Executive Summary

- **Isis economic model**, unprecedented for a terrorist organization, is based upon its territorial control, which provides it with **financial self-sufficiency** and **diversified resources**.

- Despite **loss of territory** by ISIS in 2015, and thus loss of access to resources, the action of the international coalition failed to significantly reduce its sources of financing in 2015 or its ability to carry out transactions.

- Indeed, due to its **diversified economy** and its **adaptability**, ISIS maintained a **high level of revenue** in 2015:
  - by limiting the reduction in revenue drawn from natural resources,
  - by increasing other revenue – through widespread extortion – while reducing public spending, thus using the population under its control as an adjustment variable.

- At the same time, ISIS sought to **take over new territories** in order to **extend its control** and **broaden its range of resources**.

- **The sanctions adopted by the UN**, in particular those aimed at curtailing ISIS funding, **are poorly adapted and have only a limited effect**: ISIS economic model differs fundamentally from that of al-Qaeda, on which they are based.

- Nevertheless, the combination of coalition and Russian **airstrikes**, the **military setbacks** suffered and the **population drain** began to **jeopardize the viability of ISIS economic model** as of June 2015. These difficulties were greatly increased from October onwards with the **intensification of strikes**, particularly against oil infrastructures, pointing to a **significant drop in the group's revenue in 2016**.
The CAT’s estimates and analyses set out in this document are based on local sources and internal ISIS documents, in addition to information and reports from governments and international institutions.

The first report on ISIS financing was published by Thomson Reuters in October 2014 ("Islamic State: the economy-based terrorist funding" by Jean-Charles Brisard and Damien Martinez) http://cat-int.org/index.php/2014/10/31/islamic-state-the-economy-based-terrorist-funding/

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## Contents

I. Introduction ............................................................................................................................................. 4

II. Financing strategy and organization ................................................................................................... 5
   1. Financing strategy ........................................................................................................................... 5
   2. Organization .................................................................................................................................. 7

III. Resources ............................................................................................................................................... 9
   1. Natural resources .......................................................................................................................... 9
      a) Oil ............................................................................................................................................... 9
      b) Natural gas ............................................................................................................................... 11
      c) Phosphate .................................................................................................................................. 12
      d) Cement ...................................................................................................................................... 13
      e) Agriculture ............................................................................................................................... 13
   2. Revenue of criminal origin ............................................................................................................. 14
      a) Extortion ................................................................................................................................... 15
      b) Kidnap & Ransom ...................................................................................................................... 18
      c) Antiquities trafficking ................................................................................................................ 19
   3. Donations .......................................................................................................................................... 20
   4. Summary chart of ISIS financing .................................................................................................... 20

IV. Expenses ................................................................................................................................................ 21

V. ISIS financial and commercial system ................................................................................................ 23

VI. International action ............................................................................................................................. 25
   1. Coalition operations ....................................................................................................................... 25
   2. The UN actions ............................................................................................................................. 26

VII. Ambitions in Libya .............................................................................................................................. 27

VIII. Conclusion: an unsustainable model in the medium-long term ...................................................... 30
I. **Introduction**

The Islamic State of Iraq and Sham (ISIS), also known as the Islamic State of Iraq and the Levant (ISIL) or Daesh¹ and formerly known as the Islamic State in Iraq (ISI) and al-Qaeda in Iraq (AQI), is an Islamist terrorist organization created in 2003 in Iraq by Abu Musab al-Zarqawi². Adhering to a Salafi jihadist ideology, ISIS proclaimed the creation of a caliphate in the territories under its control on June 29, 2014.

**ISIS rapidly made its mark as one of the most powerful groups in the recent history of terrorism.** It currently controls a territory of more than 70,000 km², with around 8 million inhabitants, which includes huge tracts of the Syrian governorates of Aleppo, Raqqa, Deir ez-Zor, Homs, Hasakah and Damascus, as well as the Iraqi provinces of Saladin, al-Anbar and Nineveh.

**ISIS exerts its authority over a wide range of industrial and commercial activities, natural resources and raw materials**, from oil to agricultural products, including minerals³. While the exploitation of these natural reserves constitutes one of its primary sources of financing, the majority of its funds currently comes from widespread extortion from the population under its control, mainly in the form of taxes, confiscations and fees. These resources are used to fund military actions, administration of the group’s territories and its expansion abroad, particularly in Libya.

**Its territorial holdings thus provide ISIS with a self-sustaining and diversified economic system.** Its ability to secure its internal resources without dependence upon external funds explains the group’s financial power and amounts to an unprecedented political challenge with regard to combating the financing of terrorism.

As a result of its military setbacks, ISIS has lost control of around 25% of its territory since January 2015⁴, with a logical reduction in its access to resources. Further, the coalition has struck its production and transport infrastructures, and the UN Security Council has adopted several resolutions aimed at weakening the group. However, in 2015 there was no significant reduction in either ISIS revenue or its ability to conduct transactions. ISIS administrative structure, in some cases bureaucratic, has proved sufficiently flexible and diversified to enable the group to adapt to cuts in some of its resources. In addition, ISIS has been able to compensate the loss of revenue from its natural resources by increasing its revenue from criminal activities.

