities and the significant economic and political costs linked to war, and especially by keeping this support disguised or at least officially non-existent, they can maintain deniability for terrorist actions.

As a case study, the relationship between Iran and Hezbollah provides a significant example of a state-sponsored terrorist organization. According to the U.S. Treasury Department, Iran provides more than 700 million USD to the Lebanese party-terrorist

¹⁰⁶ Lee, B.T.F., J.P. Sims and K. Kornphetcharat (2025): "State Sponsored Terrorism as a Tool for Proxy War." *Journal of Terrorism Studies*, 7(1).

group each year, together with paying for a significant part of the organization's enormous military arsenal. This alignment has a strong ideological foundation in common hatred towards Israel and the U.S., and in the shared adherence to Shi'ism. Hezbollah's lasting alliance with Iran's Ayatollah Ruhollah Khomeini was already pledged in the aforementioned 1985 manifesto, and it carried on as strongly under his successors Ali and Mojtaba Khamenei. Hezbollah, in exchange for Tehran's support, has promptly acted as a regional proxy for the Islamic Republic in the Syrian civil war and repeatedly against Israel. According to DeVore¹⁰⁷, indeed, this relationship also explains how state sponsorship can influence and ultimately determine the decisions of a terrorist group. This influence can be both indirect and direct. Indirect influence has worked for example in the formation process of Hezbollah from a previously fragmented anti-Israel Shiite resistance also thanks to the IRGC soldiers' deployment to Lebanon during the civil war period specifically to train fighters and provide financial assistance, or in general through the religious guidance determined by Hezbollah's adherence to the Islamic jurist doctrine, which has ideologically driven every action of the Lebanese organization in accordance with the Ayatollah's leadership. Regarding direct influence on Hezbollah's decision-making, DeVore mentions a series of occasions in which Iran forced the organization to expand the list of its targets and enemies beyond Israel and the U.S., for example when it pushed it to attack the Multinational Force French contingents in Beirut since 1982, due to Iran's enmity with France caused by Paris offering hospitality to the Shah and in general to the anti-Khomeinist resistance after the 1979 revolution, supplying weapons to Iraq during the 1980-1988 conflict, and refusing to repay a 1 billion USD-loan granted by Pahlavi to a French state-owned company. On the other hand, there were also instances when the Islamic Republic forced the Lebanese organization to refrain from some of its planned actions, especially regarding its troubled relationship with Syria during the civil war. In 1987 Hezbollah tried and failed to kill Syria's intelligence commander in Lebanon, and in response Damascus killed 27 Hezbollah militants. When the subsequent significant mobilization in Lebanon showed that Syria and Hezbollah were on the verge of open conflict, Iran's President Rafsanjani forced the organization's leaders to abort every planned attack and to keep control over their fighters, and this kind of direct

¹⁰⁷ DeVore, M.R. (2012): "Exploring the Iran-Hezbollah Relationship: A Case Study of How State Sponsorship Affects Terrorist Group Decision-Making." *Perspectives on Terrorism*, 6(4/5), 85-107.

influence repeated in 1988 when fighting between Hezbollah and the other major — Syria-backed — Shiite Lebanese group, Amal, risked causing another conflict between Damascus and the military organization.

Therefore, state-sponsorship of terrorism can be a relationship which provides strong mutual benefits for both parties, while also being troubled and difficult to manage, especially for the state which must be careful in directing its proxy terrorist organizations to promote its own geopolitical interests, and not to involuntarily harm them.

2.2.3 Donations, charity and personal support

Due to the strong ideological component present in terrorist activities, it is not difficult to understand why so many individuals, wealthy or not, decide to give their economic support for a cause they agree with. There are three main sources through which terrorist organizations can receive funds that are donated more or less voluntarily: *zakat*, charitable organizations, and financing from high net-worth individuals.

Being one of the five pillars of Islam, almsgiving (*zakat*) is something that is regarded with the highest consideration among Muslim people. There is no commonly established yearly lump sum to be donated by every believer, but for instance in Saudi Arabia, where citizens are not subject to income taxes, people are expected to donate 2.5 percent of their income to charity. According to Raphaeli, who dedicated an in-depth and thorough study to terrorism financing through charity and donations, “there is no reliable figure on the size of the donations and how they are used but it is obvious that some of the donations have found their way to nurture religious extremism or to finance terrorist activities”.¹⁰⁸ He also advances the hypothesis according to which funds collected by the International Islamic Relief Organization (IIRO), the “world’s biggest Islamic charity” whose Philippines and Georgia offices were used by Al-Qaeda to finance splinter groups, may also come from the collection of donations within mosques, even though individual donors may be unaware of the destination of their contributions.¹⁰⁹

Regarding the use of charitable organizations as a disguise for terrorism financing, a clear example is the case of Al-Birr Al Dawlia (BIF, Benevolence International Foundation), and its leader Enaam Arnaout, who previously worked for the already mentioned Maktab

¹⁰⁸ Raphaeli (2003), p. 62.

¹⁰⁹ *ibid.*

al-Khadamat organization, the first attempt to coordinate mujahideen efforts in Afghanistan by Sheikh Abdullah Azzam and Osama bin Laden before the creation of Al-Qaeda. After being founded as LBI in 1987, the BIF charitable organization obtained the status of a tax-exempt entity from the United States in 1993 due to its charitable purposes, and it opened many offices in Muslim-majority countries around the world. According to the U.S. prosecutors who investigated Arnaout's organization activities, between 1992 and 2001 the Saudi organization used false claims of charitable activity to cover up the fact that in reality it was raising money to support terrorist groups by helping Al-Qaeda members to travel from one country to another, delivering technological equipment, and directly sending money from a Swiss bank, mixing them with donations to cover up their wrongdoings. As reported by Raphaeli, through this channel a series of major U.S. companies — such as Microsoft and U.P.S. — unknowingly contributed to Al-Qaeda's budget for years by donating to BIF.¹¹⁰ Similar instances of charities financing terrorism are the cases of the Afghan Support Committee (ASC), which in 2002 was discovered diverting funds destined to widows and orphans to Al-Qaeda instead, and the Revival of Islamic Heritage Society (RIHS), which in the same year was itself designated as Kuwait-based terrorist organizations with branches in Pakistan and Afghanistan. Operating almost in the same way as ASC, RIHS inflated the number of orphans under its assistance, giving names of nonexistent or dead children, and using the funds directed to them to fund Bin Laden's organization. According to Islamabad's intelligence services, the first director of RIHS's Pakistan branch, Abu Hafass, was the brother of Khalid Sheikh Mohammed, one of Al-Qaeda's cadres and the man behind the organization of the 9/11 attacks.¹¹¹

While there are many publicly notorious cases of major international companies financing terrorist or violent organizations around the world in order to safeguard their own interests avoiding disruptions and securing protection — most famously French cement-maker Lafarge financing ISIS in Syria¹¹² and American fruit giant Chiquita funding FARC in Colombia¹¹³ —, there are also some instances of wealthy individuals economically

¹¹⁰ Raphaeli (2003), p. 63-65.

¹¹¹ *ivi*, p. 68.

¹¹² Timmins, B. (2022): "Cement Firm Lafarge Pleads Guilty to Supporting IS." BBC News, October 18.

¹¹³ Friedman, I. B. (2024): "Explainer: Chiquita Ordered to Pay \$38M for Financing Violent Paramilitary Forces in Colombia." JURIST, June 14.

supporting terrorist organizations due to ideological convergence and a true belief in the rightness of their struggle. A significant case-study is Yassin al-Qadi, a Saudi businessman who has been considered since 2002 by the U.S. as a sponsor of terrorism, and whose Swiss bank accounts have therefore been frozen. According to the results of the investigation which led U.S. and British authorities (and the European Court of Justice as well) to this conclusion, Al-Qadi's holding has transferred funds to different charitable organizations which ultimately were able to use this money to finance terrorism in West Asia. In one case, 820,000 USD were transferred to the Koranic Literacy Institute in Chicago, which used these resources to buy an investment property which generated profits for Hamas through one of its members. According to Al-Qadi himself, he personally met Osama Bin Laden in the 1980s when the latter was still fighting the USSR in Afghanistan. Al-Qadi's donations, channelled through his Jersey Island-based Muwafaq charitable organization ("Blessed Relief") would be nothing more than charitable actions with the aim of providing food, clothing and medical equipment to people in places affected by famine or war. Nevertheless, according to U.S. investigators, 15 to 20 million USD donated by him, together with other Saudi businessmen, through Muwafaq would have been directed to Al-Qaeda instead between 1992 and 1997.¹¹⁴

As for the methods through which terrorist organizations are able to move funds in different countries and regions of the world, financing methods as well, especially for donation collection, are evolving at a worryingly rapid pace together with the evolution of internet and media technologies. It is therefore important to conclude this section on voluntary donations with a focus on web and social media crowdfunding. There is a growing number of cases in which extremist and terrorist organizations have been creating their own crowdfunding platforms, especially after being banned from mainstream ones due to violations of terms and conditions of service, and for instance in 2023 Khalilullah Yousuf was charged by Canadian authorities with supporting ISIS together as part of an international network using "online and encrypted messaging platforms to provide recruitment and financial support" to the Islamic State.¹¹⁵ According to the investigation, he produced and shared terrorist propaganda on social media and created fundraising initiatives on a crowdfunding platform pretending to collect money

¹¹⁴ Raphaeli (2003), pp. 66-67.

¹¹⁵ FATF (2023): "Crowdfunding for Terrorism Financing." Financial Action Task Force, p. 25.

for charity, funds that were in reality raised to finance ISIS. Funding through social media is seen by the authorities as one of the most difficult terrorism financing methods to fight due to its pervasiveness, speed and also due to how social media's algorithms work: automated content personalization can lead at-risk users to see even more terrorism-related social media content often associated with calls to support these organizations through donation on crowdfunding platforms, often using methods such as virtual assets — PayPal accounts have often been found to be linked to terrorism financing — and cryptocurrency wallets.

2.3 How to detect and fight terrorism financing

“Follow the money” is a famous catchphrase which was said for the first time in the 1976 movie *All the President's Men*, an adaptation of Bob Woodward and Carl Bernstein's investigation of the Watergate scandal. The meaning behind this slogan is that identifying and disrupting the currency movements involved in a criminal scheme can play a fundamental role in defeating the responsible criminal or criminal organization, and this also holds true for terrorism and terrorism financing.

After September 11, 2001, and the declaration by President Bush of the war on terrorism, the United Nations Security Council (UNSC) has adopted various resolutions to push countries to actively fight the movement of terrorist funds happening within their border. The first one, Resolution 1373, requires all UN member states to regard the use of funds to finance terrorism as a criminal activity, to freeze every economic resource of individuals linked to terrorist actions or groups, to refrain from directly supporting terrorism, and not to provide a shelter for those financing or supporting terrorist acts.¹¹⁶ However, the implementation of these provisions has been fragmented and sometimes incomplete in different regions of the world. Surprisingly, despite the immediate amendment of its own anti-money laundering framework, Directive 91/308 of 1991, to include anti-terrorism financing provisions, the European Union was not able to fully comply with the UN resolution: terrorists' assets were frozen and a counter-terrorism unit was established within Europol, but fragmentation between member states did not allow the Union to implement more binding legal measures. Some states have been slow to act,

¹¹⁶ Winer, J.M. and T.J. Roule (2002): "Fighting Terrorist Finance." *Survival*, 44(3), p. 92.

and there were also divisions on what groups can actually be considered terrorist organizations.¹¹⁷

In that same year, the already mentioned FATF issued eight special recommendations on combating terrorism financing which its members had to implement before June 2002:

*to criminalise the financing of terrorism, terrorist acts and terrorist organizations; to freeze and confiscate terrorist assets; to report suspicious transactions linked to terrorism; to provide the greatest possible measure of assistance to enforcement agencies in other jurisdictions that investigate terrorist financing; to impose anti-laundering requirements, such as licensing, on alternative remittance systems; to strengthen customer identification measures in all wire transfers; and to ensure that non-profit organizations and charities are not misused to finance terrorism.*¹¹⁸

Despite deciding to bind themselves to these recommendations, the Gulf Cooperation Council (GCC) countries failed to act adequately against terrorist funds moving within their borders. As Winer and Roule report, in a meeting of the Egmont Group held in Monaco in the wake of the deadline imposed by FATF emerged the dissatisfaction with how Gulf countries were addressing the matter of terrorist financing in a region which, due to the 9/11 attacks, was regarded as the centre of international terrorism at that time. The most compliant government was the UAE's due to the confirmed transfer of money from financial institutions based in its territory towards Al-Qaeda cells located in the U.S. before the 2001 attacks. However, the tightening of anti-money laundering and anti-terrorism financing laws and penalties in the UAE was nothing more than formal compliance, and in the following years there were no convictions related to financial crimes, especially due to the fact that it was impossible to pursue the new strategy of criminalization of hawala transfers because of the pervasiveness and under-the-radar nature of this system.¹¹⁹

It goes without saying that in the wake of September 11 the U.S. was the country that issued the highest number of counterterrorism provisions, and this is valid for anti-

¹¹⁷ Winer, J.M. and T.J. Roule (2002), p. 92.

¹¹⁸ *ibid.*

¹¹⁹ *ivi*, p. 93.

terrorism financing as well. The 2001 Patriot Act, the most famous of all these legislations, had also great effects on anti-laundering provisions, requiring banks and financial institutions to pay closer attention to financial crime through the development of new offices and internal procedures to conduct stricter due-diligence analysis on existing and new customers.

To document terrorism financing from the inside, Teichmann, Falker, Boticiu, and Sergi¹²⁰ conducted a highly distinctive field study. The authors were able to arrange 15 informal interviews with professionals employed in formally legal business but suspected to be potential financiers of terrorism, and then 15 more interviews with financial experts across different sectors. Members of both groups were selected from different countries and regions to better represent the widespread nature of the issue of terrorism financing. The results of the first batch of interviews confirmed what this work has tried to highlight in the present chapter: terrorism financing is a complex web, a difficult but pervasive activity engaged not only by ideologically or politically motivated militiamen who reinvented themselves as businessmen, but mostly by financial professionals who may be more or less aligned with the aims of the terrorist organization they assist, but most of all they see the possibility to gain a profit by helping these groups, regardless of the destination of the funds they help to provide or transfer.

The most interesting of the second group of interviews are those conducted with members of various countries' financial and investigative authorities. These officials' reports were particularly useful in understanding some of the strategies used to counter terrorism financing, such as the exchange of information between private sector and financial authorities, cross-border administrative and legal cooperation, undercover investigations, and electronic searches.¹²¹

As anticipated in the previous section of this chapter, the movement of funds through blockchain-based cryptocurrencies is something that financial regulators and investigators find themselves fighting today, and in recent years the authorities have found techniques and mechanisms to bypass the anonymity granted by these technologies. For instance, specifically built software can be used to identify patterns in BTC

¹²⁰ Teichmann, F., M.-C. Falker, S. Boticiu and B.S. Sergi (2025): "The Fight Against the Financing of Terrorism—Selected Challenges and Potential Solutions." *Trends in Organized Crime*, 28, 30-50.

¹²¹ *ivi*, pp. 39-45.

transactions that happen repetitively between the same senders and receivers, or networks of wallets.¹²²

In conclusion, the fight against terrorism financing sources and channels has experienced an unprecedented growth after the September 11 attacks on U.S. territory. The results are real and consistent, even though financial experts within terrorist organizations have been able to adapt and take advantage of new technologies to bypass financial scrutiny by the authorities, which therefore must be even more careful and push for even more cooperation with the financial institutions of the private sector.

