

The Islamic State: Rich Organization, Poor State

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This essay deals with economic aspects of the Islamic State. It presents estimates of its sources of income and expenditures in view of the organization's effort to found an actual state, and surveys the financial warfare waged against it by the international coalition.

Economic Aspects of the Development of the Islamic State

The Islamic State started out in Iraq in 2003 as the Islamic State in Iraq and Syria (ISIS), an association of Sunni Salafist jihadist groups that used terrorism against the Western coalition fighting in Iraq. In 2004, the organization joined the global al-Qaeda movement, but by 2006 was financially independent. It financed its activities in Iraq with oil smuggling and other illegal activities, as well as with donations from Sunni entities in the Persian Gulf.¹ ISIS's sound economic state, as compared to that of al-Qaeda, was one of the factors that led to its ascendancy and expansion throughout the Middle East.

Over the years, differences of opinion emerged between the al-Qaeda leadership and its Iraqi proxy. These peaked in 2013 following ISIS's drive to expand its activities into Syria. In February 2014, al-Qaeda's leaders, who a year earlier had formed Jabhat al-Nusra – the official al-Qaeda proxy in Syria – decided to sever all connections with ISIS. In June 2014, ISIS announced the establishment of an independent Islamic caliphate in the areas under its control in Iraq and Syria, to be known as the Islamic State. Assessments of the total population under its rule vary, depending on definitions of the area that it controls. The highest estimate is 8 million, while the lowest, which refers to the population under the Islamic State's

direct control, is 5 million.² To put this in perspective, the entire population of Iraq stands at some 33 million, and that of Syria at around 18 million.

In addition to Syria and Iraq, the Islamic State has proxies in Egypt, Libya, Nigeria, and elsewhere, as well as activists and supporters all over the world. The proxies, which can hardly be termed as such since true proxies would be a drain on resources, are small, local organizations whose connection to the Islamic State is manifest primarily through ideological loyalty.

The uniqueness of the Islamic State, called the richest terrorist organization in the world, lies in its economic independence. Thus, for example, unlike al-Qaeda or Hezbollah, it is capable of generating a significant income flow from various sources and financing its organizational activities without depending on external funds. The resources at its disposal allow it to spread at a rapid pace, and in turn, seize control over further resources.

Islamic State Income

In the past two years, the Islamic State has managed to gain control over various economic assets, including oil wells and gas fields, cement and phosphate industries, farmlands, and food storehouses in both Iraq and Syria.³ It now also controls money that it stole from Iraqi banks and weapons and equipment that it looted from the Iraqi and Syrian armies, as well as vehicles and buildings. In addition, it levies various taxes and collects extortion and ransom money. It also receives donations from individuals and Islamic associations in the Middle East and Europe.⁴ Moreover, it reportedly traffics in women, drugs, antiques, and even human organs.⁵

The Islamic State's total income and the breakdown among the various sources of income fluctuate greatly. According to a May 2015 report, a professional source in the US administration estimated that the organization's annual income exceeds \$2 billion.⁶ According to a claim made in August 2014 by French Foreign Minister Laurent Fabius, the Islamic State controls several billion dollars. In this instance, Fabius was referring to the organization's fundraising abroad, while noting that Western and Middle East countries must agree on steps to limit the organization's financial resources.⁷

Energy

As of September 2014, the Islamic State controlled oil fields yielding about 120,000 barrels per day, with a daily income of \$3-6 million.⁸ This is a small amount compared to Iraq, for example (the amount of Iraq's total daily

output in 2014 was 3.3 million barrels per day⁹), but for the Islamic State this is a significant income. Factions in Syria, including Bashar al-Assad's regime, have been forced to buy oil from the Islamic State on a daily basis, despite the ongoing war. The Islamic State also controls some 45 percent of Syria's gas reserves (though it lacks the ability to produce gas, at least for now), as well as four Syrian power stations with a total potential output of 2,300 MW.¹⁰