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¹ Acronym derived from ad-Dawla al-Islāmiyya fi-l-irāq wa-š-šām, literally “Islamic State in Iraq and Sham [Syria]”.
² It was known at that time as Jama’at al-Tawhid wal-Jihad, from the name of a group formed by al-Zarqawi in 2000 in Herat, Afghanistan.
³ The region of Palmyra, which was under ISIS control between May 2015 and March 2016, contains one of the country’s main phosphate deposits.
⁴ The area under ISIS control totals 73,440 km² but has a far greater area of influence, according to C. Strack, “Islamic State loses 22 per cent of territory”, IHS Jane’s 360, March 15, 2016.
However, this level of revenue won’t be maintained in 2016: the increase in military setbacks suffered since the autumn of 2015 and the resulting territorial losses are depriving ISIS of some of its main sources of financing.

The theoretical value of assets under ISIS control (oil reserves, gas reserves, minerals, cash assets) was estimated at $2,260 billion by the end of 2015, i.e. up 11% compared to late 2014.

II. Financing strategy and organization

1. Financing strategy

ISIS financing strategy is based upon territorial control, which provides financial self-sufficiency and diversified resources. In this respect, its economic model differs fundamentally from that of al-Qaeda (with no territorial control and heavily dependent on donations from individuals or institutions).

Territorial control

ISIS financing strategy relies upon the conquest of territories in order to control and exploit the natural resources therein to fund both its war efforts and the administration of the populations under its control. In an internal document, ISIS described its strategy as follows: “The wealth of the State is the principal component and source of financing for all internal and external operations, and the existence of secure financial resources whose value does not
change in every time and place is a must\textsuperscript{5}. While ISIS lost 25% of its territorial holdings due to military setbacks between January 2015 and March 2016 (further confirmed by the loss of Palmyra), particularly in northern Syria and the east of Tikrit, the group continues to control territories of around 70,000km\textsuperscript{2}, distributed between desert zones and regions rich in natural resources such as Deir ez-Zor, Nineveh, etc.

**Financial self-sufficiency and diversified resources**

**Its territorial possessions explain the financial self-sufficiency of ISIS**, which has been on the rise since the mid-2000s. The US government has indeed considered that since 2005 AQI, the forerunner of ISIS, was already largely self-sufficient\textsuperscript{6}.

At that time, external donations made up less than 5% of the group’s operating budget, as illustrated by the organization’s internal financial records\textsuperscript{7}. **This independence, which was subsequently pursued by ISIS, has enabled the group to avoid measures taken to combat the financing of terrorism and to maintain its political, economic and religious autonomy.**

Income from the exploitation of commodities, minerals and arable land within these territories, as well as systematic extortion of the populations under its control have ensured financial self-sufficiency for ISIS.


As shown above, ISIS managed to create an economic model built upon various sources of income. Thus, decreases in oil revenue were largely offset by an extortion increase in 2015.

2. Organization

ISIS is structurally similar to its predecessors. The group has set up a financial committee consisting of a “finance minister” who oversees its financial affairs and exerts authority over local financial councils accountable to governments in the provinces under ISIS control. This finance minister is on equal footing with the other members of the “cabinet” of eight ministers, each of whom has his own specific field, under the direct authority of Abu Bakr al-Baghdadi, the group’s political and religious leader. The primary function of the finance minister is to ensure collection of tax revenue.
The administration of wealth within the territory under ISIS control is based on several principles illustrating an economic and political strategy based upon the maintenance of technical and executive staff within all productive and administrative sectors, alongside a hierarchy affiliated with the group.

ISIS has created a bureaucratic and administrative organization present at each level and run according to a predefined financial strategy.

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8 al-Masri, op. cit.
III. Resources

ISIS uses all of the natural resources at its disposal, in particular hydrocarbons, minerals and agricultural resources.

1. Natural resources
   a) Oil

When the group first emerged, oil was immediately identified as a key element for its development. ISIS currently controls numerous oilfields in Syria and Iraq. In 2015, the organization had 15 oilfields in Syria, chiefly in the region of Deir ez-Zor, Raqqa and Hasakah, and 10 oilfields in Iraq. These figures are now lower as a result of recent military setbacks, particularly with the loss of three oilfields in the governorate of Hasakah, one in the governorate of Raqqa and three in Iraq.

Production and revenue

Overall production for 2015 was estimated at around 40,000 bpd\(^9\) (by comparison, daily production in Syria between 2008 and 2010 totalled 400,000 barrels). According to consistent local reports, transactions are conducted at between $15 and $45 per barrel, depending mainly on the quality of the oil\(^10\). Syria's largest oilfields (al-Tanak and al-Omar) yield the highest prices, at between $40 and $45 per barrel, and these are barely affected by fluctuations on the world market due to a monopoly over the captive market within the combat areas to the north and east of Syria.

ISIS oil revenue for 2015 is estimated at $600 M, compared with estimates of over $1bn at the end of 2014.

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\(^9\) Barrels per day
\(^10\) Varies according to gravity, expressed in API (American Petroleum Institute) units
The fall in oil revenue is primarily due to coalition and Russian airstrikes and the resulting disorganization in terms of oil sales and transportation\textsuperscript{11}.

Indeed, the strikes initially focused on refining, storage and transport infrastructure and, more recently and systematically, on extraction infrastructure\textsuperscript{12}. In December 2015, production at the al-Omar and al-Tanak fields fell by about 30%, which represents a substantial loss for ISIS. If this decrease is maintained, it will inflict losses of around \$100M on ISIS in 2016.