This chapter has been devoted to analyzing the most lucrative and recurrent sources of financing used by terrorist groups which have to operate under the radar and must therefore exploit every possible method to disguise their funds which often, regardless of their legal or illegal origin, must move between countries and borders. There is, however, one terrorist organization different from all others in methods, aims, and characteristics. The Islamic State of Iraq and al-Sham has been able to establish a well-consolidated state-like entity, which therefore, especially at its peak expansion, had the possibility to generate income in a way very similar to that of internationally recognized countries through taxation (and in some instances extortion) on local populations, use of the financial institutions of the territories it conquered, and, thanks to its geographical location in a region where fossil fuels are present in significant quantities underground, illegal oil trade, which is the core topic of this research. Therefore, due to the unique nature of these sources of financing, the considerable amount of funds that they provided to ISIS in its strongest years, and to the possible consequences that they can have on global financial and commodity markets, the next two chapters will be entirely dedicated to their analysis and to a thorough and complete investigation of the financial mechanisms behind ISIS and its success as a terrorist organization.

¹²² Irwin, A.S.M. and G. Milad (2016): "The Use of Crypto-Currencies in Funding Violent Jihad." *Journal of Money Laundering Control*, 19(4), p. 419.

3. Illegal oil trade as a source of terrorism financing: the case of ISIS

3.1 A brief history of oil in West Asia

250 to 50 million years ago, West Asia was completely covered by a primordial sea known as the Tethys Ocean, which was of course full of primitive forms of animal and vegetal life.¹²³ When this sea disappeared due to the movements of the African and Arabian tectonic plates, all this vitality was doomed to rest in the soil of the Arab peninsula for millions of years, until in 1908 the discovery of oil at the Masjid Sulaiman oil field in Persia — today's Iran — began an era of exploration and turmoil around an energy source which was going to become the fuel, both literally and figuratively, of all the technological progresses which were going to happen in the 20th century. In 1909 the Anglo-Persian Oil Company (APOC) was established, and in 1913 a new refinery, built in Abadan, allowed for the first time the commercialization of Persian oil products. From the following year, the company was firmly controlled by the British government as its majority shareholder. Trade was regulated by an exploitative agreement between APOC and the Persian monarchy, according to which Tehran received only 16% of the net profits.¹²⁴ This disequilibrium led therefore to unrest and popular opposition which prompted, in 1933, a new negotiation between APOC (which would eventually become AIOC — Anglo-Iranian Oil Company — since 1935) and the new Iranian monarch Reza Shah Pahlavi, which raised Iran's share of the profits to 20% and granted Tehran a minimum annual payment of 750,000 GBP. Under these terms, the concession of Iranian oil to AIOC was extended from its previous expiry date of 1961 to 1993.¹²⁵ The terms of this agreement were endangered by the government of Mohammad Mossadeq and his National Front, which rose to power in 1951, making the establishment of a stricter control from Iran over its own oil reserves its flagship issue. Indeed, AIOC had expanded well beyond its original position in Iran, and had come to represent a significant challenge for Tehran's authority. In the words used by Cleveland and Bunton in their famous textbook on the history of West Asia:

¹²³ Hale, T. (2026): "This Is Why There's So Much Oil in the Middle East." IFLScience, March 25, 2026.

¹²⁴ Bina, C. (2017): "Iran's Oil, the Theory of Rent, and the Long Shadow of History." *Revue Internationale des Études du Développement*, 229.

¹²⁵ Cleveland, W.L. and M. Bunton (2024): "A History of the Modern Middle East." 7th edition. New York: Routledge, p. 148.

*By the late 1940s, the AIOC had built up such a massive presence throughout the country that it was practically a state within a state. Not only did the AIOC construct its own company town at Abadan, site of the world's largest oil refinery, it also supplied its own municipal services, built its own roads and airports, and negotiated its own security arrangements with neighbouring tribes. Foreigners held management and clerical positions, and Iranians were employed only as labourers. Although the AIOC was a private enterprise, the British government owned the majority of its stock. Iranians viewed the company as just another manifestation of British influence in their country.*¹²⁶

This disequilibrium collapsed in 1951 when the Majlis (the Iranian parliament) approved the law that nationalised AIOC and the oil reserves, leading to a blockade of Iranian petroleum enforced by Britain and the U.S., which effectively prevented Iran from selling its oil on the international markets. The situation was “solved” in 1953 by a joint operation between the American CIA and the British MI6 intelligence services which orchestrated a coup that ousted Mossadeq and restored a pro-Western Prime Minister.¹²⁷ Oil began flowing again from Iran to the rest of the world, but AIOC's position was not the same as before the nationalization: in 1954 the firm changed its name to British Petroleum (BP) and was forced to become a member of the newly-established Iranian Oil Participants consortium (IOP), composed of the world's major oil companies (the so-called “seven sisters”, as Enrico Mattei defined them), which dominated the market for the world's most fundamental commodity until the oil crisis of 1973.¹²⁸ The Iranian oil industry assumed its current structure in 1979, when the newly established Islamic Republic under the guidance of Ayatollah Ruhollah Khomeini confiscated IOP's assets in Iran and transferred them to the National Iranian Oil Company (NIOC)¹²⁹, which has managed Tehran's oil reserves and trade since then.

¹²⁶ Cleveland and Bunton (2024), p. 226.

¹²⁷ *ivi*, p. 227-228.

¹²⁸ Mina, P. (2004): "Oil Agreements in Iran." Encyclopaedia Iranica, published July 20, 2004, updated November 8, 2012.

¹²⁹ The company had been established in 1951 to manage the newly nationalized Iranian oil assets, and also after 1954 IOP members recognized the ownership of Iranian reserves and facilities to NIOC, and defined themselves only as operators and managers on its behalf.

The other West Asian major power, Saudi Arabia, has experienced a similar trajectory concerning the development of its even richer oil industry. King Abd al-Aziz Ibn Sa'ud, the founder of the modern Kingdom of Saudi Arabia, granted a major oil concession to the Standard Oil Company of California, which later became the Arabian American Oil Company (ARAMCO), in 1933, in exchange for an extremely low payment of four gold shillings per ton of crude oil. It must be noted that this concession was established to grant Standard Oil the right to look for oil on Riyadh's territory, where it was discovered only in 1938 and began to be traded only after World War II.¹³⁰ In 1950 the terms of the agreement were modified — as happened in most oil-rich countries in the region — so that the Kingdom was now receiving half of the net profits made by trading its petroleum.¹³¹ Since 1973 the Saudi government has held a stake in ARAMCO (25% in 1973, 60% in 1974, 100% in 1980) and in 1988 a royal decree established the Saudi Arabian Oil Company, which took control of ARAMCO's assets and operations, becoming known as Saudi ARAMCO.¹³² The company has established itself since then as the world's largest oil company, and it is still headquartered in Dhahran, near the site where Saudi Arabia's first commercial oil well, Dammam No. 7 (known as the "prosperity well"), is located.

The other countries located on the shores of the Persian Gulf — Bahrain, Qatar, the United Arab Emirates¹³³, and Oman — experienced similar trajectories, but thanks to their significantly lower population and smaller size they were able to proportionally profit even more than Iran and Saudi Arabia from their rich oil reserves. The case of Kuwait is particularly striking: in 1980 the country's oil reserves generated an astonishing income of 21.7 billion USD, financing a population of less than one million.¹³⁴

¹³⁰ Cleveland and Bunton (2024), p. 331.

¹³¹ Ross, A. (1951): "Saudi Arabia Gets Half U.S. Oil Profit: Ibn Saud and Aramco Agree to 50-50 Sharing Plan from Jan. 1, 1950." *The New York Times*, published January 3, 1951.

¹³² Schepp, D. (2026): "Saudi Aramco." *Encyclopaedia Britannica Money*, updated September 5, 2026.

¹³³ The country was created in 1971 as a federation of seven emirates: Abu Dhabi, Dubai, Sharja, Ajman, Umm al-Quwain, Fujairah, and Ras al-Khaimah (the last one joined the other six in 1972).

¹³⁴ While this figure may not seem very significant when compared to present financial and economic standards, two terms of comparison may help understanding the real proportional size of Kuwait's oil richness in the 1980s. First of all, 21.7 billion USD are equivalent to roughly 90 billion USD today. Secondly, and even more strikingly, in 1980, according to Cleveland and Bunton (2024, p. 332) Saudi Arabia generated oil revenues amounting to 100 billion USD, so five times Kuwait's, but with a population of 10 million people, therefore more than ten times larger, and a territorial size about one hundred times larger. (Cleveland and Bunton, 2024, p. 337).

In the 1960s, these enormously oil-wealthy countries were well aware of the immense financial power and leverage that their reserves granted, but they were also conscious of the fact that until then they had exercised little-to-no influence in setting the price and the trading quotas of petroleum in the global markets. Therefore, in 1960, Iran, Iraq, Kuwait and Saudi Arabia formed the Organization of Petroleum Exporting Countries (OPEC) together with Venezuela, which later expanded to 13 members. In parallel, in 1968, the Organization of Arab Petroleum Exporting Countries (OAPEC) was founded.¹³⁵ For the first time, West Asian oil-producing countries had an official instrument through which they could coordinate to set the price of the commodity that was financing the technological and industrial development of the Western world, and of which they were by far the largest providers.¹³⁶

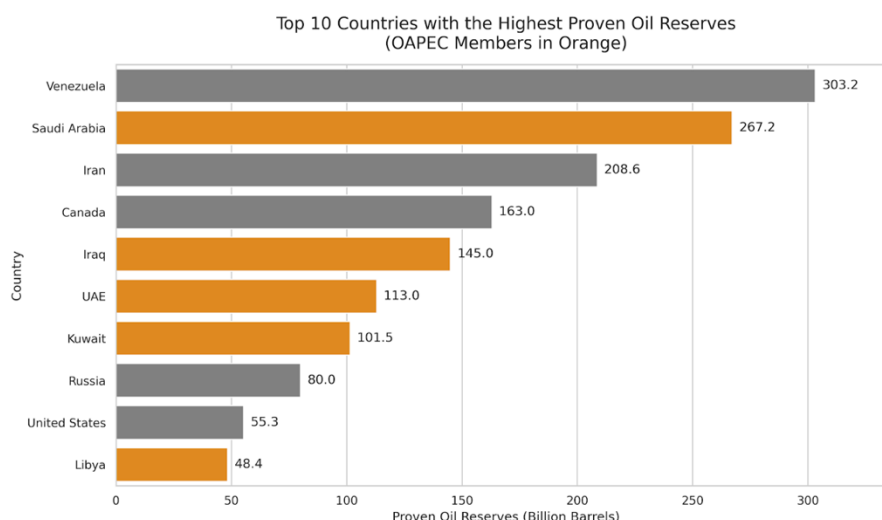


Figure 4: countries with the highest proven oil reserves, with OAPEC members in orange.¹³⁷

The 1973 Yom Kippur War between Israel and the Arab states was the first occasion in which OAPEC countries took advantage of their oil abundance and new price-setting cartel status. In response to U.S., European countries and Japan supporting Israel materially and financially during the conflict, the organization took the unprecedented

¹³⁵ Cleveland and Bunton (2024), p. 331.

¹³⁶ It is interesting to note that, even though Venezuela is the country with the largest oil reserves globally, its petroleum is far more difficult to extract and to refine, being defined by geologists as “heavy and sour” in contrast with the “light and sweet” oil of West Asian countries.

¹³⁷ Brighton, C. (2024): "The World's Largest Oil Reserves by Country in 2024." WorldAtlas, based on data from the OPEC Annual Statistical Bulletin, June 11, 2024.

decision to embargo all oil shipments to the U.S. and Europe through the Rotterdam port, to reduce the amount of oil available to consumers, and to raise the price to 11.65 USD per barrel starting January 1st, 1974, from the 2.74 USD of the previous year.¹³⁸ According to the figures reported by Cleveland and Bunton, this brought Saudi oil revenues from 6.4 billion USD to 27.7 billion USD. This enormous spike in the petroleum profits of all Gulf monarchies marked the beginning of the exponential developments whose results are observable nowadays.¹³⁹

Nevertheless, this shift in the global oil equilibrium did not mean total independence for Arab oil-exporting countries. The U.S., looking to maintain its position of dominance in this commodity trade as well, resorted to an informal arrangement with Saudi Arabia, later also joined by the other Gulf nations, according to which the currency of West Asian oil trade would be the U.S. dollar. This framework, from then onwards known as the “petrodollar system”, was favourable to all parties involved, for different reasons.¹⁴⁰ From the U.S.’s point of view, oil trade made in its own currency gave it an unprecedented geopolitical and financial leverage, since every country willing to buy oil from Gulf exporters has to own U.S. dollars, which, also due to this mechanism, in 2026 comprise about 57% of global foreign currency reserves¹⁴¹; furthermore, U.S. dollars that Gulf countries make from global oil trade are naturally reinvested in American financial products such as shares, and, especially, U.S. Treasury bonds, which were bought in an amount so enormous that by 1977 Saudi Arabia owned about 20 percent of all the American debt securities held abroad.¹⁴² From Arab exporters’ point of view, and from Saudi Arabia’s in particular, this arrangement resulted in a massive inflow of U.S. weapons and military technology.

This brief analysis has shown all the advantages and economic development that first the discovery and then even more the true ownership of their enormous oil reserves have brought to West Asian countries. However, there is also another perspective from which

¹³⁸ Cleveland and Bunton (2024), p. 332.

¹³⁹ *ibid.*

¹⁴⁰ Oweiss, I.M. (1974): “Petrodollars: Problems and Prospects.” Address before the Conference on the World Monetary Crisis, Arden House, Harriman Campus, Columbia University, March 1-3, 1974.

¹⁴¹ International Monetary Fund (2026): “Currency Composition of Official Foreign Exchange Reserves (COFER) Dashboard.” IMF Data, published July 1, 2026.

¹⁴² Spiro, D.E. (1999): “The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets.” Ithaca: Cornell University Press, p. 112.

this matter can be observed, captured by the notion of “resource curse”. According to this view, which was first proposed as early as 1711, debated since the 1950s, and then structured in many research papers among which Sachs and Warner’s paper¹⁴³ is considered the frontrunner, those countries which own a single resource in significant quantities often experience more difficulties and undesirable economic consequences than benefits connected to that particular commodity. More specifically for the West Asian region, there are two ways in which the paradox of plenty can be seen as working. On the one hand, according to Colgan, oil has been an inexhaustible source of war and conflict, especially for countries such as Iraq, Iran, and, further afield in Africa, Libya. On the other hand, there are internal social consequences to the large-scale ownership of oil by Arab nations, and this is true especially for Gulf monarchies.¹⁴⁴ Since the 1970s, and even more since the unrest that developed throughout North Africa and West Asia beginning in Tunisia in the 2010s, ruling families have been using oil revenues — and the multiplied profits of their investment abroad — both to support the functioning of the state and to provide some forms of welfare to their citizens, allowing them not to pay income taxes. Nevertheless, this absence of any form of economic interdependence between citizens’ contributions and the state’s activities has allowed sheikhs and monarchs to avoid conceding their subjects — with some notable, but often ineffective, exceptions — any real form of democratically representative institutions. If the country is able to function even without the economic support of its citizens, who are on the contrary granted extensive privileges and advantages, governments and ruling families cannot be held accountable by their subjects.

In conclusion, it is important to remember that the territory of West Asia is rich in underground petroleum regardless of who is ruling over it. Therefore, when a terrorist organization is able to make territorial conquests and to rule over portions of West Asian countries, these groups gain control of the oil wells and reserves in those lands, acquiring a significant and lucrative source of income. The greatest example of this practice is provided by the development of the Islamic State of Iraq and al-Sham, to which the rest of this chapter is dedicated.

¹⁴³ Sachs, J.D. and A.M. Warner (1995): “Natural Resource Abundance and Economic Growth.” NBER Working Paper No. 5398.

¹⁴⁴ Colgan, J.D. (2013): “Petro-Aggression: When Oil Causes War.” Cambridge: Cambridge University Press.

3.2 The Islamic State of Iraq and al-Sham

The most infamous terrorist organization of the last decades originated in a context which was profoundly shaped by Western intervention. ISIS's foundation, indeed, is inextricably linked to the framework of the post-2003 U.S. invasion of Iraq, and it is also linked to the fate of Abu Musab al-Zarqawi's Al-Qaeda in Iraq (AQI), from which it originated.

