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An Economic Analysis of the Financial Records of al-Qa'ida in Iraq

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Prepared for the Office of the Secretary of Defense

Approved for public release; distribution unlimited



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The research described in this report was prepared for the Office of the Secretary of Defense (OSD). The research was conducted in the RAND National Defense Research Institute, a federally funded research and development center sponsored by OSD, the Joint Staff, the Unified Combatant Commands, the Navy, the Marine Corps, the defense agencies, and the defense Intelligence Community under Contract W74V8H-06-C-0002.

Library of Congress Cataloging-in-Publication Data

An economic analysis of the financial records of al-Qa'ida in Iraq / Benjamin Bahney ...
[et al.].

p. cm.

Includes bibliographical references.

ISBN 978-0-8330-5039-7 (pbk. : alk. paper)

1. Qaida (Organization)—Finance. 2. Terrorism—Iraq—Finance. 3. Terrorism—Finance. I. Bahney, Benjamin.

HV6433.I722Q357 2010

363.32509567—dc22

2010028999

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Published 2010 by the RAND Corporation

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Summary

Terrorist and insurgent groups, both of which may be termed “militant groups,” are economic actors: They have a fundamental need to mobilize resources. However, there has been relatively little research about the economic and financial decisionmaking of such groups based on actual financial records. With U.S., North Atlantic Treaty Organization, and other allied troops and governments engaged in counter-insurgency and counterterrorism operations, such research could help mitigate the threats posed by these groups by improving our understanding of their financial decisionmaking.

This monograph analyzes the finances of the militant group al-Qa‘ida in Iraq (AQI) in Anbar province during 2005 and 2006, at the peak of the group’s power and influence. We draw on captured financial records that recorded the daily financial transactions of both one specific sector within Anbar province and the AQI provincial administration. To our knowledge, this monograph offers one of the most comprehensive assessments of the financial operations of AQI or any other contemporary Islamic militant group.

Key Findings

AQI was a hierarchical organization with decentralized decision-making. The memos and financial ledgers in this collection of documents clearly indicate that AQI in Anbar province had a hierarchically organized system of financing and administration, with established bureaucratic relationships and rules. Although a hierarchy of admin-

istrative units collected reporting from the field, controlled the allocation of resources, and broadly administered the policies and procedures of AQI in Anbar, this arrangement is not inconsistent with the idea that a network of local commanders implemented these policies and made their own tactical decisions in a decentralized manner.

AQI in Anbar was profitable enough to send substantial revenues out of the province in 2006. News reports in 2006 and 2007 indicated that AQI was profitable enough to be financially self-sufficient, and that it was sending excess revenues to al-Qa'ida senior leaders in Pakistan. There was no explicit record of transfers to Pakistan in these documents, but there was evidence to suggest that the Anbar chief administrative officer, known as the administrative emir, exported revenues to other provinces in Iraq or to other countries.

AQI relied on extortion, theft, and black market sales to fund its operations in Anbar. AQI relied to a great extent on simple theft and resale, primarily of high-value items such as generators and cars, from Shi'a transiting Anbar province and people cooperating with Coalition Forces (CF). The group increased its reliance on the threat of violence to generate revenue in mid-2006, which we believe helped to turn influential tribes against it and toward collaboration with CF.

AQI needed large, regular revenue sources to fund its operations, but its administrative leaders did not hold much cash on hand. AQI required substantial funding to conduct its day-to-day operations, and the preponderance was needed to pay salaries. However, the financial records show that cash moved very rapidly; the administrative emirs carried only two weeks' worth of funds.

Data on compensation practices and risk of death indicate that AQI members were not compensated for their dramatically higher fatality rate. Individual members of AQI made less money than ordinary Anbaris—AQI average annual household compensation was \$1,331 compared to \$6,177 for average Anbar households—but faced a nearly 50-fold increase in the yearly risk of violent death. AQI compensation included monthly payments for members and their dependents, as well as monthly payments to the families of imprisoned and deceased members. These latter payments constituted a form of insurance unavailable to civilian Anbar households, but still resulted

in lower risk-adjusted expected lifetime earnings. This is not to say that potential AQI recruits carefully computed their lifetime incomes. Rather, our results suggest that if AQI members were rational in their decisionmaking, financial rewards were not among the primary reasons for why they joined the group. Instead, other reasons must have been predominant to the point of being worth many years of forgone income and could have included ideological, religious, political, or nationalistic beliefs; tribal issues; matters of personal honor or revenge; or the simple desire for notoriety.