To these effects must be added a double technological impediment that is likely to further compound these losses: on the one hand, the inability of ISIS to renew ageing plants and recruit qualified personnel, and on the other hand, the depletion of Syrian oil wells, making the extraction process more complex.

\textit{How and where is the oil sold?}

With the shortest distribution circuits being preferred, the local market constitutes the primary commercial outlet for oil. ISIS is able to maintain high prices in this market despite the slump in international oil prices, due to two factors. First, according to documents seized by the U.S. Army in May 2015\textsuperscript{13}, ISIS has followed the practice of local black market vendors, selling oil to the highest bidder. Second, the group enjoys a monopoly, principally in the rebel-controlled areas in northern Syria, those in the East dominated by Syrian Kurdish militia, and

\textsuperscript{11} E.g. the destruction of 116 trucks by a coalition strike in November 2015.

\textsuperscript{12} As of April 1, 2016, Tidal Wave II, specifically targeted refining, storage and transportation equipment, and oil extraction infrastructure, 247 targets have been destroyed, according to Colonel S. Warren, “Department of Defense Press Briefing by Colonel Warren via Teleconference from Baghdad, Iraq”, \textit{U.S. Department of Defense}, 1 April 2016.

\textsuperscript{13} B. Faucon and M. Coker, “The Rise and Deadly Fall of Islamic State’s Oil Tycoon”, \textit{Wall Street Journal}, April 2016
within its own territory. Moreover, ISIS has also continued to do business with the Syrian regime\textsuperscript{14}, notably through the intermediary of businessmen close to the regime\textsuperscript{15}. Thus, there is an interdependence: some actors on captive markets in the war zones are compelled to purchase oil from ISIS, when itself is forced to sell to its own enemies.

Since ISIS abandoned its major refineries as from the first airstrikes and as the bombing of tankers intensified, the organization sells most of its crude oil to independent traders at the oilfields in order to avoid the risks associated with transportation. These traders then have two options: either to sell the crude locally, where makeshift refining is performed, or to sell to intermediates, who then smuggle it outside the territories under ISIS control.

Part of the crude oil is also smuggled into bordering territories or countries with porous borders (Turkey, Jordan, Syrian regime), less by ISIS itself (which focuses on making profits immediately upon extraction) than by Syrian or Iraqi traders. The current smuggling networks predate the group. They are mainly composed of clans and tribes living on one side or the other of the border, who smuggle the oil using non-conventional methods. Most of the oil contraband ending up in Syria goes to the north-west, which is under opposition control. In Iraq, since the route to Kurdistan is blocked, the majority of oil currently transits through the al-Anbar region on its way to Jordan\textsuperscript{16}. This contraband has recently diminished, less as a result of stricter border control than because of the sharp decrease in international crude prices, which makes this form of transportation less profitable. Beyond its purely economic value, ISIS also uses oil as a mean of political pressure on the rebels, as it demonstrated by imposing a blockade on oil deliveries in the Aleppo region in the spring of 2015\textsuperscript{17}.

b) Natural gas

In 2015, ISIS exerted control over several natural gas fields. The capture of Palmyra in late May of that year led to an increased number of ISIS-run gas fields. The fields in this region account for almost half of Syria’s entire natural gas production\textsuperscript{18}, allowing the organization to make up for its loss of the Ajil and Himreen fields in Iraq following the retaking of Tikrit by the Iraqi army in late March. The group continues to control the Akkas field, which contains Iraq’s largest natural gas reserves, in the north of the al-Anbar province. In all, ISIS controlled at least a dozen natural gas fields in 2015.

According to an estimate by the US Energy Information Administration (EIA) in June 2015, Syria’s gas production was at least 40% lower than during the pre-conflict period\textsuperscript{19}. Following the intensification of bombings at the end of the year, this reduction was estimated at over

\begin{itemize}
\item\textsuperscript{14} Ibid.
\item\textsuperscript{15} Businessman George Haswani was cited by the US administration and the European Union as having acted as an intermediary between IS and the Syrian regime.
\item\textsuperscript{16} E. Solomon, R. Kwong and S. Bernard, “Inside Isis Inc.: the journey of a barrel of oil”, \textit{Financial Times}, October 14 2015.
\item\textsuperscript{17} E. Solomon, “Isis imposes fuel blockade on rebel-held northern Syria”, \textit{Financial Times}, June 18 2015.
\item\textsuperscript{19} U.S. Energy Information Administration, “Syria Country Analysis Brief”, June 24 2015.
\end{itemize}
50%. To this must be added the loss of the Himreen and Ajil fields. Thus, ISIS revenue from natural gas was reduced by 30% in 2015, from our estimate of $489M in 2014 to $350 M. Since the handling of gas is more complex than oil, ISIS does not generally possess the requisite expertise and means\textsuperscript{20}. Indeed, the organization brokered agreements with the Syrian regime and with public companies within the sector. The latter provides qualified staff and equipment, while ISIS agrees to share its gas production. The gas may also be used to produce electricity, which is then divided between the regime and ISIS. For example, the gas facilities at Twinan, south-west of Raqqa, are managed in tandem\textsuperscript{21}.