The sectarian context of Iraq at that time played a significant role in the emergence of ISIS. After U.S. forces ousted and captured Saddam Hussein, Shi'a politicians took power in the country with the aim of cleansing the government from members of the former Ba'athist administration and to fight Al-Qaeda. However, these objectives were pursued through a harsh and indiscriminate repression of Sunni Iraqis, many of whom therefore resorted to the various extremist groups that were developing in many regions of the country, including AQI.¹⁴⁵

When in June 2006 al-Zarqawi was killed by U.S. strikes, the group's new leader Abu Ayyub al-Masri announced that the group was rebranding itself as the Islamic State of Iraq (ISI). Despite controlling some territory as early as 2006, the organization was severely damaged by an event known as the Sunni Awakening, in which forty Sunni tribes decided to side with U.S. forces against AQI-ISI, forcing the group to fade into obscurity for years until it re-emerged in a new war-torn theatre: in the framework of the Syrian Civil War, which began in 2011, driven by the opposition to the regime of Bashar al-Assad, ISI's new leader, Abu Bakr al-Baghdadi, decided to intervene by siding with the Nusra Front, a Sunni organization affiliated with the central command of Al-Qaeda.¹⁴⁶ Nevertheless, the real aim of al-Baghdadi was to merge the two groups into a unitary entity, and he attempted to reach this objective by declaring, in 2013, that ISI and the Nusra Front were uniting to form the Islamic State of Iraq and al-Sham (ISIS). Although the Syrian group immediately rejected al-Baghdadi's claim, after a series of territorial conquests in Iraq, especially the cities of Fallujah and Ramadi, in 2014 the leader of ISI announced the establishment of ISIS as a caliphate in the lands it controlled.¹⁴⁷ During

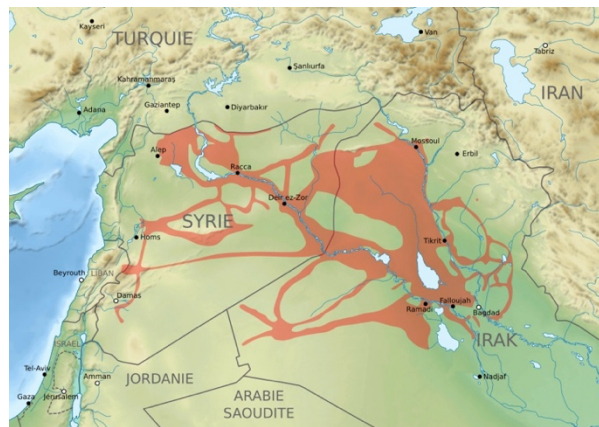
¹⁴⁵ Cronin, A.K. (2015): "ISIS Is Not a Terrorist Group: Why Counterterrorism Won't Stop the Latest Jihadist Threat." *Foreign Affairs*, 94(2), pp. 88-89.

¹⁴⁶ Encyclopaedia Britannica (2025): "Islamic State in Iraq and Syria." Encyclopaedia Britannica, Inc., published December 30, pp. 2-3.

¹⁴⁷ *ivi*, pp. 3-4.

that year ISIS (or simply the Islamic State, IS, as al-Baghdadi rebranded it again to signal the universal rule it claimed to exert over all of the world's Muslims) managed to expand its territory through an extraordinary campaign of territorial conquest whose might was severely underestimated by both international observers and local militaries, which were also unprepared and underequipped to face such a threat. The next city to fall under ISIS's control was Raqqa, which was then declared the capital city of the caliphate, soon followed by the major Iraqi cities of Mosul and Tikrit.¹⁴⁸ While in Iraq ISIS's forces got within only an hour's drive from the capital city of Baghdad, expansion campaign continued in Syria as well, leading to the conquest of various cities such as Palmyra and Kobani, coming very close to the major city of Aleppo.¹⁴⁹ Furthermore, through its affiliates outside Iraq and Syria, the organization was able to expand abroad as well, and by mid-2015 it conquered the major Libyan city of Sirte. At the peak of its expansion, ISIS controlled a territory of 110,000 square kilometres¹⁵⁰, which corresponded to a third of Syrian territory (even half, according to some estimates)¹⁵¹ and 40 percent of Iraq's,¹⁵² and informally governed a population of between 8 and 12 million people.¹⁵³

Figure 5: map of the Islamic State's territory in Iraq and Syria at the peak of its expansion in 2015.¹⁵⁴



¹⁴⁸ Wilson Center (2019): "Timeline: The Rise, Spread, and Fall of the Islamic State." Wilson Center, October 28.

¹⁴⁹ *ibid.*

¹⁵⁰ Cengiz, M., K. Karademir and H. Cinoglu (2022): "The ISIS Model and its Influence Over Global Terrorism." *European Scientific Journal, ESJ*, 18(7), p. 17.

¹⁵¹ Belanger-McMurdo, A. (2015): "A Fight for Statehood? ISIS and Its Quest for Political Domination." *E-International Relations*, October 5, p. 2.

¹⁵² Wilson Center (2019).

¹⁵³ U.S. News & World Report (2017): "ISIS by the Numbers in 2017." U.S. News & World Report, December 27.

¹⁵⁴ Fairfield, H., Wallace, T. and Watkins, D. (2015): "How ISIS Expands." *The New York Times*, May 21.

From a political and ideological point of view, the declared aim of the Islamic State is to overcome the boundaries of West Asian countries as established by Western powers after the dissolution of the Ottoman Empire and to establish a universal Islamic caliphate uniting all of the *umma* (global Islamic community) on the model of the medieval Abbasid caliphate which ruled over a vast territory spanning from Afghanistan to North-Western Africa and the southern shores of Spain.¹⁵⁵



Figure 6: map of the Abbasid Caliphate in the 9th century.¹⁵⁶



Figure 7: map of the planned expansion of the Islamic Caliphate according to ISIS grand strategy.¹⁵⁷

¹⁵⁵ Belanger-McMurdo, A. (2015): "A Fight for Statehood? ISIS and Its Quest for Political Domination." E-International Relations, October 5, p. 3.

¹⁵⁶ Afsaruddin, A. (2026): "The Abbasid Caliphate." Encyclopedia Britannica.

¹⁵⁷ Mustafa, M.S. and A.K. Darwesh (2023): "The Anti-Kurdish Thoughts of ISIS." Review of Middle East Studies, pp. 1–20.

In the first issue of its English-language magazine, *Dabiq*, the Islamic State described the phases of jihad that constitute the organization's grand strategy. First of all, the current infidel states that illegitimately occupy the lands of Islam must be brought into chaos and civil war through destabilization; according to ISIS itself, this goal had already been achieved by Al-Qaeda in Iraq at the time of the establishment of al-Baghdadi's group. Then, in the second phase, the Islamic State of Iraq and al-Sham is established as an Islamic caliphate. The third moment is the *Hijrah* phase: recalling the emigration of Prophet Muhammad and his first followers from Mecca to Yathrib (later known as Medina) in 622 AD, Muslims and especially those fighting in the name of Islam around the world must move to the IS's territory to support its enlargement. This phase is described more as continuous rather than as a static moment, which is conditional on all other phases and developments in the evolution of the caliphate. The final phase regards the relationships with the rest of the Muslim world, which according to ISIS's ideology must pledge allegiance to its global authority.¹⁵⁸

From a pragmatic and military point of view, according to Lewis, ISIS's military strategy likely had the following final objectives:

To establish control of urban terrain in the Sunni heartland of Iraq that connects to the core physical strength of ISIS in Syria, forming the territory of the Islamic Caliphate; to control critical infrastructure that increase the wealth and international leverage of the Islamic Caliphate; to create a border exclusion zone in Iraqi Kurdistan and the ethno-sectarian mixed provinces of Diyala, Baghdad, and Babil in order to separate the Islamic Caliphate from Iran; to destroy the offensive capability of the Iraqi Security Forces and the Syrian regime. To destroy Iraq by denying the capital as a seat of government and as a defensible Shi'a city; to ensure that the government of Syria does not recover its legitimacy; to expand the terrain that ISIS can claim as part of the Islamic Caliphate by seizing outlying cities in Syria and Iraq such as Rutba and Sha'er and eventually create additional exterior lines of communication; to extend the Islamic Caliphate into areas of

¹⁵⁸ Lewis, J.D. (2014): "The Islamic State: A Counter-Strategy for a Counter-State." Institute for the Study of War, p. 11.

*northern and central Syria currently occupied by the Syrian opposition and Jabhat al-Nusra and eliminate resistance.*¹⁵⁹

While 2014 was strategically characterized by videotaped beheadings of tourists, journalists, aid workers, and soldiers whom the caliphate considered infidels or supporters of demonized Western foreign policy and whom ISIS was able to capture in its territory, 2015, 2016, and 2017 were the years in which the group carried out most of its notorious terrorist attacks abroad. In 2015, a total of more than 870 people were killed in ISIS-claimed attacks in France, Libya, Tunisia, Yemen, Saudi Arabia, Kuwait, Egypt, Turkey, and the United States. In 2016, about 1,050 people fell victim to the organization's attacks in Turkey, Indonesia, Belgium, Iraq, the United States, Yemen, Bangladesh, Saudi Arabia, France, Germany, Afghanistan, Syria, Libya, Egypt, Pakistan, and Jordan. Finally, in 2017, at least 1,620 people died in ISIS-claimed attacks in Syria, Iraq, Turkey, Egypt, Afghanistan, Somalia, Pakistan, Bangladesh, the UK, Russia, France, Indonesia, the Philippines, Iran, Spain, Algeria, Libya, Nigeria, the U.S., and Yemen.¹⁶⁰

This course of action undertaken by the Islamic State was precisely determined by a shift in the territorial situation of the caliphate. Starting in early 2015, indeed, ISIS faced its first real defeat against Kurdish militias on the Syria-Turkey border, and in the following years various forces opposed the terrorist organization and tried to retake the territories it had previously seized in Iraq and Syria.¹⁶¹ As a result of these efforts conducted by Iraqi and Syrian regular armies, a U.S.-led international coalition, and Russia acting alone, by March 2019 the Islamic State of Iraq and al-Sham lost the quasi-totality of the lands it controlled. On October 26th, 2019, Abu Bakr al-Baghdadi killed himself during a U.S. raid on the Idlib governorate in Syria.¹⁶² Even though these developments did not mean the effective end of ISIS's existence, currently it stands as a deeply scaled-down terrorist organization with no remaining territorial control. Most of the organization's activities have been carried out by its significant and robust network of global affiliates, which spans from Western Africa to Central Asia. The 2025 Annual Threat Assessment (ATA)

¹⁵⁹ Lewis, J.D. (2014), pp. 13-14.

¹⁶⁰ Wilson Center (2019): "Timeline: The Rise, Spread, and Fall of the Islamic State." Wilson Center, October 28.

¹⁶¹ Encyclopaedia Britannica (2025): "Islamic State in Iraq and Syria." Encyclopaedia Britannica, Inc., published December 30, p. 5.

¹⁶² *ivi*, p. 8.

of the U.S. Intelligence Community, for instance, defined the Islamic State in the Khorasan Province (ISKP, or ISIS-K) as “the Islamic State branch most capable of carrying out external terrorist attacks”¹⁶³, as it did for example in Iran and Russia in 2024. IS-Sahel operates in the Sahel region of Africa, and is especially active in Mali, Niger and Burkina Faso. The organization established in 2019 a branch in the Democratic Republic of Congo, IS-DRC, which took the place of the Ugandan-origin insurgent group Allied Democratic Forces, while in Mozambique the IS-M splinter has killed thousands of people since 2017. The two largest ISIS branches in Africa as of 2026, nevertheless, are the Islamic State West Africa Province (IS-WA, or ISWAP), and the Islamic State-Somalia. The former was born as an offshoot of the Nigerian Islamist organization Boko Haram, and according to the 2025 ATA it is the largest ISIS branch in terms of number of attacks, and also the most prolific propaganda producer for the Islamic State according to UN sanction monitors. The latter, Islamic State-Somalia, originated through a split in Al-Qaeda’s richest affiliate Al Shabaab, and later succeeded in becoming ISIS’s richest affiliate as well. According to UN sanction monitors, the head of this affiliate, Abdul Qadir Mumin, would be the Islamic State’s new global leader, and according to the head of U.S. Africa Command (AFRICOM) “ISIS controls their global network from Somalia”.¹⁶⁴

The chronology of the Islamic State’s evolution and decline presented in this section does not adequately account for the unprecedented strength and power that the group was able to reach in only about a decade, and that distances ISIS from every previous terrorist organization. The level of territorial control and expansion over cross-border lands that are part of more than one country is something no other non-state actor had ever managed to achieve before, and therefore it deserves to be analyzed deeply in all its components and especially in relation to how this strategy impacted on ISIS’s sources of financing which allowed the organization to become, by far, the wealthiest terrorist organization ever recorded. The next section therefore will be devoted to this subject.

¹⁶³ Thomas, C. (2025): "The Islamic State and Its Affiliates." Congressional Research Service, IF10328, updated September 8.

¹⁶⁴ *ibid.*

3.3 ISIS's territorial control and sources of income as a quasi-state entity

As mentioned in the previous section, ISIS's success as a terrorist organization — and possibly also the feature that differentiates it from all the others — is its formidable conquest campaign that led it to own and control a significant portion of territory across the border between Syria and Iraq. Clancy¹⁶⁵ interestingly describes the group as an emerging-state actor, in contrast with other terrorist organizations being non-state actors or insurgent groups. According to the author, an emerging-state actor must present a series of characteristics to be described as such: it must take and hold territory; it must have valuable resources on it that it can exploit; the transition of a coerced population to legitimacy cannot take too long for an emerging-state actor; it must be able to exploit local grievances to attract local recruits; it must also be able to attract foreign recruits. In a series of experiments made through a purpose-built simulation model, Clancy was able to prove that ISIS as an emerging-state actor, therefore presenting the aforementioned characteristics, performs much better than a hypothetical insurgent group simulated in the same context. Despite attracting many more opposition forces fighting against it, it was able to attract a significantly higher number of recruits and of financial resources, and therefore to achieve better results as a disruptive terrorist entity.¹⁶⁶

Nevertheless, ISIS's territorial conquests have never translated into a real, internationally recognized, sovereignty, and no recognized sovereign nation has ever established diplomatic relations with the Islamic State. Therefore, according to Belanger-McMurdo¹⁶⁷, the constitutive theory of sovereignty forbids considering the caliphate as a state because, as the author reports:

The constitutive theory is reliant on the concept that a state can only exist if it is recognized as legitimate by other sovereign states [...] with regard to ISIS [...] international recognition will be withheld due to its well-publicized breaches of international law. Hence, it is not a state in the current modern concept as it is "an enemy of every state in the region — and, indeed, the world".¹⁶⁸

¹⁶⁵ Clancy, T. (2018): "Theory of an Emerging-State Actor: The Islamic State of Iraq and Syria (ISIS) Case." *Systems*, 6(2), article 16.

¹⁶⁶ *ivi*, pp. 19-20.

¹⁶⁷ Belanger-McMurdo, A. (2015): "A Fight for Statehood? ISIS and Its Quest for Political Domination." *E-International Relations*, October 5.

¹⁶⁸ *ivi*, p. 3.