One-time payments are not sufficient to conduct either simple or complex attacks. Individual attacks were expensive, as AQI, like a firm, carried overhead costs, many of which were recurring. Although it may not have cost much to obtain the materiel used to carry out attacks, AQI incurred other recurring costs. When administrative costs, such as paying group members and the families of the imprisoned and deceased, securing and maintaining safe houses, and transporting materiel and members, were spread across the number of events, the cost of attacks was in the thousands of U.S. dollars. Our best estimate is that, on average, an additional attack cost the group \$2,700. This amount is equivalent to 40 percent of the average household income.

Disrupting AQI's financial flows could disrupt the pace of attacks. Given the high cost of attacks, salaries, support to dependents, the rapidity with which money moved through the organization, the close correlation we find between funding and attacks, and the lack of substantial cash reserves, it is clear that AQI is highly sensitive to cash flows. Interrupting these flows may interrupt the number of attacks the organization can muster.

Implications

Captured financial ledgers may warrant greater emphasis as a source of strategic intelligence on militant groups. Given the important information gathered from just nine documents, including four financial records, militant financial records could be a particularly effective source of intelligence information that could yield stra-

tegic insights. In the case of AQI in Anbar, these documents revealed information about how the group was organized, how it made decisions, how it raised money, and what its financial vulnerabilities were. They also provided information with which we could analyze risks and rewards for members, with the result suggesting that financial motivations do not play a substantial role in motivating group membership.

The structure of a militant group's back office operations may reveal novel vulnerabilities. AQI was organized as a hierarchical group with decentralized decisionmaking. This system of organization makes it vulnerable. First, the vast paper trail it left behind gave CF an opportunity to track its activities. Second, eliminating the upper echelons of the administrative structure can at least temporarily disrupt operations and the administration of the group, although this effect may not prove readily apparent because of the autonomy of lower-level elements. In addition, some of these lower-level officials will have developed the skills to occupy positions higher up in the hierarchy in an effective manner. However, decentralization makes it easier to negotiate with lower levels of the organization, which could win over the group's periphery if lower-level members find inducements to halt fighting more attractive than what the center can offer, given the high level of risk involved in militancy.

A militant group's participation in the local political economy can be a key vulnerability. Combined with findings by other sources on the history of the Anbar insurgency, our analysis suggests that insurgent involvement in an economy can alienate other groups. In the case of AQI, the group competed with key tribes for revenues. Tribes eventually banded against AQI and allied themselves with the security forces in the interest of self-preservation. Collaboration between the tribes and the security forces led to the creation of new tribal militias and a larger, more capable force posture. These forces constrained AQI's ability to operate in the open, degrading the group's ability to sustain its funding. Although AQI's documents suggest that this process began to have a financial effect on the group starting in October 2006, only access to AQI records in Anbar for 2007 would enable further research to confirm or discredit this hypothesis in this specific instance.

The U.S. government’s concept of “threat finance” intelligence should be broadened to “threat economics.” Insurgency theorists, military operators, and intelligence officials have posited that the financing of insurgent groups is pivotal for sustaining their operations, and thus their financial systems should be key targets in operations by counterinsurgents. The wide acceptance of this principle has led to a focus on “threat finance,” focusing on how threat groups raise money. Although the analysis provided in this monograph supports and potentially strengthens the notion that militant finances should be tracked, our findings also suggest that the notion of threat “finance” may be too narrow. Focusing on the revenue side alone ignores half of the useful data on militant back office operations. Our analysis indicates that understanding the spending patterns of militant groups may provide even more useful insights than understanding their revenue streams. We therefore recommend that the concept of “threat finance” be broadened to “threat economics” to better frame the attention of analysts, operators, commanders, and policymakers.