Despite the takeover of Palmyra and of some of Syria’s largest gas fields, income from natural gas fell in 2015. Although directed less against gas installations than oil facilities, the U.S.-led coalition airstrikes and the Russian \textit{airstrikes cut ISIS production capacity}. In particular, the strikes targeted the transformation infrastructures at the gas facilities. Thus, one bombing raid seriously damaged the Conoco facility\textsuperscript{22} in the Deir ez-Zor province. The impact of the airstrikes was compounded by the \textit{difficulties encountered by ISIS in maintaining the infrastructure under its control, and also by the falling numbers of qualified personnel}\textsuperscript{23}.

It will be difficult for ISIS to maintain the 2015 gas revenue in 2016, particularly if the gas fields in the Palmyra region is taken back by the Syrian regime. \textit{This loss could reduce ISIS annual earnings by almost $60 M.}

c) Phosphate

ISIS control of vast areas rich in natural resources also includes potentially lucrative sectors such as phosphate mines.

ISIS seized the Akashat mine located near Rutba in the al-Anbar province, like most mines. According to its owner, the National Phosphate Production Company, annual production for 2014 was 1 Mt (for a capacity of 3.4 Mt/year and reserves in excess of 10,000 Mt). At the end of 2014, potential revenue was estimated at over $50M\textsuperscript{24}. Further, the nearby al-Qa’im plant, which belongs to the same public company, is under ISIS control. This facility also produces sulphuric acid (1.5 Mt in 2014) and phosphoric acid (400,000 t in 2014). To this may be added the seizure of Palmyra and the Khnaifess mines, 70 km south of the town, which are among the country’s most important mines.

However, the group is facing \textit{operational difficulties concerning the ore}, in Palmyra and the al-Anbar region. Phosphate transformation, unlike oil, which ISIS is readily able to refine,\textsuperscript{25}

\textsuperscript{20} Sophisticated equipment for purification and specific pipelines are required.
\textsuperscript{23} The number of workers in Twinan fell from 1,500 to a mere 300 in 2015, according to E. Solomon and A. Mhidi, \textit{op. cit.}
\textsuperscript{24} These data have been corroborated by the Compagnie Générale des Phosphates et des Mines, whose estimate for the first semester of 2014 was $30M.
requires advanced technologies over which the group has no control\(^\text{25}\). Without transformation, the raw phosphate from the Khnaifess mines is unusable. In addition, unprocessed phosphate must be carried by truck due to the distance to the country’s ports as well as the landlocked nature of ISIS-controlled zones. Given the low international prices and current transportation difficulties, the profitability of phosphate is thus dwindling.

In 2015, production fell by around 20% compared with 2014 and revenues are estimated at about $250 M. These figures are set to decline further in 2016 following military setbacks in the Palmyra and Rutba regions.

d) Cement

In late 2014, ISIS controlled five important cement plants: the al-Jalabiya plant, owned by the French company Lafarge, located in Ayn al-Arab in the province of Aleppo (total production capacity: over 3Mt/year\(^\text{26}\)), the al-Raqqa Gurus Cement Plant (1.5 Mt/year), and the Fallujah, Kubaisa and al-Qa’im plants in Iraq, with total production of almost 3 Mt/year. In 2014, the estimated annual income was just under $300 M. This was slashed practically three-fold in 2015 to an estimated $100M on account of the loss of the Ayn al-Arab plant and reduced output at the other plants. This decrease would be further accelerated by the loss in March 2016 of the Kubaisa plant (resulting in an annual loss of some $15M)\(^\text{27}\).

e) Agriculture

Iraq and Syria are fertile lands well-suited for cereal production. According to the Food and Agriculture Organization of the United Nations (FAO), the Iraqi provinces under ISIS control, in particular Nineveh and Saladin, are the country’s most fertile provinces. ISIS seized many lands in the most fertile regions, raising the issue of food security\(^\text{28}\) (see inset). In all, areas under the group’s control, including those in the provinces of Nineveh, Saladin and al-Anbar, contribute for 40% of the annual wheat production and 53.3% of the barley production\(^\text{29}\). Agricultural revenue consists of part of the income from production on the land seized by ISIS as well as income from the numerous agricultural taxes levied at various points of the

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\(^{25}\) Philippe Chalmin, lecturer at the Université Paris-Dauphine and specialist in natural resources, cited by OLJ/Agences, “Les mines de phosphates, une prise “symbolique” pour IS” [‘The phosphate mines: a symbolic capture for IS’], L’Orient Le Jour, 26 May 2015.


\(^{27}\) Among the production facilities under IS control, worth mentioning are several sulphur extraction plants run by the Mishraq Sulphur State Company 25 km south of Mosul, as well as Syria’s main salt mine in the Deir ez-Zor province.


\(^{29}\) Food and Agriculture Organization of the UN (FAO), “Global Information and early warning system on food and agriculture (GIEWS)”, Special Alert no 332, 25 June 2014.


value chain (on the fields themselves, whether irrigated or not, on production, on wheat processing machinery and cotton ginners, and on agricultural transportation vehicles). In 2014, this income was estimated at $200 M. However, the military setbacks suffered by ISIS resulted in loss of some of the fertile lands around Saladin. Besides, eyewitness accounts highlight the shortage of fertilisers and fuel, the poor quality of seed that has resulted in decreased yields\(^\text{30}\), and transportation problems following airstrikes. Finally, the governments in Baghdad and Damascus no longer provide a guaranteed income by purchasing the production as they did in the past. In order to sell their products, farmers must now turn to intermediaries, often with no option but to sell at low prices\(^\text{31}\).