There is, however, another theory according to which state sovereignty can be attributed, and it is the declarative theory, which relies on specific criteria of statehood to determine whether an entity can be deemed a sovereign state, for example the Montevideo Convention of 1933.¹⁶⁹ If one accepted these criteria, al-Baghdadi's organization would look very close to an existing state. First of all, between 2015 and 2019 ISIS effectively ruled over a population which resided under its authority, and this is confirmed considering either the 11,000 "caliphate passports" issued in 2014, or the 200,000 militants fighting for the organization in Iraq and Syria, or the 8 to 12 million people permanently residing in the lands conquered by the group.¹⁷⁰ The second criterion, which concerns the stable control of a defined territory through effective political legitimacy, denying others the ability to use coercion in those lands, is on the one hand the parameter that ISIS meets more easily, since its territorial nature has been its main feature since its foundation, since according to the organization itself but also to analysts and observers, as mentioned in the previous section, in 2015 it controlled about 50% of Syria's and 40% of Iraq's landmass. On the other hand, as reported by Belanger-McMurdo, Article 11 of the Montevideo Convention explicitly forbids the recognition of territory conquered through force.¹⁷¹

It is clear that evaluating the conditions for the recognition of ISIS's sovereignty as a legitimate nation among the others is a purely theoretical exercise with no practical or policy implications. However, it is interesting to note that in 2015, therefore at the peak of the expansion of the IS, scholars were effectively looking at the organization as an entity which could potentially possess the features of a functioning state. Furthermore, carrying on with the analysis of the Montevideo Convention allows a focus on another one of the most significant features of the territorial organization of the group, which is its government structure.

From an administrative point of view, the territory of the Islamic State, which established its capital in the Syrian city of Raqqa, has been divided into at least 16 provinces encompassing the lands controlled by the organization in Iraq and Syria: Anbar,

¹⁶⁹ Furthermore, according to Article 3 of the Convention, "the political existence of the state is independent of recognition by the other states", explicitly stating the independence of the declarative theory from the major constraint of the constitutive theory.

¹⁷⁰ Belanger-McMurdo (2015), p. 1.

¹⁷¹ *ivi*, p. 2.

Salahuddin, Diyala, Baghdad, North Baghdad, Kirkuk, Nineveh, Janub, Badiyah, and Jazirah/Dijlah, in Iraq; Raqqa, Aleppo/Halab, Homs, Hama, Idlib, Deir ez-Zor, and al-Barakah, in Syria. At the head of the entity is the caliph, a position which has been held by five people since 2013: Abu Bakr al-Baghdadi from 2013 to 2019, Abu Ibrahim al-Hashemi al-Qurayshi from 2019 to 2022, Abu al-Hasan al-Hashimi al-Qurashi from February to October 2022, Abu al-Hussein al-Husseini al-Qurashi, from November 2022 to 2023, and Abu Hafs al-Hashimi al-Qurashi from 2023.¹⁷² It is also known that at least al-Baghdadi had two deputies, both later killed by U.S. strikes, each responsible for the administration of either Iraqi or Syrian territories. Furthermore, according to Cronin, ISIS's administrative hierarchy also includes 12 civilian administrators managing state functions in the Iraqi and Syrian provinces.¹⁷³ Resembling a national government, since 2014, ISIS reportedly established a series of ministries (*diwans*) through which it managed the main state functions within its borders: education; public services; precious resources (divided into offices for fossil fuels and antiquities); religious activity and control of the mosques; health; tribal outreach, public security; finances and currency system; enforcement of public morality (Islamic police); Islamic court, judicial matters, and marriages; public relations; agriculture and environment; Fatwas and textbooks for training camp recruits; military and defense.¹⁷⁴ Besides the dedicated ministry, religious matters are also managed by the Shura council, who monitors the adherence to Islamic law within the territories of the IS, and, for instance, according to Jasmine Opperman, Southern Africa Director of the Terrorism Research and Analysis Consortium (TRAC), the beheading and killing of Western hostages has been regulated and ultimately approved by the Shura council.¹⁷⁵ Furthermore, according to a New York Times investigation built on an interview with a German inmate who was a member of the Islamic State, the group has a fully-functioning intelligence division known as Emni, a "multilevel secret service under the overall command of the IS's most senior Syrian operative, spokesman and

¹⁷² Nevertheless, as mentioned before, according to the UN sanction monitor the current *de facto* global leader of the organization is Abdul Qadir Mumin, the leader of ISIS in Somalia, due to the significant financial wealth of his affiliate.

¹⁷³ Cronin, A.K. (2015): "ISIS Is Not a Terrorist Group: Why Counterterrorism Won't Stop the Latest Jihadist Threat." *Foreign Affairs*, 94(2), p. 91.

¹⁷⁴ al-Tamimi, A. (2015): "The Evolution in Islamic State Administration: The Documentary Evidence." *Perspectives on Terrorism*, 9(4), pp. 123-124.

¹⁷⁵ Thompson, N. and A. Shubert (2015): "The Anatomy of ISIS: How the 'Islamic State' Is Run, from Oil to Beheadings." CNN, updated January 14, 2015.

propaganda chief, Abu Muhammad al-Adnani [...] empowered to plan attacks in different regions, including a secret service for European affairs, a secret service for Asian affairs, and a secret service for Arab affairs.” This branch enjoys a high level of autonomy, recruiting its own operatives and redirecting militants from other divisions. The Emni is, allegedly, the branch of ISIS ultimately responsible for the planning and preparation of terrorist attacks worldwide, taking care of training designated members and providing for the organization of their actions.¹⁷⁶

Between 2013 and 2014, ISIS territorial control plans led to the decision to create a proprietary currency of the Islamic State whose value would be linked to the quantity of precious metals contained in each coin, which was made of gold, silver, or copper.¹⁷⁷ The aim of this decision was, of course, propagandistic and also due to the Islamic precept not to practice usury, but it represents well the level of resemblance to real government institutions that the organization’s leaders had imagined for the offices of the caliphate, in this case the Bayt al-mal (“house of money”).¹⁷⁸ In some provinces of Syria other currencies were forbidden, and therefore the population was forced to use the IS’s currency from 2014 to 2019, when after the collapse of the territorial dimension of the group the Syrian pound was reinstated.¹⁷⁹

Media activities and propaganda are two of the core functions which are indispensable for the functioning and growth of the Islamic State. During its years of territorial existence, ISIS had five main media outlets: Al-Furqan and Al-Itisam, which produced videos in Arabic; Al-Ajnad, which produced Islamic songs; the Al-Bayan radio station; and finally, the most famous and most prolific, the Al-Hayat Media Center, which produced video, audio, and written materials in foreign languages. The latter was responsible for publishing the two most notorious ISIS magazines, which were *The Islamic State Report*, describing how wonderful life was in the prosperous caliphate, and the *Dabiq* magazine, published from 2014 to 2016, which was written in English and had its main audience in potential recruits abroad, describing the activities and programs of

¹⁷⁶ Callimachi, R. (2016): "How a Secretive Branch of ISIS Built a Global Network of Killers." The New York Times, August 3.

¹⁷⁷ At the time of this decision, the most valuable IS coin, the 5 golden dinars piece, was worth roughly 694 USD, corresponding to 21.25 grams of 21 carats gold.

¹⁷⁸ Stergiou, D. (2016): "ISIS Political Economy: Financing a Terror State." Journal of Money Laundering Control, 19(2), p. 199.

¹⁷⁹ al-Bahri, A. (2015): "ISIS Begins Banning Syrian Banknotes." Syria Deeply, November 20.

the organization. Since 2017, it has been replaced by *Rumiya*.¹⁸⁰ Besides these officially recognized outlets, there is also another media organization with strong and confirmed ties to the Islamic State. Despite formally being an independent news agency, the Amaq News Agency has always been the first to publish ISIS's claims of responsibility for terrorist attacks, and this is due to the fact that it gets direct insights and directives from the group.¹⁸¹ However, according to Abdullayev, as of 2015 publications by the aforementioned official and unofficial agencies represented only 22% of the material shared by ISIS, while 78% was actually produced by local and regional outlets linked to the provinces, signaling the effectiveness of a widespread and decentralized propaganda network.¹⁸² Furthermore, marking a significant strategic innovation in the context of terrorist organizations, ISIS has extensively used social media — mainly Twitter, Facebook, Ask.FM, and Instagram — to spread the news of its operations and territorial conquests, together with promoting its image of defender of the true Islam and liberator from Western oppression.¹⁸³

This formidable administrative, government and media apparatus necessarily needs significant funds to be established and to function properly. While all the terrorism financing methods described in the previous chapter of this work are valid and remain active for ISIS as well — for instance through a confirmed continuous inflow of donations from wealthy individuals from Gulf monarchies, especially Qatar,¹⁸⁴ or through the extensive use of criminal means such as kidnapping for ransom, which reportedly generated an income of between 20 and 45 million USD in 2014¹⁸⁵ — the territorial dimension of the organization has been the key factor that has allowed the constant and fundamental flow of financial resources to the organization's coffers.

¹⁸⁰ Abdullayev, J. (2026): "The ISIS Media Network and the Activities of Cyber Jihadists." *Actual Problems of International Relations*, No. 166, pp. 99-100.

¹⁸¹ Callimachi, R. (2016): "A News Agency with Scoops Directly from ISIS, and a Veneer of Objectivity." *The New York Times*, January 14.

¹⁸² Abdullayev J. (2026), p. 100.

¹⁸³ *ivi*, pp. 100-101.

¹⁸⁴ Windrem, R. (2014): "Who's Funding ISIS? Wealthy Gulf 'Angel Investors,' Officials Say." *NBC News*, September 21, 2014.

¹⁸⁵ FATF (2015b): "Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)." *Financial Action Task Force*, February 2015, p. 18.

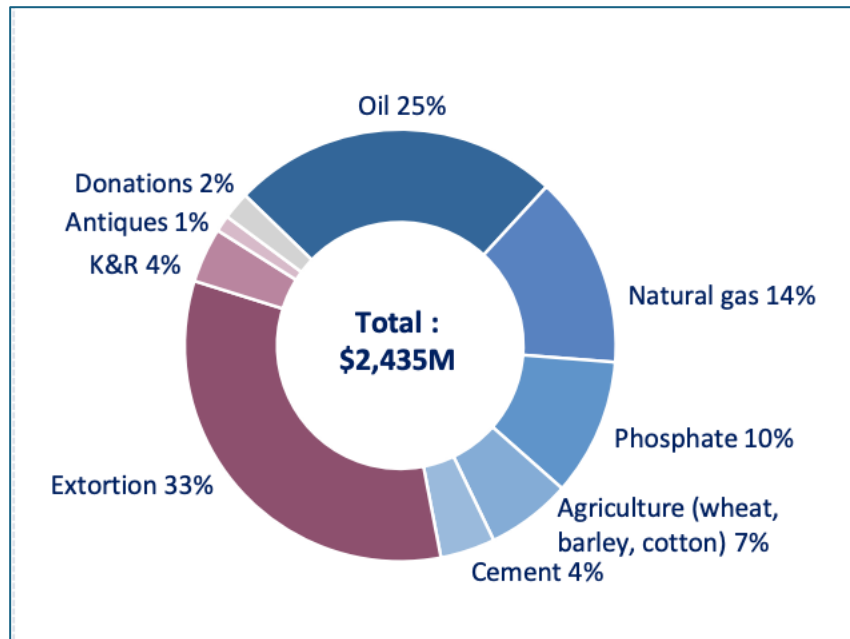


Figure 8: ISIS revenue breakdown in 2015.¹⁸⁶

According to a Financial Action Task Force (FATF) 2015 report, the Islamic State has seven main methods of collecting resources from the lands it controls: bank looting, extortion, and human trafficking; control of oil and gas reservoirs (which will be dedicatedly discussed in the next section); extorting agriculture; other resource extraction and production facilities; cultural artifacts; illicit taxation of goods and cash that transit territory where ISIS operates; salary payments to Iraqi government employees.¹⁸⁷

In 2015, bank looting and extortion resulted in more than 800 million USD in revenues for the Islamic State. While bank robberies were not often conducted by ISIS members due to the necessity to keep financial institutions running to serve the population ruled by the group, the caliphate directly controlled state-owned banks in its territories and it freely and constantly drew from their cash reserves treating them as property of the group, resulting in a cash availability of more than 500 million USD in 2015, according to the US Department of Treasury.¹⁸⁸ Private banks were not subject to this kind of treatment, even though withdrawals were heavily taxed: first of all, every withdrawal had to be approved by a three-person committee to check if the account was connected to

¹⁸⁶ Bindner, L. and Poirot, G. (2016): "ISIS Financing in 2015." Center for the Analysis of Terrorism, May 2016, p. 7.

¹⁸⁷ FATF (2015b), pp. 12-18.

¹⁸⁸ *ivi*, p. 12.

government institutions (in that case, the tax regime becomes even harsher as the money is considered ISIS's property), or if the owner was a Christian, a Yazidi Muslim, or a Shi'a Muslim (these confessions were considered as enemies and therefore their members were not allowed to withdraw their money). If the committee cleared the operation, the account-holder was allowed to withdraw a maximum of 10% of his savings, also paying an additional 5-10% tax which was disguised as zakat, the Muslim almsgiving.¹⁸⁹

Zakat was used as an excuse to tax farmers as well by taking shares of their products — whose prices were set by ISIS itself through its control of fields and means of production — and confiscating their machinery. According to the Food and Agriculture Organization (FAO), in 2015 the Islamic State controlled over 40 percent of Iraq's arable land and operated the most important wheat silos in the country, effectively being able to control food availability and especially restricting access to its aforementioned targeted enemy ethnic and religious groups.¹⁹⁰ In 2015, ISIS's direct and indirect agricultural revenues amounted to 170 million USD.¹⁹¹

Besides oil and gas, there were other industrial products that granted a significant source of income for the terrorist group (more than 340 million USD in 2015)¹⁹², related to phosphate extraction and cement production. The IS controlled the Akashat Phosphate Mine and the Al-Qaim manufacturing plant, both in Iraq, and it was able to exploit them to produce sulfuric and phosphoric acid that it sold on the black market at a discounted rate. It also controlled at least five cement plants in Iraq and Syria, and reportedly also the main Syrian salt mine.¹⁹³

The smuggling of cultural artifacts has already been mentioned in the previous chapter of this work, and the Islamic State is by far the most involved organization in this activity, due to the fact that at the peak of its expansion it controlled more than 4500 archaeological sites in Iraq and Syria, where artifacts up to 8,000 years were found.¹⁹⁴ Even though it is

¹⁸⁹ Stergiou, D. (2016): "ISIS Political Economy: Financing a Terror State." *Journal of Money Laundering Control*, 19(2), p. 192.

¹⁹⁰ FATF (2015b), pp. 15-16.

¹⁹¹ Bindner, L., and Poirot, G. (2016).

¹⁹² *ibid.*

¹⁹³ FATF (2015b), p. 16.

¹⁹⁴ U.S. House Committee on Financial Services, Task Force to Investigate Terrorism Financing (2016): "ISIS Looting and Destroying Cultural Artifacts on 'Unprecedented Scale.'" Press Release, April 19.

difficult to calculate how profitable this activity was for ISIS, most estimates agree that it resulted in no less than 20 million USD per year in 2014 and 2015.¹⁹⁵

Another form of extortion was the one practiced by the organization on trade and transfers of goods and cash that passed through ISIS-held territory, at least those few cargos which still used those roads in the absence of better alternatives. According to the FATF report, trucks were forced to pay a 200 USD road tax in northern Iraq and an 800 USD customs duty for those entering Iraq from Syria or Jordan.¹⁹⁶ Furthermore, according to Stergiou, an additional fee of 10 percent of the cargo value was imposed for transit.¹⁹⁷

Finally, one of the most extensive and pervasive sources of financing for the Islamic State of Iraq and al-Sham was the direct taxation of the salaries of government employees. Those affected, indeed, were paid for their work by their government, especially from Baghdad, which resorted to avoiding the transfer of salary amounts to national banks located in ISIS-controlled territories due to the latter's control of those branches. Instead, public administrations sent the money to bank offices in zones still under government control, so that public employees living in occupied territories could travel and avoid direct control of their salaries by the IS. Nevertheless, these workers had to return to their homes and families in the territory controlled by the caliphate, which therefore was able to violently coerce them into giving up to 50% of their monthly income to the organization.¹⁹⁸

In 2015 only, the Islamic State was able to raise more than a quarter of its income from the sale of oil drilled in the territories under its control and then sold on the black market.¹⁹⁹ This practice was unique and it was possible only for an organization which ruled over at least 40 percent of the land of a country, Iraq, which owns the fifth largest oil reserves worldwide.²⁰⁰ This fossil wealth is something unprecedented for a non-state actor, let alone a terrorist organization, and it is therefore a matter that deserves a separate analysis due to the enormous importance of this kind of resource for the global economy.

