"There's no trade without war; there's no war without trade," the famous quip by Jan Pieterzoon Coen, a leading officer of the Dutch East India Company in the 17th century, not only points to the dark beginnings of capitalism, it also spells out a basic fact: You need money to wage war, loads of it. So from where does the Islamic State in Iraq and Syria (ISIS) get its money and how stable are its finances?

Much has been said about ISIS’s professional organizational structure with regional governors and specialized agencies for portfolios like propaganda, secret services, military and finance. The organization indeed publishes an annual report like corporations do. On 400+ pages it outlines what kind of activities it has pursued ranging from car bombs to proselytizing. Apart from gaining an intra-organizational overview of operations and strategy, the document is obviously meant to attract endorsements and raise finance. Yet there is a major difference to your average corporation report: funding sources are not mentioned. The report tries to give the air of accountability without delivering it.

ISIS is not a mere terror organization, but an insurgency that follows a classic “Clear, Hold, Build” strategy. The aim is state building as the very name ISIS suggests. Holding territory implies provision of services to the governed population such as food, energy and water.

Oil is the most important revenue stream for ISIS followed by various forms of looting, local taxation, extortion and ransom. Not for nothing ISIS has been likened to a mafia gang. Foreign inflows have also played a role, but have not been as dominant as often assumed.

Energy infrastructure cuts across territories. Rebels in control of oil and gas fields have sold energy to the Assad regime, which has been in control of the gas grid and power stations. ISIS has been no exception.

Syria’s oil industry was already ailing before civil war erupted. The more lucrative fields in the south and north of Iraq on the other hand will likely remain out of ISIS’s control.

Gulf donors have been described as “angel investors” for jihadist groups in Syria who provided the seed financing for their domestic operations. During 2012 and 2013 Gulf countries poured hundreds of millions into the Syrian civil war, often in competition with each other. While it is unlikely that Gulf governments have ever funded ISIS directly, it has benefitted indirectly from this spending spree when fighters who had originally been with other groups joined it and brought their experience and weapons with them.

Iraq entertains the largest public food program in the world. The Public Distribution System absorbs about a fifth of government revenues and provides basic foodstuffs to more than half of the population in most provinces. ISIS regards dams and food distribution infrastructure like wheat silos as strategic assets. Like refineries and oil installations it has targeted them specifically and has taken a keen interest in taking them over intact.

ISIS now controls up to 40% of Iraqi wheat production. However, half of Iraq’s wheat supplies are imports, so ISIS’s share of domestic production only is equivalent to about 20% of overall supplies.

The economic base of ISIS is a Ponzi scheme of looting that is in constant need of expansion. Yet there are signs that expansion is becoming more arduous. The early easy phase of looting is over.
The Oil Prize

In the absence of statistics one needs to rely on guestimates of ISIS’s revenue streams, which range between $1 million and $5 million per day. Oil is probably the most important one followed by various forms of looting, local taxation, extortion and ransom. Foreign inflows have also played a role, but have not been as dominant as often assumed.

ISIS controls six out of Syria’s ten oil fields and some smaller ones in Iraq. It has fought with other rebel groups like Jabhat al Nusra over control of fields and has sought to retain capacities often by cooperating with locals and those who have formerly operated the sites rather than seizing them outright. Installations like the currently beleaguered Baiji refinery north of Tikrit have been prime strategic targets for ISIS that it has tried to take over intact. There are well established smuggling networks in the region that date back to the multilateral UN embargo against Iraq in the 1990s. At that time Iraq was first not allowed to sell any oil at all and from 1996 on only under the clearly circumscribed rules of the Oil for Food program. Some of the oil is processed in makeshift refineries on the spot, but a lot of it is actually traded to enemy territory. A recent article in the Financial Times has argued that refineries in Kurdistan have been a center of the smuggling networks between Iraq, Iran, Turkey and Syria and that the ability and willingness of the Kurdistan Regional Government (KRG) to curtail this trade have been limited.