ISIS income from the sale of cereal crops in 2015 was around $140 M, of which $20M comprised harvest taxes alone\(^\text{32}\).

In addition to wheat and barley, ISIS controls 75 to 80% of Syria’s cotton production\(^\text{33}\) due to its control over the al-Raqqa and Deir ez-Zor regions, and part of the Hasakah region. Around 12,000 tons were sold in 2015 via intermediaries, primarily to Turkish buyers, with Turkish spinners and clothes manufacturers being based near the Syrian border\(^\text{34}\). The low prices charged by ISIS for cotton, at around 70% of market value, makes it attractive. Cotton sales brought in some $15M for ISIS in 2015, equivalent to 1% of its total revenue.

2. Revenue of criminal origin

In 2006, ISIS predecessors already generated between 70 and 200 million dollars per year through criminal activities. According to a U.S. government assessment in November 2006\(^\text{35}\), smuggling of petrol, hostage-taking for ransoms (targeting businessmen, local politicians and religious dignitaries, as well as foreigners), and political corruption were the most serious and lucrative activities.

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\(^{30}\) UN Security Council, “Report by the Secretary-General on the threat posed by ISIL (Da’esh) to international peace and security and the range of United Nations efforts in support of Member States in countering the threat”, 29 January 2016.


\(^{33}\) Syrian cotton production totalled around 100,000 tonnes in 2015.


\(^{35}\) J. F. Burns and K. Semple, op. cit.
a) Extortion

Extortion became the primary source of ISIS financing in 2015. This activity, comprising taxes, fees, fines and confiscations, earned the group around $800M last year, compared with $360M in 2014. Extortion accounted for 33% of the group’s revenue in 2015, compared with only 12% the previous year.

**Share of extortion in ISIS revenue (M$)**

![Chart showing share of extortion in ISIS revenue](chart.png)

- **Taxes**

  Taxes are omnipresent. Apart from zakat (religious tax), the following contributions affect all economic activities and the whole population (8 million persons) living within the organization’s territories:

  - **A tax on the salaries of Iraqi and Syrian state employees** living in territories under ISIS control and still paid by their respective governments throughout most of 2015. These salaries accounted for over $1bn, which was levied by ISIS at rates ranging from 10% to 50%. This tax thus raised over $300M in 2015.

  - **Customs duties on trucks entering ISIS territory.** This tax, estimated at between $400 and $600 per truck, enabled ISIS to generate more than 250 M$.

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36 E. Solomon and S. Jones, *op. cit.*
37 F. Dahmoush al-Mashhour and Syrians for Democracy, *op. cit.*
- **A tax on agriculture**[^38], with products such as wheat, barley and cotton being taxed several times over[^39] (see above, “Agriculture”). Agricultural tax may also be paid in kind, with ISIS subsequently selling any produce thus obtained.

- **A tax on economic activities and revenue** of up to 2.5%. However, this tax is frequently set at 10%, a level which ISIS claims is warranted by the state of war[^40].

- **A protection tax** (*jizya*) levied on religious minorities.

**Fees**

ISIS charges locals with various fees. Water and electricity[^41] are taxed at $1.25 and $2.5 respectively per household per month[^42]. The telephone fee is also $1.25 per household per month. **These fees brought in around $60M in 2015.**

**Fees vary greatly,** as do taxes. They range from rental of public buildings[^43] to fees on bank transactions, and include registration costs for cars[^44], school and university enrolment fees, etc.

**Confiscations**

**ISIS carries out confiscations.** The houses of dignitaries or people fleeing its territory are thus requisitioned[^45]. Further, conquered areas are systematically looted. Confiscated goods are then sold on the local market, with preferential prices being granted to members of the group.

[^38]: E. Solomon and S. Jones, *op. cit.*
[^39]: Farmers must pay a tax of 5 to 10 % to ISIS on their harvests. ISIS then charges taxes on wheat processing machinery and cotton ginners, and on trucks transporting agricultural goods, *Ibid.*
[^40]: F. Dahmoush al-Mashhour and Syrians for Democracy, *op. cit.*
[^41]: ISIS controls several power stations and is supplied electricity thanks, in particular, to agreements with the Syrian regime (see above, “Natural gas”).
[^42]: F. Dahmoush al-Mashhour and Syrians for Democracy, *op. cit.*
[^45]: UN Security Council, “Report of the Secretary-General ...”, *op. cit.*
Fines

ISIS takes advantage of very strict rules based on sharia law, imposed on the population to levy financial penalties on all transgressions. Fines generally range from 100 to 500 dollars per transgression\(^\text{46}\). These fines are applied for all cases of behaviour considered reprehensible (smoking, wearing of non-regulatory clothing, etc.\(^\text{47}\)).

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\(^{46}\) F. Dahmoush al-Mashhour and Syrians for Democracy, *op. cit.*

\(^{47}\) M. Rosenberg, N. Kulish and S. Lee Myers, *op. cit.*
A dedicated administrative structure oversees extortion activities. Departments such as the Diwan al-Khadamat (Services Dept.) in Raqqa are dedicated to this activity, and a large number of militants within the organization are actively engaged in tax collection. Further, the group gives legal status to extortion wherever possible in order to make it appear legitimate.