¹⁹⁵ Stergiou, D. (2016), p. 195.

¹⁹⁶ FATF (2015b), p. 17.

¹⁹⁷ Stergiou, D. (2016), p. 193.

¹⁹⁸ FATF (2015b), pp. 17-18.

¹⁹⁹ Bindner, L., and Poirot, G. (2016).

²⁰⁰ Bloomberg (2016): "Iraq Exported More Than 1 Billion Barrels of Oil in 2015." The Business Times, January 1.

3.4 Illegal oil trade as a source of financing for the Islamic State

There is no official data indicating the real magnitude of the Islamic State's activity as an oil smuggling entity. However, most sources converge on a reliable estimate of between 1.5 and 3 million USD per day at the 2014-2015 production peak.²⁰¹

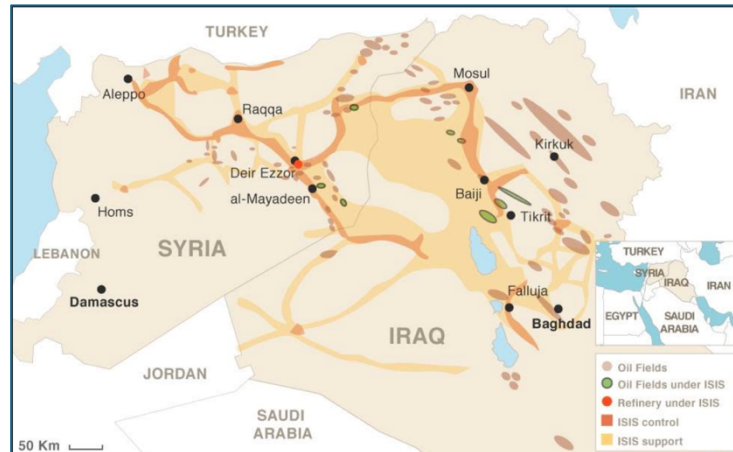


Figure 9: map of Syria and Iraq oil fields and refineries, with those located in territories directly controlled by ISIS or by its allies marked in green and red.²⁰²

According to an investigation by the Guardian²⁰³, indeed, as of that period ISIS controlled at least four active oil fields in Iraq (Najmah, Al-Qayyarah, Ajil, and Hamrin), while the news agency Syria Deeply reported in 2017 that in 2014 the group seized and kept operating at least five facilities in Syria (Al-Omar, Al-Tanak, Al-Ward, Jafra, and Al-Shaer)²⁰⁴, mostly due to its control of the Deir Ezzor province, which ultimately became the caliphate's last standing stronghold in Syria.²⁰⁵

ISIS's quest for oil began as soon as the organization emerged from the ranks of AQI and the Nusra Front in Iraq and Syria respectively. According to the Financial Times²⁰⁶, the

²⁰¹ Solomon, E., G. Chazan and S. Jones (2015): "Isis Inc: How Oil Fuels the Jihadi Terrorists." Financial Times, October 14, p. 3.

²⁰² Thompson, N., R.A. Greene and I. Torre (2014): "ISIS: Everything You Need to Know About the Rise of the Militant Group." CNN, updated September 25.

²⁰³ Hawramy, F., S. Mohammed and L. Harding (2014): "Inside Islamic State's Oil Empire: How Captured Oilfields Fuel Isis Insurgency." The Guardian, November 19.

²⁰⁴ Masi, A., H. Osseiran and K. Bode (2017): "Expert Views: After ISIS, Who Controls Syria's Natural Resources?" Syria Deeply, November 14.

²⁰⁵ CNN (2017): "ISIS Ousted from Last Major City in Syria, Deir Ezzor." CNN, November 3.

²⁰⁶ Solomon, E., G. Chazan and S. Jones (2015): "Isis Inc: How Oil Fuels the Jihadi Terrorists." Financial Times, October 14, pp. 3-4.

group's religious leadership, the Shura council, immediately identified and declared the importance that illegal oil trade would have for establishing and maintaining territorial control, and therefore directed the Islamic State's military efforts towards the oil-rich eastern regions of Syria, which ultimately fell under ISIS control in 2013. In the following year, after conquering Iraq's second city, Mosul, the organization managed to seize the Ajil and Allas oil fields located in northern Iraq, keeping them running and operating them since the very day of the conquest. According to a local sheikh interviewed by the FT for its investigation, militants immediately brought hundreds of trucks from Kirkuk and Mosul and started extracting and exporting oil, proving that IS leadership had already planned the organization's life and terrorist activity to revolve around oil trade as an indispensable major source of financing.

Nevertheless, the caliphate's activity as an oil trade smuggling organization had a very short life, which however puts the significant revenues it was able to get from it into an even more impressive perspective. Oil fields and refineries, indeed, have proved to be easily identifiable and vulnerable targets for the air strikes of the U.S.-led international coalition opposing the Islamic State, and also for all the various other forces fighting to push the terrorist organization away from the territories it occupied. In May 2015, U.S. special forces were able to kill one of ISIS's top leaders, Abu Sayyaf, who was the leader of the group's oil operations in Syria, and during the raid soldiers were also able to collect his business reports and the records of the caliphate's Syrian oil trade (amounting to about seven terabytes of data). These records provided U.S. forces with the necessary intelligence to plan Operation Tidal Wave II²⁰⁷, switching to oil infrastructure as the main target of the strikes, while previously the coalition had been mainly hitting military objectives. First of all, ISIS's equipment, technical capabilities, and specific parts of oil fields that were difficult to replace were targeted, significantly reducing the organization's production capacity. Second, tanker trucks were intentionally hit by American, French, British, and Russian air strikes.²⁰⁸ The result of the combination of these air operations and fighting on the ground was that by the end of 2015 the caliphate held only one oil field in Iraq, the Qayyarah oil field, which was then lost to Iraqi military

²⁰⁷ This military operation was named after the first Operation Tidal Wave, which was an unsuccessful attempt to bomb the Axis oil infrastructure during WWII.

²⁰⁸ Van Heuvelen, B. and Staff of Iraq Oil Report (2015): "Armed with Intel, U.S. Strikes Curtail IS Oil Sector." Iraq Oil Report, December 28.

forces in August 2016.²⁰⁹ Concerning Syrian infrastructure, in October 2017 the Kurdish-led Syrian Democratic Forces (SDF) were able to reconquer the country's main oil field, Al-Omar, from ISIS control, effectively ending the Islamic State's oil trade.²¹⁰

Despite ISIS oil-smuggling peak activity only lasted about one year, the organization was able to develop a complex business structure resembling "a national oil company". As reported by the Financial Times, indeed, "ISIS's strategy has rested on projecting the image of a state in the making, and it is attempting to run its oil industry by mimicking the ways of national oil corporations".²¹¹

Again, the aforementioned Abu Sayyaf records and testimonies from local sources give a sufficiently accurate picture of how the caliphate's oil structure worked and who its main customers and receivers of crude oil and refined products were. According to the FATF report on the Islamic State of Iraq and al-Sham²¹², indeed, the organization exploited the oil fields it managed to take control of in a series of different and profitable ways. First of all, there is a very interesting aspect of self-subsistence: the most immediate way in which ISIS used Syrian and Iraqi oil was to easily obtain the fuel necessary to keep its own activities on the ground running, effectively avoiding being forced to spend more money to get it from elsewhere. Smuggling oil to other countries — and even selling it to the internationally recognized Syrian government — is on the other hand the way through which the Islamic State was able to turn its oil infrastructure into a source of terrorism financing. According to the estimates made by RAND Corporation²¹³ and The Guardian²¹⁴, the total oil production capacity of the ISIS-controlled territories amounted to between 150,000 and 500,000 barrels per day (bpd), but due to the technical difficulties of keeping an oil field running at full capacity, it is reported that the caliphate was able to produce only 50,000 to 60,000 bpd at the peak of its activity.²¹⁵ On average, according to

²⁰⁹ Watts, M. (2016): "Isis Loses Control of Remaining Iraqi Oil Assets." MEED, September 29.

²¹⁰ Associated Press (2017): "U.S.-Allied Forces Take Syria's Largest Oil Field from ISIS." CBC News, October 22.

²¹¹ Solomon, E., G. Chazan and S. Jones (2015): "Isis Inc: How Oil Fuels the Jihadi Terrorists." Financial Times, October 14, p. 4.

²¹² FATF (2015b): "Financing of the Terrorist Organisation Islamic State in Iraq and the Levant (ISIL)." Financial Action Task Force, February 2015, pp. 13-15.

²¹³ Shatz, H.J. (2014): "To Defeat the Islamic State, Follow the Money." RAND Corporation, September 10.

²¹⁴ Hawramy, F., S. Mohammed and L. Harding (2014): "Inside Islamic State's Oil Empire: How Captured Oilfields Fuel Isis Insurgency." The Guardian, November 19, p. 3.

²¹⁵ Stergiou, D. (2016): "ISIS Political Economy: Financing a Terror State." Journal of Money Laundering Control, 19(2), p. 193.

the aforementioned FATF report, ISIS reportedly sold its oil for a price of about 20-35 USD²¹⁶, which amounts to between 65% and 80% less than the average 2014 oil price of 99 USD per barrel of Brent crude oil.²¹⁷

As previously mentioned, in 2014 the British newspaper The Guardian conducted a thorough investigation into the Islamic State's petroleum business. According to the interview conducted with an Iraqi illegal oil trader, smugglers bought oil tankers carrying about 26 to 28 tons of oil for a price of 4,200 USD, and then they were able to sell it in Jordan for about 15,000 USD, with a profit margin for smugglers of more than 70%.²¹⁸ Amman, however, was not the only destination for ISIS's oil. The border between Turkey and Syria was probably the most porous one that the organization could take advantage of to facilitate its illegal business, and therefore the Turkish government — one of the most active in the fight against the caliphate — has often been criticized for not being firm enough in shutting down these kinds of activities.²¹⁹

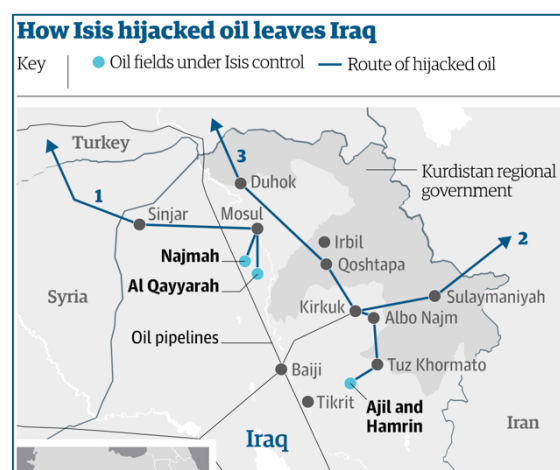


Figure 10: the route of ISIS oil trade from Iraq to bordering countries.²²⁰

²¹⁶ FATF (2015b), p. 14.

²¹⁷ Sasu, D.D. (2026): "Average Annual Brent Crude Oil Price from 1976 to 2025 (in U.S. Dollars per Barrel)." Statista, February 16.

²¹⁸ Hawramy, F., S. Mohammed and L. Harding (2014): "Inside Islamic State's Oil Empire: How Captured Oilfields Fuel Isis Insurgency." The Guardian, November 19, p. 2.

²¹⁹ Nakhle, C. (2015): "ISIL Sells Its Oil, But Who Is Buying It?" Al Jazeera, December 6, pp. 4-7.

²²⁰ Hawramy, F., S. Mohammed and L. Harding (2014), p. 2.

A similar situation was happening in Kurdistan, where the Regional Government reportedly arrested several citizens, security officials, and politicians who facilitated the smuggling of ISIS oil, despite the Kurdish efforts to combat the organization.²²¹

Despite being less significant due to its technical complexity, the Islamic State's trade of refined products should not be underestimated: at its highest level of expansion, the group managed the specialized refinery of the Qayyarah oil field, and it was also able to operate small modular refineries that could be attached directly to the trucks or wells, and through which militants were able to produce low-quality refined products mostly for internal use but also to sell to the people it ruled over, who due to the restrictions imposed by the caliphate's authorities had no choice but to buy IS's goods.²²²

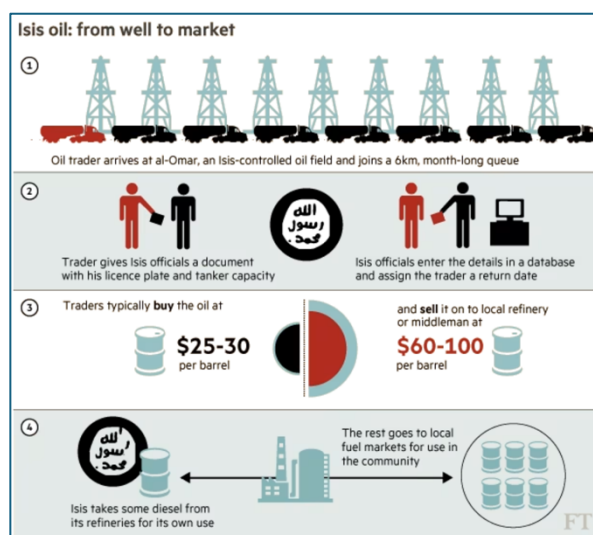


Figure 11: a schematic representation of ISIS oil trade structure, showing the different alternative uses that the organization did of its petroleum production.²²³

Oil trade, therefore, was without any doubt one of the most profitable sources of revenue for the Islamic State. Being able to exploit fields, wells, and refineries of its own, the organization managed to achieve a level of financial wealth and independence that put it on a completely different level from any other past or present terrorist group. Furthermore, the causal link between ISIS's illegal crude trade and its level of territorial

²²¹ Levitt, M. (2014): "Terrorism Financing and the Islamic State." Testimony before the U.S. House Financial Services Committee, November 13, 2014, p. 4.

²²² FATF (2015b), p. 15.

²²³ Solomon, E., G. Chazan and S. Jones (2015): "Isis Inc: How Oil Fuels the Jihadi Terrorists." Financial Times, October 14, p. 7.

control makes it very interesting to compare the level and the extension of the group's activity with the various phases experienced by its geographical expansion and oil fields management.

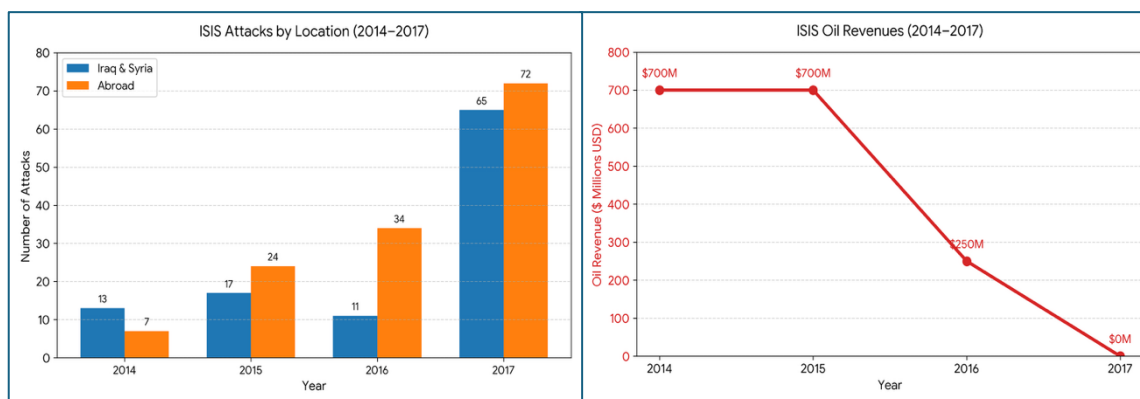


Figure 12: on the left, ISIS attacks either in Iraq and Syria or abroad from 2014 to 2017. On the right, the caliphate's estimated annual oil revenues in the same years.²²⁴

The graph above allows to try giving a description of the correlation between the Islamic State's oil production and the frequency and type of its attacks. 2014, as mentioned in the previous sections, was the year of ISIS's affirmation and the beginning of its territorial expansion. The data represented in the charts include both terrorist attacks on civilians and military activity against regular forces, and in that year activity "at home" was more extensive than abroad due to the organization's conquest campaign in Iraq and Syria still going on. The following year, 2015, was the year of the caliphate's peak territorial expansion and therefore also the one in which oil revenues were the highest, between 600 and 800 million USD, and therefore the group was able to carry out more attacks than the year before, especially abroad where planning and actuating a terrorist action requires far more organizational and financial resources. 2016 was the beginning of ISIS's decline, and this is well represented by the sharp fall in oil revenues associated with less attacks in Iraq and Syria, where the Islamic State was quickly losing ground against its enemies' coalition, while abroad attacks intensified by intensively depleting the funds accumulated in the previous years. This "strategy" carried on in 2017 as well, when ISIS tried to make the most of its remaining resources — which were not growing anymore due to the loss

²²⁴ The data for the realization of these graphs are from Wilson Center (2019), MEED (2014), Brookings (2014), CNBC (2015), and The Guardian (2016).

of all its oil fields and also its other territory-dependent sources of financing — by opposing with all its strength the U.S.-led coalition's efforts and by keeping up with its terrorist activity abroad, even though ultimately that year was the last of the IS's significant activity.