Similarly, energy infrastructure cuts across territories. Rebels in control of oil and gas fields have sold energy to the Assad regime, which has been in control of the gas grid and power stations. ISIS has been no exception. Its maintenance of energy trading relations with the Assad regime adds another facet to the murky forms of cooperation and confrontation that exist between the two sides. Assad and ISIS have rather fought other rebel groups than each other. By freeing Islamist prisoners the Assad regime aimed at driving a wedge between rebel forces and used the ensuing escalation of violence to portray itself as the better alternative internationally.

Robin Mills, a Dubai based energy analyst differs on the smuggling routes. He argues that the amount of oil smuggling to Kurdistan is overstated and that the KRG has blocked it to a considerable extent. Furthermore, Turkey will likely install a firmer control of its borders with mounting international pressure. This leaves the ISIS oil business between a rock and a hard place. Syria’s oil industry was already in bad shape before its civil war. Its oil fields are mature and in need of water injection to maintain production, which requires considerable expertise. Oil production peaked in 2002 at 677,000 barrels per day (bpd) and declined to 327,000 bpd in 2011, the last year of normal operations. At that time Syria was already a net importer of petroleum products. Since 2008 the value of net imports of refined products has outweighed the value of any net exports of crude oil. As a result of unrest production plummeted to 171,000 bpd in 2012 and to 56,000 bpd in 2013.

To assume that ISIS could build a thriving oil business is a stretch of the imagination.

Despite its ample oil reserves Iraq has serious energy issues of its own. It could become one of the world’s largest oil exporters, but only if ambitions to increase production materialized. Iraq has formulated plans to double production to 6 mbpd by the end of the decade; at times even higher numbers like 10-12 million mbpd have been flouted. However, political insecurity, corruption and economic uncertainties weigh on the sector and planned projects are lagging behind. Iraq also struggles with a lack of capacities for domestic refining and power generation and a lot of its associated natural gas, which is a by-product of oil production, is being flared. As a result Iraq is a substantial importer of refined petroleum products and of electricity.

Before the recent air raids of the US and its allies on bootleg refineries and oil sites, ISIS oil production from the Syrian fields was about 50,000 barrels per day and from the Iraqi ones 30,000 barrels per day. It can only sell oil at a heavy discount, also because the region’s oil does not have the same quality as the sweet light oil of the internationally traded benchmarks Brent and WTI. Assuming a black market price of $40 per barrel, ISIS would have had $2 million revenues per day from the Syrian fields and $1.2 million revenues per day from the ones in Iraq. Presumably this is now greatly reduced as a result of Allied military action and surveillance. In any case it might have been a lot for a terror group, but not for someone who intends to run a state and rule over an extended territory.

Ransoms, Looting and Taxation

ISIS is taxing local residents and businesses zakat tax of 10 percent of income and a special jizya tax on Christians that used to be common in Islamic countries in medieval times. However, much of the extraction happens on a less formal level and often takes the form of outright looting. Selling of antiquities, trafficking of weapons and counterfeit currencies have been among the more criminal activities. Not for
nothing ISIS has been likened to a mafia gang. Even before its formal takeover of the city of Mosul, ISIS reportedly extracted up to $8 million from local businesses. After taking hold of the city it expropriated real estate of those who had to flee from its terror, most notably Christians and persons who were close to the Iraqi government. Its foray into Iraq and the ignominious head over heels retreat of the Iraqi army dramatically improved its asset base and its military capabilities. According to information on a computer stick of an ISIS courier who was arrested, ISIS assets stood at $875m before the fall of Mosul. Seizure of modern US supplied weaponry from the Iraqi army and bank assets swelled this number to up to $2 billion, according to some estimates. However, other sources later doubted the alleged seizure of $430 million of bank assets in Mosul as inaccurate and branded it as the “biggest bank robbery that ‘never happened’”. Yet the weaponry of the Iraqi army did not only give ISIS a much priced commodity in the region, but also put it into a position for subsequent conquests in Kurdish areas in the north of Iraq and Syria.