Recent developments cast doubt on the viability of extortion as a long-term source of revenue. While 40% of revenue in 2015 came from taxation on state employees, this sum is set to fall drastically in 2016. The Iraqi state has indeed recently suspended payment of these salaries, particularly in the province of Nineveh.

The reduction in tax basis will be further compounded by territorial loss, which logically reduces the size of the taxpaying population. Finally, even within ISIS territory, the flight of resident populations continues to increase: the group’s violent conduct, the aerial bombardments, the ever-increasing tax burden, the rising cost of living and the disastrous condition of public services are forcing rising numbers of residents, generally from the middle classes, to escape. Together, these three factors should result in significant loss of revenue from extortion in 2016.

b) Kidnap & Ransom

Since its creation, ISIS has resorted to kidnap and ransom to finance its operations, targeting businessmen, politicians, religious dignitaries, and foreigners. In 2014, ISIS generated $120M

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48 M. Rosenberg, N. Kulish and S. Lee Myers, op. cit.
49 M. Gidda, “ISIS is Facing a Cash Crunch in the Caliphate”, Newsweek, 23 September 2015.
through these activities. This figure fell in 2015, most noticeably due to the departure of the majority of foreigners, who are more readily “monetizable” than locals. However, the group continues to generate considerable revenue through less well-publicized kidnappings, taking place on a daily basis according to UNAMI\textsuperscript{50}. More specifically, ISIS kidnapped over 200 Assyrian Christians in Syria’s Hasakah province in early 2015 and recently exchanged them for a ransom of several million dollars\textsuperscript{51}. The group also kidnapped many Yezidis\textsuperscript{52}, releasing them for sums of up to 4,000 dollars\textsuperscript{53}. The sale of women and children, although highly publicized in the media, accounts for only a symbolic portion of the group’s revenue. The price of a female slave, generally kept for sex, ranges from 40 to 165 dollars\textsuperscript{54}. 

Kidnap and ransom provided the group with some $100M in 2015.

c) Antiquities trafficking

Antiquities trafficking constitutes a marginal source of financing for ISIS, despite widespread media coverage. In early 2015, the organization effectively controlled 2,500 archaeological sites in Iraq (i.e. a fifth of all Iraqi sites\textsuperscript{55}) and 4,500 in Syria\textsuperscript{56}, among the richest archaeological sites in the world; most notably, in May 2015, the group captured the ancient city of Palmyra, an archaeological treasure. Well aware of the merchant value of the different sites and objects there, ISIS set up a bureau specifically in charge of excavations, thereby “legalizing” the massive and systematic looting of archaeological sites in two different ways\textsuperscript{57}: either through the provision of licences enabling authorized traffickers\textsuperscript{58} to carry out excavations and sell on any objects discovered, subject to taxes of 20% - 50%\textsuperscript{59}; or the performance by ISIS itself of exploration operations and the sale of the various items discovered, resulting in greater profits. This second method was preferred due to the coalition airstrikes inflicting a loss of revenue on the group. The trafficking of antiquities thus further diversified the sources of ISIS financing.

\textsuperscript{50} United Nations Assistance Mission for Iraq.

\textsuperscript{51} Some sources evaluate this sum at between 25 and 30 million dollars; according to The Associated Press report, “ISIS collects millions in ransom for abducted Christians”, \textit{CBS News}, February 22 2016.

\textsuperscript{52} According to UNAMI-OHCHR, “Report on the Protection of Civilians in the Armed Conflict in Iraq: May 1 - October 31, 2015”, \textit{United Nations Iraq}, January 2016, more than 2,200 Yezidis fled or were released by ISIS, as at October 29, 2015.

\textsuperscript{53} ISIS received 850,000 dollars for the release of 200 Yezidis in January 2015, according to the UN Security Council, “Report of the Secretary-General…”, \textit{op. cit.}

\textsuperscript{54} S. Yoon, “Islamic State circulates Sex Slave Price List”, \textit{Bloomberg}, August 4, 2015.


\textsuperscript{57} C. E. Humud, R. Pirog and L. Rosen, \textit{op. cit.}

\textsuperscript{58} F. Dahmoush al-Mashhour and Syrians for Democracy, \textit{op. cit.}

It is important to note the discrepancy between the group’s iconoclastic discourse and on the ground reality. On the one hand, ISIS calls for the destruction of antique sites in order to remove all artefacts surviving from the past, with the demolition of statues and frescoes representing humans and animals the group considers as idols. At the same time, valuable items, though officially decried, are not destroyed but instead constitute a source of profit. A similar disparity exists between the official discourse and reality concerning the prohibition of products such as cigarettes and the illicit tobacco trade carried out by ISIS. Items have been seized in particular in the United Kingdom, Lebanon and Jordan.

Stolen antiquities are smuggled through neighbouring countries such as Turkey and Jordan before being exported on the international markets. However, the majority of valuable items have so far been placed in storage, mainly in free ports, until they are no longer under the gaze of the international community. They will probably be sold in a few years when it is more difficult to establish their provenance.

ISIS generated around $30M through the trafficking of antiquities in 2015, i.e. around 1% of its total revenue. This sum seems set to fall in 2016, after Palmyra was taken back by the Syrian regime.

3. Donations

The financial independence of ISIS follows on from that of the Iraqi insurgency. At that time, external donations accounted for less than 5% of the group’s operational budget, according to the group’s internal records.