The US-led coalition against the Islamic State, including its economic sources, began operations in the final quarter of 2014. One noteworthy result has been a drop in the Islamic State's oil revenue. The coalition attacked oil production installations as well as a refinery under the Islamic State's control. Since August 2014, global oil prices have also fallen by over 50 percent, which lowered the already low price at which the Islamic State can sell its oil. Consequently, its revenue has decreased sharply – to \$1 million a day – and it will continue to decline as the coalition offensives succeed.¹¹

The gap between the large oil resources in southern Iraq and those in northern Iraq will continue to be one reason for the conflict between the Islamic State and the Baghdad regime, which at present controls chiefly the Shiite region in the south. By contrast, the amount of oil in Syria is relatively small and is located primarily in the Deir ez-Zor district, in the eastern part of the country.

Taxes and Extortion

The Islamic State supplements its income through taxes and extortion, channels that unlike loot, a finite resource, and oil revenue, which is affected by the international coalition's aerial activity, ensure a steady flow of revenue. Here too, however, the potential for extortion is limited by the population's ability to hand over money when economic conditions are difficult.

One of the chief taxes collected by the Islamic State is income tax. Iraqi government officials who reside in the area under Islamic State control must pay up to half of their income; this generated some \$300 million in 2014. Companies pay up to 20 percent on contracts and income.¹² According to some reports, taxes are imposed on the transit of goods, and people must pay "service and protection fees" (doubled for families whose children have not enlisted in the Islamic State's military). Families seeking to emigrate through Turkey must pay a per capita ransom of \$8,000.¹³ Extortion and ransom moneys include the *jizya* (an Islamic poll tax for religious minorities

that is akin to protection money) imposed on minorities such as Christians, as well as payments extracted from the families of hostages held by the Islamic State for ransom.

According to one estimate, the total amount of taxes and extortion collected by the Islamic State in 2014 came to some \$600 million. The amount stolen from Iraqi banks has been assessed at \$500 million,¹⁴ a one-time windfall within the current borders of conquest.

Water

Despite the attention lavished on the oil resources controlled by the Islamic State, control over water supplies plays a larger role in its expansion. The Islamic State and its population are located between the Tigris and Euphrates, the rivers critical to both Syria and Iraq for water, industry, oil production, farming, and electricity.

Control over water enables the Islamic State to continue fighting the regime in Baghdad and its supporters while enslaving people in the territories that it has conquered. In the last two years, it has seized strategic dams close to the rivers' sources, and cut off water to government-controlled areas, including the Shiite cities of Karbala and Najaf. The Islamic State has also flooded areas to gain military advantage. In Syria, for example, the Islamic State conquered the Tabqa Dam and Assad Lake on the Euphrates that provide electricity to Aleppo, for which it now collects fees.¹⁵

Expenditures of the Islamic State

The Islamic State's main expenses are salaries and current activity. It employs tens of thousands of activists in Syria and Iraq.¹⁶ It seems that the Islamic State is exploiting the economic devastation of the local population in order, whether or not by force, to expand its circle of activists and supporters through economic incentives.

The largest expenditure is salaries, which is estimated to be \$5-10 million per month. Until early 2015 Islamic State offered fighters in Syria a monthly salary of \$200-300, with bonuses for each of their children and funding for wives (more than offered by other organizations in Syria).¹⁷ Commanders earn more depending on their positions. Over the course of 2015, however, the Islamic State salary offers fell to half these sums.

Each of the other components of its expenditure seem to be lower because the Islamic State supports itself by looting military and civilian equipment

and seizing land and infrastructures. The Islamic State's total expenditure has been calculated at several hundred million dollars per annum. This is significantly lower than its income.