Ransoms have been among the largest revenue streams of ISIS in 2013 before it consolidated its power in 2014 and oil became more important. Income from ransoms has allegedly amounted to “tens of millions” of dollars, often paid by western governments. ISIS demanded a very high ransom of $132 million for the American journalist James Foley who it later beheaded. Currently it asks for $6.6 million for a female US aid worker who is still in its captivity. Contrary to European countries the US has a strict policy of not paying ransoms in order to not encourage further abductions. The asking prices for hostages have gone up in recent years and ISIS is not alone in this line of business. Al Qaeda, which has disavowed ISIS, made $125 million from kidnappings since 2008 together with its direct affiliates. More than half of that sum, $66 million, was paid in 2013 alone according to estimates of the New York Times.

**Foreign Donors**

Another source of ISIS funding have been donations from abroad. The financial wherewithals of angry young men in Europe and the Muslim world who support ISIS or even join it are presumably limited given their age, class and educational background. Rich donors from the Gulf have been more important and have a history of funding Islamist causes abroad. In the case of Afghanistan this led to severe repercussions as trained fighters moved back to their countries or joined jihadist causes elsewhere, like the Algerian civil war in the 1990s. Even the Gulf countries themselves were affected by this kind of backlash as the wave of jihadist attacks in Saudi Arabia during the 2000s showed. Yet, despite these experiences, Gulf countries have again faced scrutiny over their funding of jihadist groups in Iraq and Syria. Former Iraqi Prime Mister Nouri al Maliki accused them openly of funding Sunni insurgents.

Gulf donors have been described as “angel investors” for jihadist groups in Syria who provided the seed financing for their domestic operations, very much like a venture fund for tech start-ups. During 2012 and 2013 Gulf countries poured hundreds of millions into the Syrian civil war, often in competition with each other. Saudi Arabia and Qatar in particular tried to build up their own client bases and jealously shielded them from each other’s influence. The haphazard and broad based funding efforts via middlemen without real capacity to follow up and control contributed to an increasing disarray of rebel forces and lack of strategic or even tactical coordination. While it is unlikely that Gulf governments have ever funded ISIS directly, it has benefitted indirectly from this spending spree when fighters who had originally been with other groups joined it and brought their experience and weapons with them.

Gulf governments in the meantime are afraid that their support of jihadist groups could come back to haunt them in the form of returning fighters and increased sectarian tensions at home. They profess opposition to ISIS and have participated in Allied bombardments of its territory. Saudi Arabia has declared harsh sentences against any of its citizens who go to fight in Syria and has declared ISIS a terrorist organization in March 2014. Yet private donors from the

** Provision of food and water are crucial for political legitimacy. The real litmus test will come next year when ISIS will need to organize the harvest and its ensuing distribution.**

Gulf continue to fund ISIS, especially in more permissive jurisdictions like Kuwait and Qatar. Gulf governments do not always have the capacities or the will to crack down on such funding and would need to overhaul anti money laundering procedures.

Considerable sympathies for ISIS’s fundamentalist interpretation of Islam exist among the population of Saudi Arabia whose official religious doctrine of Wahhabism is similarly intolerant towards other sects and creeds. All 12 judges of ISIS in its quasi capital Al Raqqa are Saudis according to The Economist. Many people in the Gulf also feel for disenfranchised Sunnis who have suffered under the Maliki regime in Iraq. The competition of Saudi Arabia and Iran for regional hegemony has led to proxy conflicts with sectarian undertones. Prince Bandar bin Sultan was appointed as head of Saudi intelligence in July 2012 and pushed for an aggressive campaign of regime change in Syria. It included funding of jihadist groups and contributed to a militarization of the conflict. Bandar’s resignation in April 2014 has been widely regarded as a failure of this policy. The recent meeting between the foreign ministers of Saudi Arabia and Iran, Prince Saud al Faisal and Mohammad Javad Zarif in New York in September 2014 might signal a rapprochement between the two countries and recognition of mutual interests in facing ISIS.
Food and Water

Provision of food and water are crucial for political legitimacy. Food and water can also be used as a weapon, as the Assad regime showed when it tried to starve rebel held areas into submission. Similarly, Saddam Hussein was afraid of Iran destroying dams to cause floods in Baghdad when Iraq and Iran were at war in the 1980s. He used flooding of the Iraqi marshes himself to repel Iranian forces and later on he dried them up to fight insurgencies.