ISIS has continually strived for political, economic and religious autonomy. However, it continues to receive donations from rich businessmen and religious figures and institutions (primarily NGOs) in the Gulf states.

Income from donations in 2015 totalled around $50M.

4. Summary chart of ISIS financing

The total revenue of Islamic State fell from $2,900M in 2014 to around $2,400M in 2015.

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60 ISIS issued several videos showing the mass destruction of statues, notably in a museum in Mosul in February 2015.
61 See above: “Financing strategy”.
62 Harmony Database, CTC Westpoint.
63 These donations may also come, to a lesser extent, from voluntary contributions by certain foreign fighters or from funds raised via the Internet, according to the UN Security Council, “Report of the Secretary-General…”, op. cit.
IV. Expenses

In its bid to present itself as an authentic state and thus legitimize the hundreds of millions of dollars in taxes levied upon the populations under its control, ISIS issues propaganda regarding the social services and free healthcare it provides. However, the organization’s budgetary priorities remain those of a combat group which devotes the lion’s share of its expenses to its military requirements.

ISIS “budget department” is centralized in Mosul; regional budgets are managed by governors at the level of provinces, and vary in accordance with local resources and combat forces.

The highest expenses are on the salary of fighters. This comprises a basic salary to which are added premiums and bonuses, depending in particular on the number of dependants (women, children, parents, sisters, slaves, children of slaves, etc.), nationality (on average, foreign fighters receive twice as much as their local counterparts) and geographical location (combatants in northern Syria are paid more than those in the south).64

64 A. al-Tamimi, “A Caliphate under Strain: the documentary evidence” CTC Sentinel, 22 April 2016
To this must be added spending on ammunitions and explosives components (one week of offensive operations costs around $1M in ammunitions alone) and other equipment. Military expenses account for several hundred million dollars.

ISIS security personnel, which includes the religious police (hisbah), secret police (amniyat), and tax and fine collectors, also entails heavy expenses, estimated at several tens of millions of dollars in 2015, with rising concerns for internal security. Moreover, the amniyat is also active in neighbouring countries (Turkey, Jordan).

In addition to the war effort, ISIS pays special attention to communications and propaganda. This propaganda, apart from written materials (e.g. Dabiq, Dar al-Islam, etc.), usually takes the form of professionally-produced videos. According to a report published in January 2016, these video shoots are cost consuming: cranes for tracking shots, high-definition cameras, special effects software, ... There are numerous broadcasting channels: local radios, internet and social networks. In a single year, ISIS released almost 15,000 propaganda materials, including 800 videos and some 20 magazines translated into 11 languages, including Mandarin. These multiple high-performance channels entail considerable human and material expenses.

By contrast, public services (hospitals, schools) receive little funding. Expenses for the educational system, which is currently being reorganized to make it more consistent with sharia law, is minimal. There is ample evidence of the deterioration of healthcare conditions. Total expenses on the 9 hospitals in the province of Deir ez-Zor were only $135,000 a month in 2015.

In the pre-conflict period, the official operational budgets of the Iraqi provinces under ISIS control totalled $2.6bn, which far exceeds the group’s financial capacities. In order to limit expenses, the organization has imposed rationing, restrictions and reductions in benefits in kind for its members. Thus, aids to the populations and the salaries of administrative staff have been drastically cut, and fuel for both hospitals and military operations is rationed. Further, over the last few months, fighters’ salaries have been halved. This budgetary rigor highlights the group’s financial difficulties. Until now, ISIS has chosen to limit its losses notably by sacrificing public services and by imposing rationing among its dependent populations wherever possible. If they endure, these budgetary choices could prove harmful to ISIS economic model.

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66 S. Jones and E. Solomon, op. cit.
V. **ISIS financial and commercial system**

ISIS hegemonic ambitions are also reflected in its control of the banking and financial sector.

**The banking system**

In the aftermath of ISIS capture of Mosul, Iraq’s second city, in June 2014, the group took control of several branches of public and private banks, including the Central Bank of Iraq. The Governor of the province of Nineveh reported in June 2014 that **ISIS had laid hold to $425M in cash**. According to the financial balances of banks operating in that area, **as of 31 December 2013 their total cash holdings in their safes, current accounts and deposit accounts exceeded one billion dollars**. In many Syrian regions, the banking system is also under ISIS control: the group has taken over several Syrian cities such as Raqqa and Deir ez-Zor, in which various banks operate. In Raqqa, the Popular Credit Bank was used by the group for the purpose of tax administration. **In all, ISIS controlled around 115 bank branches (80 in Iraq and 35 in Syria) in 2015, compared with 125 in 2014**.

However, these banks now act **solely as deposit banks**: the measures taken by regulators and central banks preclude them from accessing the international financial system.

**The hawala system**

**ISIS is able to circumvent these measures and continue its external trade by using the hawala system.** The network of currency exchange offices and agents, the **hawaladars**, distributed throughout the region, allows the group to send or receive non-monetized transfers almost instantly.

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70 ISIS now controls a dozen fewer banks following the recapture of Tikrit by the Iraqi army in late March 2015.

