



## The business of the Islamic State terrorist group

The Islamic State (IS) has been described as being either one of the world's richest terrorist organization or as one of its poorest countries. In reality neither is quite true. Although it has many of the attributes of a sovereign nation state, including its own passports (which no other country recognizes) and currency, and controls a specific geographic area, albeit one with amorphous borders, it falls sort of being an independent nation state. Conversely, it is more than just a subversive or terrorist organization since it possesses capabilities and assets that go well beyond the typical terrorist group. Instead it is a sort of hybrid, half destitute quasi-nation state and half wealthy militant jihadist organization.

What it does have, however, are considerable financial assets, a combination of war booty from its lightning conquests in eastern Syria and western Iraq, as well as its profits from a variety of legal and illegal "businesses" in which it is engaged. As enterprises go it is extremely well diversified, with multiple sources of revenue from a range of disparate activities. Moreover, it has been successful in organizing these activities so that they are not dependent on the international financial system, and are not affected by the sanctions imposed by the U.S. and its allies.

At its low point from roughly 2007-2009, during the rise of the U.S. sponsored Awakening Councils, the Islamic State in Iraq (ISI), the predecessor "state" to the Islamic State, had revenues of approximately one million to two million dollars per month. The principal sources of funds were donations from wealthy supporters in the Gulf, as well as proceeds from kidnappings and extortion. At its peak in late 2014 and early 2015, the recently announced Islamic State had revenues estimated at around four million to five million dollars a day, roughly 1.5 billion per year. Some estimates were as high as two billion dollars. Since then it's estimated that its revenues have dropped by half.

Taxation and extortion, it's hard to tell the difference between them in the Islamic State, are the organization's biggest sources of revenue. Technically, IS charges a tax of 10 percent on income although there are plenty of other taxes and fees. Services, for example, are subject to an additional 20 percent surcharge. Withdrawals from bank accounts are penalized by a 10 percent tax. Non-Muslims are subject to the *jizya* tax of 50 percent of earnings. Muslims that violate Sharia law are required to pay a "repentance tax" of approximately \$2,500. In addition, IS sells

permission to leave the Islamic State to those not considered essential, in return for a payment of around \$2,000 and forfeiture of any assets left behind.

In total, at its peak IS earned between \$300 million and \$400 million yearly from such activities. Paradoxically, one of its most lucrative sources of revenue was the roughly \$170 million a month that the Iraqi government payed to its government employees in areas controlled by the Islamic State. Many of those employees continued working at their jobs under IS supervision and their salaries were subject to additional taxation. The Iraqi government suspended these payments in September 2015. Combined with its loss of territory, IS's "tax revenues" are believed to have dropped by half. This is a hard number of calculate since the distinctions between taxation, extortion and outright expropriation in the Islamic State are not always clear cut.

Oil had been Islamic State's most profitable activity. At its peak it controlled about 50,000 barrels of production a day (BOPD). In fact, it was al-Nusra Front's, a jihadist organization that IS had sponsored and funded, seizure of an oil field in central Syria that had prompted Abu Bakr al Baghdadi to announce the merger of al-Nusra and ISI to create the Islamic State of Iraq and al-Sham (ISIS).

IS does not control any refineries. It briefly contested control of the Bajji refinery, Iraq's largest, during late 2014 and 2015, but was never able to achieve sufficient control to actually operate it. Instead it has relied on rudimentary mobile refineries that are capable of refining about 1,000 liters of oil a day. Both crude oil and refined products are smuggled to Turkey where they are resold on the black market.

The oil smuggling network dates back to the days when the UN mandated sanctions against Saddam Hussein's oil exports. IS did not create the oil smuggling network, it simply took advantage of the one that already existed. In addition, there have been numerous reports that IS has frequently sold oil and natural gas to the Assad government or swapped it for electricity.

The smugglers themselves are independent operators and are not part of IS. They typically purchase the oil from IS and resell it in Turkey. Initially, the U.S. and its allies targeted Islamic State's mobile refineries and its oil infrastructure, but ignored the smugglers. About six months ago, U.S. planes began dropping leaflets advising the smugglers that their tankers would be subject to attack if they persisted in smuggling petroleum. To date, hundreds of oil tanker trucks have been destroyed by coalition air strikes.

On average it is believed that IS receives between 35 percent and 50 percent of the market price for its oil. At its peak, its oil smuggling was generating between \$500 million and \$750 million in revenues. Since then, declining production and the fall in oil prices has cut its revenue from oil to between \$150 million and \$200 million. Oil production is believed to have fallen to between 20,000 and 25,000 BOPD, as a result of the loss of some oil fields and a decline in production caused by a shortage of spare parts and qualified personnel to maintain oil field equipment.