ISIS regards dams and food distribution infrastructure like wheat silos as strategic assets. Like refineries and oil installations it has targeted them specifically and has taken a keen interest in taking them over intact. Talk about water wars seem overblown, as water flows cannot be easily seized and controlled like an oil well or a gold mine, but ISIS has used dams for strategic purposes. It maximized flows through the Tabqa Dam in Syria in May 2014 to increase electricity production and sold it back to the Assad regime to raise revenues. Subsequently it has rationed flows in order to refill the reservoir behind the dam. This highlights existing opportunity costs between power generation and water use for irrigation. There were also interruptions of water flows to Aleppo in the west because fighting groups other than ISIS shut down booster sta-

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tions. When temporarily capturing the Fallujah Dam close to Baghdad in spring, ISIS first withheld water, cutting irrigation supplies to Shiite areas in the south and causing a flooding of the land eastward of the dam to repel Iraqi government forces that tried to retake it. Later on ISIS opened the dam’s gates, this time causing equally damaging flooding downstream.

Capturing of the much larger Haditha Dam in Anbar province would give ISIS considerable possibilities to manipulate flows downstream, although any such manipulation would be limited by reservoir capacities and the self-interest of electricity production. The temporary capturing of the Mosul Dam by ISIS also revealed the technical challenges of managing hydrological infrastructure. The U.S. Army Corps of Engineers described it as “the most dangerous dam in the world” in 2007 because it is built on porous gypsum. Sinkholes are created on a constant basis and need to be filled with cement as a stopgap solution as water from the reservoir dissolves the gypsum. The Iraqi government has awarded a two billion Euro contract to the German engineering company Bauer Group in 2011 to find a more sustainable solution by building underground walls around the dam foundations. However, such work is now disrupted because of the conflict. Like in the case of the energy sector, it is unlikely that ISIS would be in a position to run hydrological infrastructure with the necessary professionalism.

Iraq entertains the largest public food program in the world. The Public Distribution System (PDS) absorbs about a fifth of government revenues. It goes back to the 1990s and the multilateral UN embargo against Iraq when it expanded massively to provide basic food items like wheat flour, rice, sugar, pulses and fats and oils. The PDS is a universal, untargeted subsidy and as such inefficient, yet it is crucial for food security in the country. A comprehensive food security survey of Iraq in 2008 by the World Food Program (WFP) revealed that in most governorates more than half of the population receives its basic foodstuffs via the PDS. Poor and food insecure households were particularly dependent on the PDS and they were most numerous in some of the provinces that are now under the control of ISIS, like Nineveh, or most affected by its advance and corresponding refugee flows, like Diyala or Kurdistan provinces like Dohuk.

Providing similar services as the PDS in conquered territories will be important and challenging for ISIS. The Iraqi government seems to continue to provide limited PDS services in some ISIS held territory, but the PDS already had considerable gaps in coverage in 2007, especially for internally displaced persons who had to transfer their rationing cards to their new place of residence, which is a bureaucratic and time consuming process. The ongoing conflict has disrupted the PDS further and has made it less accessible for poor people. The World Food Program (WFP) has expanded its activities in Iraq in order to cater to the needs of 1.2 million of the 1.8 million internally displaced people in the country. It is unclear whether and to which extent the WFP will be able to operate in ISIS territory.

ISIS now controls up to 40 percent of Iraqi wheat production. However, half of Iraq’s wheat supplies are imports, so ISIS’s share of domestic production only is equivalent to about 20 percent of overall supplies. Food imports make up over a quarter of total imports in Iraq. As ISIS territory is landlocked and sanctioned, facilitating food imports is presumably more difficult for the organization than for the Iraqi government. Hence, domestic production is of particular importance for ISIS. It controls a large part of the Gezira in Syria that used to be a wheat surplus region before the severe drought of the 2000s. It supplied Syria’s cities in the west that are nowadays still held by the Assad regime. ISIS might ponder a redirection of such supplies to wheat deficient areas in Iraq that it now administers.