Both ISIS's violent actions and illegal petroleum trade have had implications far beyond the specific groups or people involved. Terrorist activity, indeed, has proven to be one of the most influential sources of geopolitical risk disrupting financial markets and the global economy, and the oil market is one of the most affected by any kind of turmoil and negative events happening worldwide. The last chapter of this work, therefore, will be dedicated to an analysis of this impact, assessing both sides of the equation: the effects of terrorism as a source of geopolitical risk, and the sensitivity of the global oil market to geopolitical disruptions. Finally, this research will conclude with a hypothesis of intentional ISIS activity to influence oil price in the global trade landscape, and ultimately also the price it can set for its discounted illegally sold crude.

4. Oil, terrorism, geopolitical risk, and a hypothesis of market manipulation

4.1 Terrorism as a source of geopolitical risk

According to Dario Caldara and Matteo Iacoviello, two economists working in the International Finance Division of the Federal Reserve Board, geopolitical risk is defined as the uncertainty associated with wars, terrorist acts, and tensions between states that disrupt normal international relations. It goes without saying that these disruptions have a tremendous negative effect on the global economy and on financial markets through all the different available channels: regarding the global financial network, geopolitical uncertainty and negative events can lead to restriction on capital flows (e.g. through sanctions, asset freezes, or capital control), increase in investor risk aversion, which leads to portfolio reallocations, higher funding costs, and sudden capital flow reversals; the real economy channel is affected for example by trade restrictions, supply chain disruptions, commodity market volatility, slower economic growth, inflationary pressures, and increased default risk for corporations and banks.²²⁵

Despite how obvious and generic this pattern can sound, geopolitical risk is a variable which is precise and measurable, even though it is more difficult to assess its level than it is for other categories of risk that are more quantifiable. An example is the survey reported in the 2023 IMF Global Financial Stability Report, according to which a one-standard-deviation increase in geopolitical tension between two countries, measured via UN General Assembly voting differences, leads to a 15% decrease in bilateral cross-border investments.²²⁶

The aforementioned Caldara and Iacoviello developed in 2018 the most widely used index to measure the level of geopolitical risk worldwide or in a chosen country in a given moment in time.²²⁷ Their methodology consists of counting the number of times in which words related to geopolitics and geopolitical risk occur in eleven English-language newspapers every month through an automated text-search on electronic archives. The

²²⁵ For the definition of geopolitical risk, see Caldara, D., Iacoviello, M. (2018): “Measuring Geopolitical Risk.” International Finance Discussion Papers 1222.

²²⁶ International Monetary Fund (2023): “Global Financial Stability Report: Safeguarding Financial Stability amid High Inflation and Geopolitical Risks.” Washington, DC, April, p.89.

²²⁷ Caldara, D., Iacoviello, M. (2018).

results are then turned into a level of geopolitical risk by using the ratio of articles mentioning geopolitical negative events (or their threat)²²⁸ to the total of published articles in the chosen month. Then, through vector autoregression (VAR) models, the authors were able to estimate the impact of geopolitical risk on a series of U.S. economic indicators: industrial production, employment rate, trade contracts, stock market value, and treasury yields. According to their results, a geopolitical shock reduces industrial production by 0.9% within six months, employment by 0.4% over a year, foreign trade contracts fall by nearly 2%, the S&P 500 financial index value declines by 3% in one year (meanwhile, interestingly but not surprisingly, the defense sector experiences a 5% average stock price increase), and 2-year Treasury yields drop by 20-basis points.²²⁹

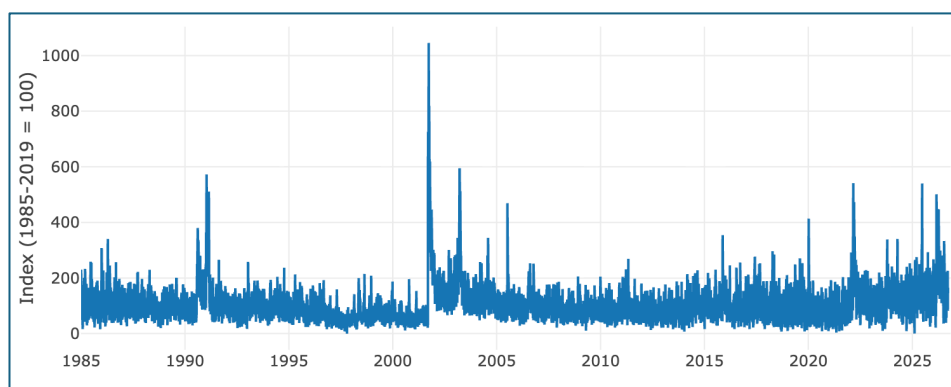


Figure 13: the graph of the geopolitical risk daily levels from 1985 to 2026.²³⁰

The chart shows an exponential spike in the level of geopolitical risk at a precise moment right after the year 2000. By using the interactive version of this graph available on the authors' website, it is easy to identify what caused this unprecedented rise in the indicator, which reached its highest recorded level until today, at 1,045.60 (the index is normalized at 100 as an "average" level).

²²⁸ Geopolitical threats (GPTs) trigger macroeconomic and financial negative effects that are more intense in the long term than what happens with geopolitical acts (GPAs). For instance, during the 1991 Gulf War the stock market fell before the conflict and then quickly rebounded once military action began. This is easily explained by the fact that threats increase uncertainty, with all the consequences that it carries on macroeconomic indicators and financial markets. The occurrence of GPAs, on the contrary, helps resolving uncertainty and leads investors to realign to the new situation, generating a new "conflict equilibrium".

²²⁹ Caldara, D., Iacoviello, M. (2018), pp. 18-19.

²³⁰ Caldara, D. and M. Iacoviello (2026): "Geopolitical Risk (GPR) Index." <https://www.matteoiacoviello.com/gpr.htm>, accessed September 25, 2026.

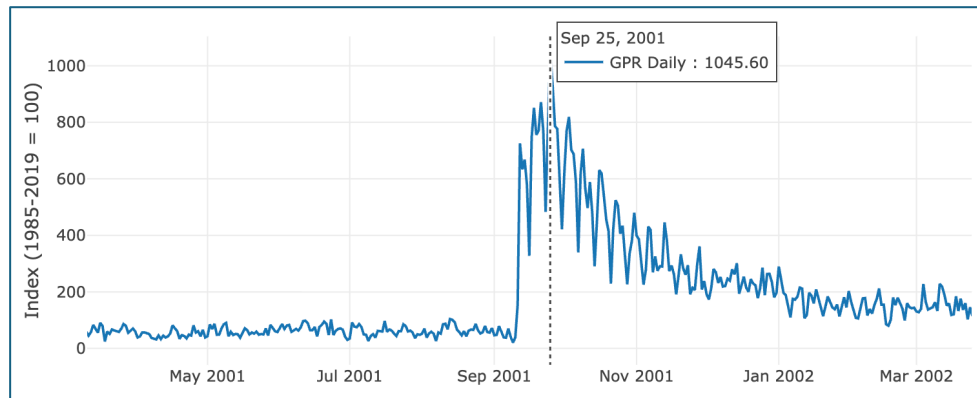


Figure 14: the level of geopolitical risk between May 2001 and March 2002, with the peak reached on September 25th, 2001.

On September 10th, 2001, the level of geopolitical risk in the Caldara-Iacoviello index was 38.24. Two days later, on September 12th, it was 725.51. The peak was reached on September 25th, when the index recorded its highest-ever level. Therefore, it is clear how terrorism is proved to be one of the most influential triggers of geopolitical risk level rises.

Terrorism presents different kinds of economic and financial costs. From a real economy point of view, the most immediate effects of terrorist activity are the destruction of life and property, and the expenses related to first emergency responses, restoration of the affected systems and infrastructures, and the provision of temporary living solutions if necessary. According to the estimates of the Organization for Economic Co-operation and Development (OECD), with regard to the 9/11 terrorist attacks these costs amounted to about 27.2 billion USD shared among the private sector, the state and local government, and the U.S. federal government.²³¹ There are also indirect costs, for instance due to a deterioration of confidence caused by terrorist attacks that can bring consumers to spend less and save more of their income, therefore causing a chain reaction which leads to a drop in asset prices especially for those countries which are already considered more unstable, while investors move their finances to safe-haven countries, which ultimately can even benefit from a general state of uncertainty. The September 11th, 2001, attacks were peculiar since their effect on the global financial infrastructure was both direct and indirect. On the one hand, indeed, many major financial institutions had their

²³¹ Johnston, R.B. and O.M. Nedelescu (2005): "The Impact of Terrorism on Financial Markets." IMF Working Paper No. 05/60, p. 4.

headquarters or offices in the World Trade Center buildings or very close to them, such as the Bank of New York, J.P. Morgan, Cantor Fitzgerald, and many others, and therefore their operations were immediately disrupted by Al-Qaeda's actions. On the other hand, the New York Stock Exchange (NYSE) and the NASDAQ Stock Market did not open for trading on September 11th, and they remained closed until September 17th. According to the International Monetary Fund, the S&P 500 index fell by 11.6% in the first days after the reopening, and the NASDAQ index by 16.1%. Negative effects did not stop at the U.S.'s borders, but they spread also to the rest of the world: for instance, the Dow Jones Euro STOXX index fell by 17.3% in the ten days following the attacks.

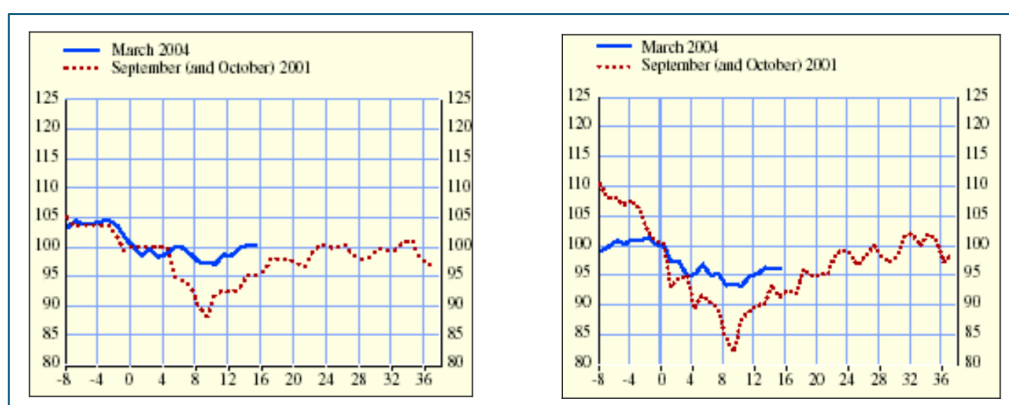


Figure 15: the chart on the left shows the S&P 500 activity in the days after 9/11, compared with the aftermath of the March 2004 Madrid terrorist attacks (blue line). On the right, the same pattern is showed for the Dow Jones Euro STOXX index.²³²

In 2010, Marc Chesney, Ganna Reshetar, and Mustafa Karaman conducted a significant empirical study on the effects of terrorism on financial markets in general and specifically on a series of chosen sectors. The results of their research showed that 55 out of the 77 attacks they analyzed had a significant negative impact on at least one between the American, British, or Swiss financial markets.²³³ Regarding the sectors chosen by the authors for their empirical investigation, 41 out of 55 terrorist attacks had a negative effect on at least one industry among insurance, travel, airline, oil and gas, and financial and banking, with insurance and airline unsurprisingly being the most affected, while the financial sector turned out to be the most resilient. The effects on the oil and gas sector

²³² Johnston, R. B. and Nedelescu, O. M. (2005), p. 7.

²³³ Interestingly, the one affected by the highest number of attacks was the Swiss financial market, while the American one was the least affected.

are significant as well, and they will be thoroughly analyzed in the next section of this work. Finally, the authors focus on the effects of terrorist attacks on the commodity, gold, and bond markets. The gold market provided the most surprisingly and interesting result of the whole research, experiencing negative effects from terrorist attacks despite its long-standing role of safe haven in moments of uncertainty. The movements in the bond market are more intuitive, with a sharp decline on the very day of the attack following the general financial trend, and a significant rebound in the subsequent days due to bonds' role as hedging assets in moments of heightened risk.²³⁴

Finally, one of the most difficult research efforts to undergo in the field of geopolitical risk is providing a quantification of the total negative economic effects of a negative event, and this is true for the precise aggregate costs of terrorism as well. Nevertheless, Bardwell and Iqbal tried to tackle this matter; according to their estimates, reached through the bottom-up accounting approach, between 2000 and 2018 terrorism has cost 855 billion USD to the global economy — without considering the effects on financial markets — of which 434 billion can be geographically located in West Asia. The most affected year was 2014, during which terrorism-related costs amounted to 111 billion USD (it is worth remembering, in the context of the present work, that 2014 and 2015 are ISIS's peak activity years), while the countries which have been hit the hardest are Iraq — especially between the 2003 U.S. invasion and 2018 —, Syria, and Afghanistan, especially in more recent years (according to the authors, in 2018 terrorism cost 22% of Afghanistan's GDP).²³⁵

Being one of the most vital commodities in the global economy, and also one of those whose supply and distribution chain is among the most complex and widespread, the oil sector is one of those affected the most by geopolitical risk. Therefore, the subsequent sections are going to try to overturn the perspective adopted in the previous chapters: while it has been discussed how oil can be used by terrorist organizations to finance their activities — and therefore the effect that oil has on terrorism — the focus will be now moved to the impact of geopolitical disruptions on the oil market and how oil prices are affected by terrorist actions.

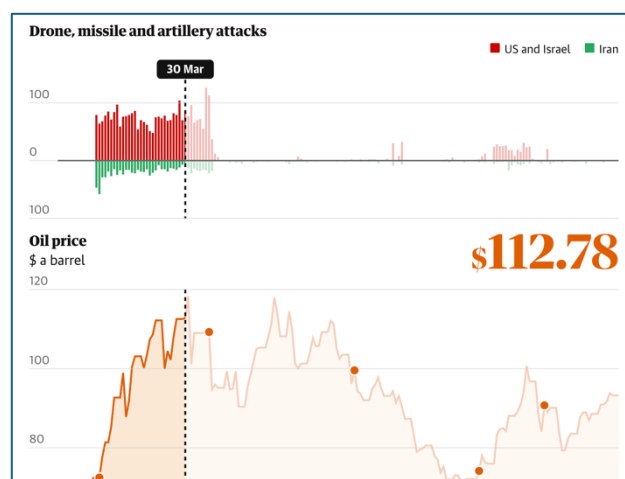
²³⁴ Chesney, M., G. Reshetar and M. Karaman (2011): "The Impact of Terrorism on Financial Markets: An Empirical Study." *Journal of Banking & Finance*, 35, pp. 259-261.