Establishing the Islamic State's Economy

The realization of a vision to establish an independent Islamic caliphate responsible for the population under its control is an extraordinary challenge for a terrorist organization in the midst of a concerted fight against the international community. Nonetheless, progress toward this vision is evident in the Islamic State's activities, which include the establishment of an interior ministry and a finance ministry, a police force, welfare authorities, schools, universities (as well as curricula), and even bakeries.¹⁸ The Islamic State would like to govern every place that it conquers, and thus takes the trouble to provide the local population with services such as water, roads, and a legal system.¹⁹

Using an exact interpretation of *sharia*, the Islamic State brutally imposes its rule on the populations of its conquered territories. This might eventually have a negative impact on the economy in conquered areas, for instance by leading to lower employment among women,²⁰ a decrease in investments, foreign trade, and so on. In addition, the taxes it collects are more a form of extortion than a social contract of the kind used to found a genuine state. Interestingly, the Islamic State uses the term "charity" rather than "tax" in order to grant a legitimate Islamic quality to its collection system.²¹

In November 2014, the Islamic State introduced its own currency and minted a series of coins: copper *fulos* in values of 10 and 20 (6 and 12 US cents, respectively), the silver *drahm* in values of 1, 5, and 10 (approximately equivalent to \$1, \$5, and \$10); and the 1 and 5 *dinar* gold coin (1 gold dinar being worth about \$160).²² In August 2015, it went public with the process of minting these silver and gold coins, which seem to already be in use in Islamic State-controlled areas of Syria and Iraq.²³

The income of the Islamic State is currently much higher than what it needs to fund its immediate organizational needs but insufficient to finance the expenditures required to support the daily needs of a state with millions of residents and a state's institutions. However, the Iraqi government, which does not tolerate any violation of its sovereignty within its official borders, finances governing mechanisms that fall under Islamic State control in Iraq,

which is what enables them to function.²⁴ The Islamic State collects taxes on salaries paid by the Iraqi government.

Economic Warfare by the International Coalition against the Islamic State

The Islamic State faces an international coalition that is waging both military and economic warfare. The coalition's economic warfare strategy is based on several main efforts:

- a. Firepower against economic assets, such as oil facilities, controlled by the Islamic State.
- b. Increased supervision of the transfer of resources and money to and from Islamic State-controlled areas, with Turkish and Kurdish help.
- c. Damage to the financial system through internal disruption; identification of and harm to financial personnel; and isolation of the Islamic State within Iraq and elsewhere. One way of doing this is by denying the Islamic State permission to use financial institutions to manage and transfer money in Iraq, Syria, Turkey, Jordan, and elsewhere. Another is by harming the Islamic State's fundraising efforts, especially among foreign donors. The coalition tries to expose the external financial and acquisitions networks used by the Islamic State. As long as coalition attacks continue on the areas controlled by it, the Islamic State will have to rely on these external networks to import resources and equipment.²⁵

In applying these methods, the international coalition is careful not to cause humanitarian or ecological damage while attacking Islamic State-controlled targets. This is the greatest constraint on the coalition's efforts against the economy of the Islamic State.

Conclusion

The Islamic State has more than enough assets to finance its military activity and even impose some governance on the areas that it controls. But the organization's transition to an established, functioning state over time will require an income of much greater scope. If the Islamic State manages to seize control of the oil in southern Iraq and engage in its trade (and the coalition does not prevent this), it would earn a huge leap forward in its economic capabilities. By contrast, if it stops expanding or even contracts, or if it loses assets or the ability to exploit loot, its economic capabilities will suffer significantly. The Islamic State's control of the dams vital to all

of Iraq is a huge strategic advantage that allows it to have a fundamental, concrete, and psychological impact both on the areas it controls and beyond. This is a risk to the regime in Baghdad and to those who remain loyal to it.

Given the importance of the economic and financial element to the functioning of the Islamic State, the international coalition should continue to improve efforts to inflict substantive economic damage on the Islamic State and thus clip its financial wings, but under the very important constraint of reducing, as much as possible, any harm to the local population.

Notes

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