In fact before the fall of Mosul ISIS already smuggled wheat into the public procurement and distribution system that had been produced elsewhere in order to benefit from artificially high wheat prices that the Iraqi government pays to encourage production. ISIS also benefits from the fact that the governments in Damascus and Baghdad often continue to pay civil servants in ISIS occupied areas, as they want to keep appearances of sovereignty and maintain basic infrastructure, hoping that they will regain control in the future. Such payments are usually made via banks in nearby cities that are not under ISIS control such as Al Hasakah in Syria or
Kirkuk in Iraq. Borders are murky, like in the case of the vivid energy trade across frontlines. This plays to the advantage of ISIS and increases its options. On the other hand the Iraqi government has significantly reduced electricity supplies to ISIS held territories. This increases the incentive for ISIS to get hold of power generating facilities like the Haditha Dam as electricity, like food, is crucial for political legitimacy.

Iraqi agriculture has been in bad shape before the ongoing conflict. Agricultural targets of the National Development Plan 2013-2017 eyed a closing of yield gaps, especially for wheat, fruits and vegetables, but this has become questionable now. By looting the wheat harvest of hundreds of thousands of dispersed members of minorities, like Christians and Yazidis, ISIS has acquired food for free and has used reduced food prices to endear itself to the majority Sunni population. Commenting on the halving of wheat prices by ISIS, a farmer told Reuters: “It’s cheap because they stole it.”

Hence, the real litmus test will come next year when ISIS will need to organize the harvest and its ensuing distribution. ISIS has taken control of all nine wheat silos in Nineveh Province and seven silos in other provinces. It administers enough wheat areas to get seeds and it has access to fertilizers via the offices of the Ministry of Agriculture in Mosul and Tikrit that it controls. However, it is questionable whether displaced farmers will return to their farms and whether ISIS will be able to set up a functioning agricultural system.

ISIS manifests a global ambition that appears outsized compared to its means. An economy of looting does not make a state and ISIS’s shelf life might be limited.

The (Un)Sustainability of Looting

Like an overvalued stock company, ISIS needs to create a constant news flow to draw in funds and attention. The intensification of looting is limited by the territory it governs and the ability of the looted to survive and bear the consequences. ISIS has arguably maxed out the latter, while it already rehearses the rhetoric of geographical expansion by telling the Gulf states “we are coming” (yadimun) and rebranding itself as the Islamic State, without the qualification of Iraq and Syria, thus manifesting a global ambition that appears outsized compared to its means. The economic base of ISIS is a Ponzi scheme of looting that is in constant need of expansion. Yet there are signs that expansion is becoming more arduous. The early easy phase of looting is over.

The oil business has been big for ISIS, but small in regional and global comparison. It has suffered from airstrikes and trading restrictions and the more lucrative fields in the north and south of Iraq will likely remain beyond its reach. Recent global oil price corrections will further affect the weak marketing position of ISIS, which already has to accept hefty discounts on its deliveries. There is no indication that ISIS would have succeeded in building up productive capacities in territories that it governs. The only commodity that is attracted to its lands is the human flesh from foreign soils that hopes to act out in a jihadist Disneyland. Its professional skills are limited and its disposal as suicide bombers is hardly a cash generating activity.

When the people of Banda broke a monopolist trade treaty with the Dutch East India Company by selling spices to the English, the above mentioned Jan Pieterzoon Coen massacred them in 1621. ISIS treats adversaries with similar ruthlessness, yet the times are different. Capitalism and long distance trade used to be a new business model then, nowadays it is globalized with no shortage of competitors and barriers to entry. The likelihood of a warlord founding a trading empire is remote today, even if that was the warlord’s intention. In the case of Coen, brutality marked the beginning of a civilization; in the case of ISIS it may well mark the end of one. An economy of looting does not make a state and ISIS’s shelf life might be limited. Yet unless credible avenues towards reconstruction are found, ISIS’s likely disintegration will not mean an end of warlordization. Things might just get more centrifugal and the people of Syria and Iraq will continue to pay the price. To the delight of the military-industrial complex, the US and its Allies currently spend a lot of money on destroying the very weapons they have introduced to the region. Arguably there is a limited moral obligation to protect Kurds and other minorities from ISIS and the repercussion of past foreign policy plunders. Yet ultimately the people of the region will need to find political solutions, it will not be outside powers.