²³⁵ Bardwell, H. and M. Iqbal (2021): "The Economic Impact of Terrorism from 2000 to 2018." *Peace Economics, Peace Science and Public Policy*, 27(2), pp. 227–261.

4.2 Oil market dynamics and sensitivity to terrorism and geopolitical risk

The effects of geopolitical negative events on the oil market and oil prices are clearly visible every day in the framework of disrupted international relations between various countries. For instance, in the first six months from the beginning of U.S. and Israeli bombings on Iran, and Tehran's response by hitting Gulf monarchies allied with the U.S., oil prices have been experiencing daily surges and drops in relation to the developments of the conflict and the announcements made every day by both sides' leaders giving positive or negative signals on the proceedings of diplomatic and warfare activity. On February 28th, 2026, right before the beginning of the war, oil was trading below 70 USD per barrel of crude, and 75 vessels were sailing in the waters of the Hormuz Strait, the vital geopolitical maritime chokepoint which separates Oman's Musandam peninsula from Iran near the city of Bandar Abbas, and marks the southern and only entry and exit point of the Persian Gulf — the other border of the Gulf, located in the Shatt-al-'Arab river shared by Iran and Iraq, is also significant due to its partial navigability but its role is not even comparable to the importance for the global economy of Hormuz, where an average of 20 million oil barrels transited every day before the conflict, amounting to about 25% of global maritime petroleum trade.²³⁶ On March 1st, 2026, Iran began militarily enforcing a closure of the Hormuz Strait, threatening to hit all vessels that tried to cross the waterway without Tehran's authorization; this led, as of the end of March 2026, to an oil price surge to 112.78 USD per barrel, with an increase of more than 60% from pre-war levels.

Figure 16: the evolution of oil prices during the conflict, in comparison with the frequency of drone, military and artillery attacks (above)²³⁷



²³⁶ IEA (2026): "Strait of Hormuz." IEA, February.

²³⁷ The Guardian (2026): "How the Iran War Unfolded: Every Attack and Oil Price Change – Visualized." The Guardian, August 28.

This analysis, conducted thanks to a visual tool developed by the British newspaper The Guardian which makes it possible to follow the evolution of oil prices in the ongoing conflict and to put it in relation to the amount of drone and military strikes launched by both sides of the war, clearly proves the theory according to which geopolitical events are a major trigger for movements in the value of petroleum barrels.

Verduzco-Bustos and Zanetti recognized that this correlation is not unprecedented at all, and therefore they tried to assess if it has a predictive potential for the fluctuations of oil prices according to geopolitical events. Using the geopolitical risk threats index (GPRT) developed by Caldara and Iacoviello, they look at the behavior of the global oil market in the immediate aftermath of those days in which the GPRT increases by more than 200 percent, therefore growing by 2 standard deviations from the average daily value. Through this work, the authors identify those events that they define as “geopolitical oil price shocks”, which means negative geopolitical events that determine a contraction in oil production or a disruption in the relevant supply chain and logistic infrastructure, that therefore causes a spike in crude barrel price. According to their research, a 1% initial decline in oil production related to a geopolitical shock corresponds to an 11.5% increase in crude price. This causes a chain reaction which spreads to other markets and sectors as well, for instance determining an average decline in OECD industrial production by about 0.5%, and a 0.3% increase in consumer prices when a 10% increase in oil price occurs.²³⁸ From a historical point of view, the results of the study are consistent: moments of heightened geopolitical tension, as measured by the GPRT index, are immediately followed by a significant growth in oil prices. The only exception occurs when the geopolitical turmoil happens between two oil-producing countries that before their clash were cooperating on price-setting and production levels, because usually these disruptions lead to an increase in production by both sides of the dispute, and therefore to a decrease in crude prices. As reported by the authors:

For instance, oil prices increased in anticipation of the Gulf War in 1990 (by 14 percent), the September 11 terrorist attacks in 2001 (by 6 percent), and Russia's invasion of Ukraine in 2022. In contrast, they fell at the onset of the 2014 OPEC

²³⁸ Verduzco-Bustos, G. and F. Zanetti (2026): "The Effects of Geopolitical Oil Price Shocks." LSE Centre for Macroeconomics Discussion Paper No. CFMDP2026-08, April, pp. 2-5.

*cooperation failure in the middle of the escalation of conflicts in Ukraine and Syria (a 10 percent decline).*²³⁹

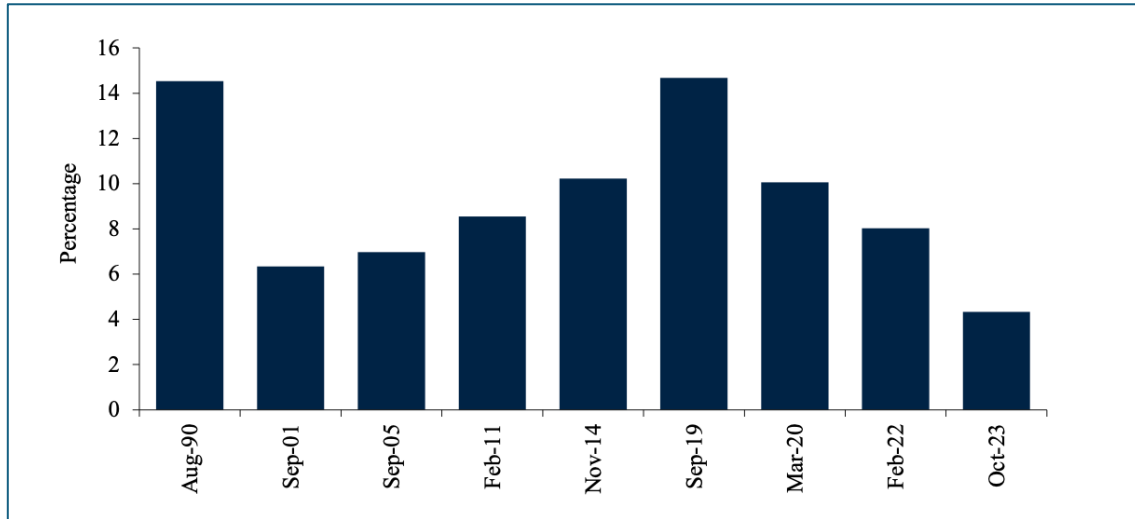


Figure 17: “absolute percentage change of oil future prices around periods of heightened geopolitical tension. The episodes include (1) August 1990: Iraqi Invasion of Kuwait; (2) September 2001: Terrorist attacks U.S.; (3) September 2005: U.S. diplomat and three American security guards were killed in a suicide car bomb attack in Mosul; (4) February 2011: Libyan Civil War; (5) November 2014: OPEC cooperation failure in the middle of the escalation of conflicts in Ukraine and Syria; (6) September 2019: Drone attacks on Saudi facilities; (7) March 2020: Collapse of cooperation between Russia and OPEC; (8) February 2022: Russian invasion of Ukraine; (9) October 2023: Hamas–Israel conflict.”²⁴⁰

As anticipated in the previous section, there are various channels through which oil trade and terrorist activity are interconnected due to the unique nature of the petroleum market as probably the world’s most fundamental and indispensable commodity for almost every economic activity. It goes without saying — also due to the analysis conducted in this work, especially in the third chapter — that this is especially valid for the West Asia region, which is on the one hand the one hit the hardest by terrorism, at least in the years between 2000 and 2018, as found by Bardwell and Iqbal²⁴¹, and on the other hand it is also the region with the highest aggregate crude oil reserves.

²³⁹ Verduzco-Bustos, G. and F. Zanetti (2026), pp. 8-9.

²⁴⁰ *ivi*, p. 9.

²⁴¹ Bardwell, H., Iqbal, M. (2021), p. 261.

The effect of terrorism activity on oil trade has an enormous propagating potential due to the structure of this peculiar market: the oil industry is tied to a great degree of immobility, due to the impossibility of relocating plants that are inextricably tied to the location of underground oil fields, but at the same time trade is diffused and linked to a complex logistical infrastructure that brings oil from producing countries to the rest of the world especially via maritime trade. Furthermore, oil plants are also appetible as targets of terrorism attacks due to their usually high number of employees on-site, and therefore a high potential lethality which leads to a higher propaganda and emotional effect on the local population and foreign enemies. In addition, oil-producing countries often have a significant geopolitical importance especially for the interests of global superpowers, for instance the role that Saudi Arabia plays in the U.S. foreign policy strategy, and therefore attacking one of these countries also has an indirect effect of damaging the enemies of terrorist organizations abroad — namely the United States if one looks at West Asia-based terrorist organizations of the last four decades. Lee provides useful data on the magnitude of this phenomenon, reporting that in 2012 alone at least thirty-five terror attacks were directed towards oil pipelines, tankers, refineries, and fields, while in 2004 a series of terrorist attacks in Saudi Arabia caused oil prices to rise to the highest level since 1990.²⁴² It is worth remembering, indeed, that almost all researches on the correlation between terrorist attacks and rises in oil prices have showed how this effect occurs only when terrorist organizations target oil-producing countries. However, this does not change much in the final outcome of this analysis, due to the fact that, as mentioned before, West Asia is at the same time the region with the highest proven oil reserves and the one hit by the highest number of terrorist actions.

In recent years, many different studies tried to qualitatively and quantitatively assess the effect of terrorism activity as a peculiar form of geopolitical disruption on the level of crude oil prices. Tartabini²⁴³ developed a purpose-built model relating the occurrence of terrorist attacks worldwide to the movements in oil prices, focusing on the period going from 1995 to 2017 and adjusting the results for other independent variables. The author chose not to focus on one or more specific actions, but instead she preferred to look at the number of terrorist attacks occurring in a given period of time, and the results — well-

²⁴² Lee, C. (2018): "Oil and Terrorism." *The Journal of Conflict Resolution*, 62(5), p. 907.

²⁴³ Tartabini, V. (2019): "Analysis of the Effect of World Terrorist Attacks on Oil Price." *Econometrics Project*.

represented by the chart below — prove clearly that a higher frequency of actions by terrorist organizations is reflected by an increase in oil prices in the global crude market.

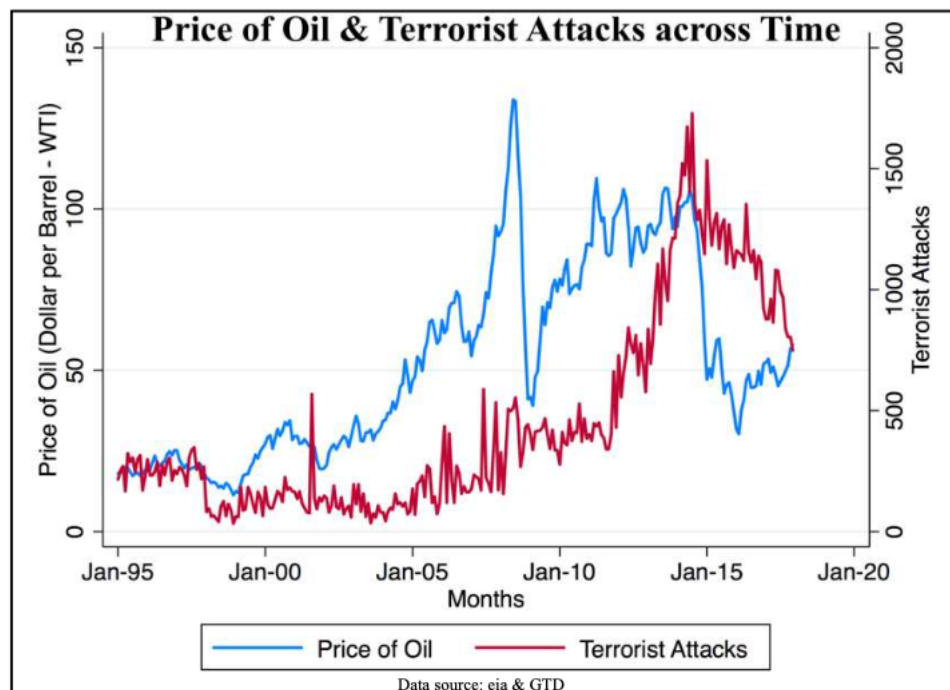


Figure 18: the correlation between the number of terrorist attacks and the price of WTI crude oil in USD per barrel.²⁴⁴

To conclude this analysis of the relation between geopolitical risk — with terrorism as a specific case — and variation in oil prices, it is interesting to mention a significant study conducted by Perry (2001)²⁴⁵ in the aftermath of the September 11th terrorist attacks, when he tried to predict what Al-Qaeda's actions, and its future trajectory, could mean for the global oil market. Looking at past disruptions in oil supply, the author provides three possible future scenarios, ordered as bad, worse, and worst. Most interestingly, in all those three hypotheses terrorist organizations would gain at least a portion of control of West Asian oil reserves through directly overthrowing of ruling governments or threats and

²⁴⁴ Tartabini, V. (2019), p. 7.

²⁴⁵ Perry, G.L. (2001): "The War on Terrorism, the World Oil Market and the U.S. Economy." Brookings Institution, November.

indirect control, surprisingly predicting what would have happened with the rise of the Islamic State almost 15 years later, described in chapter 3 of this work.²⁴⁶

In the bad case scenario, terrorist groups would take control of a level of production amounting to 8.1 million barrels per day (bpd) of OPEC oil, and they would immediately cut 90% of production off the market to damage industrialized nations. OPEC could potentially react through its unexploited production potential, estimated at 3.5 million bpd at that time, but this would anyway leave a cut in world production of around 3.5 million bpd. According to Perry, this would lead to an increase in oil prices from 25 USD per barrel in November 2001 to 32 USD per barrel.

The worse case scenario assumes the same level of oil production controlled by terrorist organizations, but it removes the OPEC intervention due to a series of political factors, such as Saudi Arabia's ambiguous stance *vis-à-vis* the fight against Islamist terrorism. In this instance, 7 million bpd would be wiped off the global oil market. Oil price would rise to about 75 USD per barrel.

Finally, in the worst-case scenario, terrorist groups would manage to achieve control of all 21.7 million oil barrels produced daily by Arab Muslim countries, and they would cut output by 10 million bpd. Even though the author himself deems this scenario as completely hypothetical, oil price would surge to 161 USD per barrel.

Again, Perry's research proves visionary, not in precise estimates but in forecasting the use of control of oil reserves by a terrorist organization to finance its activities. According to him, the bad case scenario would bring 13 billion USD per year to terrorists controlling the oil reserves in question; the worse case scenario would provide the group with 30 billion USD per year; the worst-case scenario would finance the terrorist organization with a staggering 689 billion USD per year, and this would be the only scenario in which the rise in prices would be so significant as to compensate the production cut, therefore at the same time damaging Western countries and providing higher oil revenues than before terrorists seized the reserves.²⁴⁷

Therefore, it is clear how terrorist attacks occurring in oil producing countries usually cause a significant rise in the level of crude oil prices in the global commodity market.

²⁴⁶ It is important to note that in all three scenarios the Iraqi government's alignment with terrorist groups controlling oil reserves is taken for granted, and therefore also the extremists' control over its 2.6 million barrels per day oil production.

²⁴⁷ Perry, G. L., (2001), pp. 6-9.

To conclude this work, a hypothesis of voluntary market manipulation by the Islamic State of Iraq and al-Sham at the peak of its activity will be developed and assessed in the next section.