The illegal sale of antiquities is estimated to generate around \$50 to \$100 million in revenues for Islamic State. There are approximately 4,500 identified archeological sites in IS controlled territory. The Islamic State awards sites to local villagers on condition it receives a portion of whatever antiquities are discovered. The smuggling of antiquities has existed in this region for generations. Once again, IS did not create the smuggling activity or the network, it simply expanded the supply and took advantage of the activity for its own ends.

Most items are smuggled into Turkey, and to a lesser extent Lebanon, from where they are resold to dealers and collectors around the world. IS has also looted museums, the Mosul museum being the most notable, in cities it controls. Some of the publicized destruction of archeological sites, like Palmyra in Syria and Nineveh in Iraq, may have been staged to hide the looting of those sites.

Kidnappings generate between \$25 million and \$50 million a year for the Islamic State. The United States, Great Britain and Japan have publicly refused to ransom any of their nationals held by the Islamic State. Other countries, including notably France and Italy, however, have in the past paid such ransoms. IS has also generated revenues from holding hostage some of its own constituents, especially members of non-Muslim groups, like the Yazidi and the Assyrian Christians.

Wealthy donors still figure prominently in the Islamic State's source of cash. In the early days of the organization, Abu Musab al-Zarqawi would publish metrics demonstrating that al-Qaeda in Iraq (AQI), IS's predecessor, was responsible for a majority of the killings and bombings taking place in Iraq as a way of demonstrating the organization's effectiveness to donors. The practice of quantifying the scope of its activity and its "market share" of terrorist acts has continued under the Islamic State.

It is difficult to estimate the financial contribution of private donors to IS. Billions of dollars have flowed from the Arab countries in the Persian Gulf to fund various Sunni rebel groups in Syria. In addition, money often moves from charity to charity so that by the time it is given out its source is not readily apparent. The definition of "humanitarian aid" is pretty loose. Moreover, jihadists often move around between different

organizations taking their supplies with them. It's believed that the Islamic State is still receiving between \$20 million and \$40 million in contributions from wealthy supporters, but it is possible that the number could be much larger.

Finally, "loot" is a significant source of funding for the Islamic State. War booty is not an ongoing business; not unless the Islamic State was relentlessly expanding. Nonetheless, the groups initial conquests proved to be particularly lucrative. It's believed that IS acquired between 500 million and 800 million in U.S. currency from various banks in its domain. The Mosul branch of the Iraqi Central Bank had cash reserves of around \$400-500 million when it was seized by IS militants.

In addition, the Islamic State has resold real estate, equipment and military hardware that it seized during its 2014 conquest. There have been reports, so far unconfirmed, that IS has resold arms to jihadist groups in the Caucasus. It's impossible to know what the total value of these assets are, which ones still exist, what has been destroyed and what proceeds were obtained from those that were sold. On January 11, 2016, for example, the U.S. bombed a depot where IS was storing some of its cash reserves. Subsequent reports from the Pentagon claimed that upwards of \$600 million had been destroyed. It's difficult to verify such reports however.

There have also been reports of other, grislier, sources of funding for Islamic State. On February 17, 2015, Iraq's ambassador to the UN, Mohammed al-Hakim, claimed that IS was harvesting organs from dead jihadist fighters and civilians. A similar charge was later made by Iranian news sources and publicized by Russian media. There is no proof of such activities, however, and it is unlikely that IS has the necessary medical infrastructure to "harvest" viable organs and transport them.

As of June 2016, it is estimated that Islamic State is generating between \$40 million to \$80 million a month in revenues. Roughly half of that amount is coming from taxes and fees it levies on its constituents, as well as expropriations and the balance from a variety of illegal activities. Its military operations are believed to cost it somewhere between \$20 million and \$30 million a month, although the exact number is difficult to fix. Likewise, it is unclear what IS spends on administration and services.

What is likely, however, is that Islamic State is not generating enough revenues to fund its operations. The salaries of its militants have been cut in half - from around \$400 per month to about \$200. Services have been cut back even further, prices on food and gasoline have been increased. There are consistent reports of shortages of medicines and other essential items, although it's not clear if those shortages are the

result off insufficient cash or a Turkish crackdown on smuggling. There are also reports that Islamic State is becoming involved in other criminal activities, specifically the smuggling of marijuana from the Balkans into Western Europe.

The Islamic State has a lot of assets under its control. Its ability to liquefy them, however, is limited by what it can smuggle into Turkey and elsewhere. Many of its assets can only be sold to its increasingly impoverished citizens. Outside of cash, their multi-billion dollar value is largely theoretical. Moreover, lacking access to a port and landlocked by hostile neighbors, its ability to import critical items is constrained by what it can smuggle across its borders, regardless of whether it has the cash to pay for them.

From the United State's standpoint, the most effective way to shut down the Islamic State's financing is to target those activities that generate cash like the smuggling of oil and antiquities and the organization's existing cash reserves. The U.S. and its allies are now finally focusing on precisely this objective, pity it didn't start sooner.

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