4.3 Possible attempts of oil price manipulation through terrorist actions

Oil infrastructure itself traditionally has been a usual target for terrorist actions. As mentioned in the previous sections, plants and fields are appetible targets for terrorist attacks due to the high number of workers usually present and to their vital role in the global oil supply chain, which therefore can easily hurt the economies of Western nations considered as enemies by West Asian terrorist organizations. According to Makarenko²⁴⁸, there are six different possible kinds of attacks on oil infrastructure that a terrorist organization can carry out. The first one, which is also the most common due to the immediate and high-level instability it produces, is to directly bomb fuel pipelines, threatening lives of those surrounding and strongly damaging the national economy of the affected country, and indirectly also those of countries buying its petroleum. The second one consists in more subtly sabotaging oil and gas pipelines. This has historically been a less common form of terrorist attack, even though it is becoming more popular in recent years. Sabotaging can be useful for terrorist groups both to steal oil and sell it on the black market, to distract attention without needing to cause loss of lives, and to exert political pressure or provoke corporate concessions by those affected. The third possible strategy is attacking the offices of oil corporations. These buildings are relatively easy targets, often located in city centers, and attacking them usually results in a high death toll which serves propaganda needs as well. The fourth form is attacks on oil depots, petrol pumps, or refineries. These actions are usually more difficult to carry out due to the high level of security which characterizes these structures, nevertheless such assaults have been successfully conducted in various occasions. The fifth option available to terrorists is to hijack oil facilities kidnapping workers and then asking for ransoms to their families of governments. Again, these attacks have been carried out despite the difficulty caused by the high level of security. Finally, the sixth form of attack on oil infrastructure is also the most lethal as far as human lives are concerned, that is to say directly military

²⁴⁸ Makarenko, T. (2003): "Terrorist Threat to Energy Infrastructure Increases." University of St Andrews, Centre for the Study of Terrorism and Political Violence, June.

assaulting oil facilities and killing the staff workers. In this case, human life-taking is the direct and final objective of the attack.

Tichý²⁴⁹ has produced a report of the Islamic State's terrorist attacks on energy infrastructure in Iraq and Syria and proposed a series of plausible reasons behind those actions, besides those necessary for the caliphate to gain direct control over oil production. Quoting the Global Terrorism Database, he reports that between Iraq and Syria ISIS has conducted a total of 128 terrorist attacks on the energy infrastructure between 2014 and 2017, of which 96 happened in Iraq and 32 in Syria.²⁵⁰ For all these attacks, the author identifies two main possible motivations. The first one, which has already been thoroughly analyzed in the previous chapters of this work, is to take direct control of Iraqi and Syrian oil production. The second is to damage the energy sector and to destabilize the enemy. As examples of this strategy, Tichý mentions three different attacks in Iraq: in March 2015, the Islamic State set fire to the Ajil oil field with the aim of raising a smoke column which would block the helicopters of the Iraqi conventional forces from attacking the caliphate's positions around the city of Tikrit. Later, in April 2016, the organization blew up a series of oil wells and fields south of Kirkuk with a total capacity of 10,000 bpd to damage Iraq's oil production. Lastly, in July 2016, ISIS militants stormed two energy facilities in Northern Iraq, killed at least five people, and then forced the shutdown of the activities in the Bai Hasan oil station, which had been producing 55,000 barrels per day. Likewise, in Syria, in June 2014 the Islamic State attacked the gas line between the Shaer station and a processing plant, causing several days of power outage all over the country. Later on, in March 2015, IS militants blew up a pipeline near the town of Furqlus, and between 2016 and 2017 the organization often attacked oil and gas infrastructure with the aim of damaging al-Assad's regime.

ISIS's operations had a significant economic impact on both countries. According to the 2016 OPEC Annual Statistical Bulletin, Iraq's oil production dropped from around 613,000 bpd in 2011 to 444,000 bpd in 2015, hurting the government's finances especially since crude export was the country's main source of revenue.²⁵¹ Concerning Syria, the effects were even more significant: as of 2011, before the outbreak of the civil

²⁴⁹ Tichý, L. (2019): "Energy Infrastructure as a Target of Terrorist Attacks from the Islamic State in Iraq and Syria." *International Journal of Critical Infrastructure Protection*, 25, pp. 1–13.

²⁵⁰ *ivi*, p. 10.

²⁵¹ Tichý, L. (2019), p. 8.

war, the country produced 383,000 barrels of crude oil per day, while in 2016 this amount was slashed to around 25,000 bpd.

Nevertheless, there is one more possible explanation for the Islamic State's attacks on oil infrastructure that this work is advancing as an innovative hypothesis. As of today, indeed, no other study has tried to propose the hypothesis of a voluntary market manipulation tactic implemented by the Islamic State during its years of territorial control and oil reserves management.

As mentioned in the third chapter of the present research, at the peak of its activity the caliphate was able to illegally extract and sell between 50,000 and 60,000 barrels of crude oil per day from the oil fields it controlled in Iraq and Syria.²⁵² This production then had to be sold to middlemen who bought it for about 25 to 30 USD per barrel, and then sold it inside or outside ISIS's territories at the current market value (around 100 USD per barrel in the years of the Islamic State's peak activity). If one observes other cases of illegal oil trade, selling smuggled or sanctioned oil at a discounted rate is not an unusual practice: countries under an international sanctions regime such as Iran, Venezuela or Russia have been doing this for years to keep selling their most precious and abundant commodity to buyers who are willing to buy it avoiding using the USD as the currency for international oil trade, and paying less than they would for a barrel of crude petroleum on the conventional markets. According to *The Economist*²⁵³, which investigated how Iran is able to keep selling its oil abroad despite the international sanctions, 95% of Tehran's crude goes to China, even though to avoid being subjected to secondary sanctions firms do not directly buy barrels from Iranian companies, but they use middlemen and intermediaries instead, resembling the mechanism adopted by the Islamic State as well. According to the aforementioned report, the price for a barrel of illegally-traded crude is set at 10-30 USD lower than the daily Brent global market value. This mechanism has allowed Tehran to keep selling up to 1.8 million bpd in 2024, despite U.S. sanctions enforced in 2018 after the collapse of the Joint Comprehensive Plan of Action (JCPOA, commonly known as the "Iran nuclear deal") due to Washington's withdrawal under Donald Trump's presidency.

²⁵² See *supra*, chapter 3, section 3.4, pp. 77-78.

²⁵³ *The Economist* (2024): "Inside the Secret Oil Trade that Funds Iran's Wars." *The Economist*, October 17.

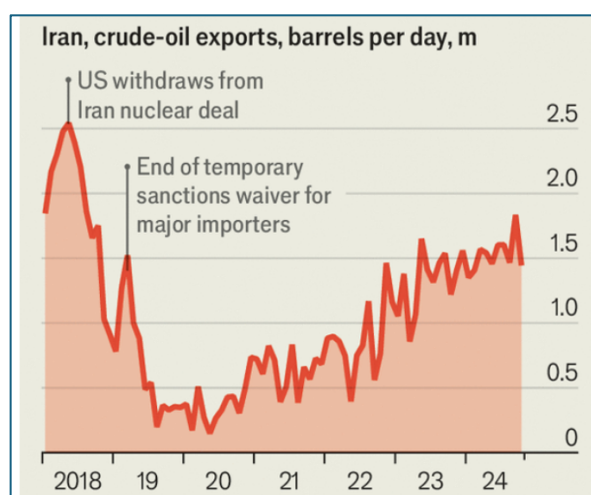


Figure 19: Iran's crude oil export (barrels per day) despite international sanctions.²⁵⁴

Observing this mechanism, which is also common to other sanctioned oil-producing countries²⁵⁵, it is possible to make some assumptions also about the price mechanism underlying the caliphate's illegal oil business. If ISIS in 2014 sold its crude barrels for 30 USD each on average, this would have meant a discount rate of about 70% from the internationally applied oil price. It is not possible to know if the Islamic State set a fixed price of 30 USD per barrel, independent from the global legal price, or if the cost for middlemen fluctuated accordingly with the international markets, but it can be hypothesized that applying a percentage discount from the conventional price could have been more profitable for the terrorist organization, and it would also resemble the aforementioned usual mechanism for illegal oil trade. Therefore, each day the caliphate would have benefited from an increase in the price of oil on the global financial markets, and the previous section of this work has showed how terrorist actions on oil infrastructure have the clear effect of causing rises in crude value due to a reduction in the amount of goods available. Therefore, especially considering the fact that at the peak of its activity the Islamic State had built a complex and fully-functioning structure — with financial experts hired to manage the caliphate's resources and paid a higher salary than militants to take advantage of their technical knowledge — it is possible to advance the hypothesis that ISIS's leaders were aware of the indirect effect that their attacks on

²⁵⁴ The Economist (2024), p. 2.

²⁵⁵ U.S. House Select Committee on the Chinese Communist Party (2026): "Crude Intentions: How China Became the Clearing Market for Sanctioned Oil." Investigative report, March 31.

oil infrastructure — a practice in which the organization often engaged, as mentioned earlier in this section — could have on their funds availability, and therefore it is possible that they could have chosen some of their targets accordingly. Moreover, there is one sure instance in which the Islamic State's actions had a direct influence on crude prices: in June 2014, indeed, Brent barrel price reached about 115 USD due to the caliphate's conquests in Iraq, and it is safe to affirm that the group's leadership was well aware of — and carefully looking at — the financial turmoil its military successes were causing, and once gained oil resources of its own to sell it could have tried to repeat that same mechanism.

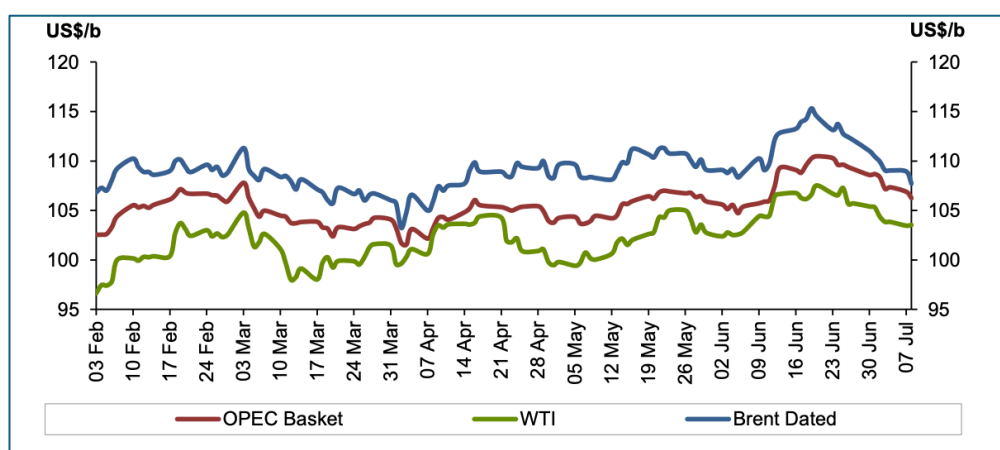


Figure 20: oil price evolution throughout February-July 2014, with the June peak caused by the IS's activity in Iraq.²⁵⁶

This theory is of course very difficult to verify due to the unavailability of balance sheets, financial records, direct witnesses of ISIS's financial and operational planning in this regard, and daily activity internal reports. However, as this work has repeatedly proved, the Islamic State of Iraq and al-Sham was by far the most complex, advanced, and financially wealthy and aware terrorist organization in modern history, and its leadership's ability to act daily in order to grow its enormous funds availability must not be underestimated.

²⁵⁶ OPEC (2014): "Monthly Oil Market Report – July 2014." Organization of the Petroleum Exporting Countries, p. 5.

Conclusions

Through a deep and thorough analysis, this research has managed to tackle the fundamental matter of terrorism financing, which in the last two decades, according to scholars and counterterrorism officials, has been the most pressing issue to face in dealing with terrorist activity.

First of all, some preliminary observations must be recalled. Even though it is undeniable that the West Asia region has been the birthplace of many of the most infamous contemporary terrorist organizations, this is not related to a cultural or religious factor, or at least not to the meaning currently given by the world's Muslims to the teachings of Islam. Those groups who claim to be the carriers of the true and pure faith and who are willing to impose their beliefs through violent means must indeed be known as Islamists, and as extremists they represent only a minimal share of the 2 billion Muslim believers in the world.

Given this premise, it is also undeniable that West Asian terrorist organizations have indeed used Islam as the ideological force underlying their revolutionary efforts. Nevertheless, this is one of the few characteristics shared by groups that otherwise are very different from each other, despite being often pictured as variations of the same entity by Western media and politicians. Al-Qaeda, for example, acted as a transnational and far-reaching terrorist organization, carefully widespread in various regions of the world and not linked to a specific country or territory. This “geographical freedom” implied both advantages and difficulties, that ultimately determined the organization's longevity but at the same time its limited financial availability, both in comparison to this work's benchmark which is the Islamic State.

In its almost 45 years of existence, Hezbollah has deeply changed the very core of its operational and organizational structure, as reflected also by the significant changes that occurred between its two manifestos. Today it acts as a political party completely embedded in Lebanon's legitimate structure — which indeed it has explicitly accepted — and it has reduced the activities of its armed branch to supporting its sponsor state, Iran, and fighting against its existential enemy, Israel. Nevertheless, the late Nasrallah's group is one of the wealthiest among those organizations recognized as terrorist by various foreign states thanks both to its criminal activities and its exploitation of Lebanon's national wealth.

Ansar Allah is the group which most resembles the Islamic State due to their shared experience in territorial control. However, the Houthis were able to achieve even more than the caliphate from a military point of view, being able to control most of Yemen's population and major cities and effectively challenging the authority of the central government. Due to Yemen's economic and financial situation, however, this didn't correspond to an enormous inflow of funds for the organization, but military support has been granted by Iran's sponsorship, which has been repaid with a repeated and continuous pledge of allegiance by the Houthis.

Terrorist organizations have developed many methods through which to finance their activities, and this research proved that this level of differentiation is what makes the fight against terrorism financing so difficult and indeed so fundamental.

Some financing methods are traditional, intuitive, and very well known. It is almost superfluous to remember that terrorist organizations are involved in mainstream criminal activities and also that they often enjoy a significant level of collaboration with other kinds of criminal groups. Drug trafficking, human trafficking, counterfeiting, and kidnapping for ransom are businesses largely carried out by terrorist groups which keep realizing useful profits from those activities. The same is also true for other traditional methods of collecting funds for terrorism, such as state sponsorship and voluntary donations. Both geopolitical interests and shared ideological values play a fundamental role in establishing these channels, but the result is often a very high level of cash or material transfers in exchange either for the realization of a strategic objective or for the continuation of a political or religious struggle.

Nevertheless, territorial control is what really allowed the Islamic State of Iraq and al-Sham to become the wealthiest terrorist organization in the world by a significant margin. Conquering portions of Iraqi and Syrian territory since 2014, the organization acted as an administrative entity without giving up its features as a terrorist organization, governing through violence over a population of between 8 and 12 million people who, willing or not, were forced to accept its authority and also to support it financially through taxation and extortion, effectively having part of their income withheld if they were government employees or giving up a percentage on every cash withdrawal from their own bank accounts. Besides these abuses against the local population, ISIS also had total control of every national economic activity located in the territories it conquered, from national

banks whose coffers it used as if they were part of the organization's net worth, to commodity production facilities, and more specifically oil fields and wells.

The core of this work has therefore been to actually assess the role played by illegal oil trade in ISIS's operational and financial affirmation and growth, and it is safe to say that without oil income the Islamic State would have undergone a completely different trajectory. Ensuring a constant cash inflow of around 1.5 to 3 million USD per day, the organization had the possibility to maintain both its local territorial administration, to finance its actions in the region and worldwide, to support the establishment of a global network, and ultimately to threaten the security of its Western enemies.

In conclusion, the Islamic State of Iraq and al-Sham represented, although for a short period of time, one of the most significant sources of geopolitical risk on the global financial markets. Uncertainty related to terrorist attacks had a strong influence on countries' economic variables, stock market indexes, global trade, and commodity market values. And this last aspect, indeed, is what leads to the hypothesis advanced in the last chapter of this work: even though it cannot be proved due to the aforementioned lack of the relevant documentation — which is something that assimilates many studies and research on terrorist activity and that indeed makes counterterrorism efforts even more difficult — the complexity of the Islamic State's financial structure makes it fairly reasonable to suggest that one of the reasons that could have led to some of its attacks against oil infrastructure could be an intentional attempt to cause an increase in crude barrel value in the global markets which would therefore reflect also on the discounted price it asked to middlemen willing to buy its illegally-traded petroleum.

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