71 According to M. Coker, “How Islamic State’s Secret Banking Network Prospers”, *The Wall Street Journal*, February 24, 2016, a currency exchange bureau operating in the province of Al-Anbar was handling 500,000 dollars weekly in the summer of 2014, with as much as 100,000 dollars being exchanged in a single transaction.
This network predates ISIS: the hawaladars, who operate throughout the entire territory held by the group, are authorized to continue their activity under the supervision of the organization\textsuperscript{72}. The amounts involved are significant and motivate hawaladars to work along with ISIS. Transfers via the hawala system allow the group to trade with agents in Turkey (Istanbul, Gaziantep, etc.), Jordan (Amman), and thus to import goods unavailable in their own territory.

Neutralizing the hawala system still proves to be difficult. First, it has long been entrenched within the Iraqi society and is used by 50\% of the country’s businesses\textsuperscript{73}. Second, this discreet, rapid and reliable system, based on trust, bypasses the regulation mechanisms. A blacklist of official currency exchange agencies accused of collaboration with ISIS will thus only have limited effect. While these agencies, numbering 142 out of a total of 1,900 in Iraq\textsuperscript{74}, are prohibited from purchasing dollars from the central bank\textsuperscript{75}, a measure intended to reduce the

\begin{itemize}
  \item A bureau is specifically concerned with overseeing hawaladars, attesting to the strategic importance of this system to ISIS. In particular, they are required to provide a daily list of the beneficiaries of transfers of funds received from outside the territories under ISIS control.
  \item M. Coker, \textit{op. cit.}
  \item Central Bank of Iraq (December 2015), \textit{Ibid.}
  \item The effects of this measure were limited in 2015 since it came into effect in mid-December, \textit{Ibid.}
\end{itemize}
group’s access to currency and to limit its capacity to conduct transactions, Iraqi authorities are unable to regulate the numerous clandestine exchange agencies.

VI. International action

1. Coalition operations

Airstrikes, around 10,000 as of late 2015, which have intensified in recent months, have had an impact on ISIS revenue drawn from natural resources. Besides disrupting transport and inflicting damages on refineries and oil pipelines, bombings also targeted the actual extraction infrastructure. Targeted strikes have also been carried out against high ranking ISIS members, close to al-Baghdadi, and have hit ISIS governance at its command level.

However, ISIS has demonstrated its ability to adapt to such strikes. While the demise of senior members of ISIS has hampered travel and communications, complicating logistical cooperation, it continues to be of only limited efficiency. The governance of ISIS is indeed based upon a solid bureaucracy and administration that ensure a certain degree of stability.

Regarding natural resources, and oil in particular, ISIS has managed to adapt to the rising pressure from the international coalition. The initial strikes targeted the refineries, which were immediately abandoned by ISIS. Oil refining was subsequently carried out by local residents by agreement with the group. When bombardments turned towards oilfields, ISIS also adapted, particularly with regard to its commercial methods. Tankers near the oilfields were easy targets (with queues stretching several kilometres over periods of weeks), so ISIS now provides each driver with a registration number and an allotted loading day and time, thereby ensuring greater efficiency and improved security of access to the oilfields. Further, the group is seeking to compensate for decreased margins through the making of immediate profits: thus for instance at the al-Omar field, queue-jumping “permits” can be obtained by drivers against advance payment for 1,000 barrels. However, such permits are only of interest in the case of sufficiently large fleets, and are only granted to companies having close ties to ISIS.

Finally, faced with recent bombardments of oil installations designed to slow down extraction, ISIS continues to maintain high production levels: according to Syrian tanker drivers and the owners of rudimentary refineries, the major oilfields continue to operate despite breaks during bombings.

Despite these efforts, oil revenue fell between 2014 and 2015. To make up for these losses, ISIS uses its population as an adjustment variable. The group did not hesitate to cut public service expenses, fighters’ wages (see above, “Expenses”), charity, .... In the meantime,......
extortion has become more intensive and more widespread: taxes have both been increased and diversified.

2. The UN actions

A number of UN Security Council resolutions have been adopted against ISIS, for the most part concerning financial sanctions.

Resolution 2253, of December 17, 2015 “extends to Islamic State the sanctions regime” applied to al-Qaeda, calls upon states to “criminalize financial transactions related to terrorism”, and “provides guidance” designed to destroy the mechanisms of ISIS financing, with most of the group’s sources of revenue being cited (“oil smuggling, extortion and taxation, robbery, kidnapping for ransom, foreign donations, trade in antiquities, and human trafficking”). This resolution also “calls upon” states to “improve [...] information sharing, [...] to enhance engagement with the private sector”, and underlines the need for the States to “better implement the international standards and guidelines developed by FATF”.

In its resolution 2170 of 2014, the UN Security Council condemns all commercial transactions undertaken with terrorist groups, including ISIS, especially in the oil sector.

In February 2015, resolution 2199 aimed at concerted action by the member states to cut off the sources of ISIS financing. It roundly condemns “any engagement in direct or indirect trade, in particular of oil and oil products, and modular refineries and related material, with ISIL, ANF...”. It also condemns kidnapping and hostage taking, the destruction of the Iraqi and Syrian cultural heritage, and insists that all member states “shall take appropriate steps to prevent the trade in Iraqi and Syrian cultural property”. This resolution also deals with the freezing of assets, notably by “encouraging member states to ensure that its financial institutions are vigilant with regard to banking operations involving banks located within territories under ISIS control [...]”.

These resolutions, consisting of non-coercive declarations, are of limited effect. Indeed, financial sanctions are essentially aimed at financial transactions with foreign countries and at freezing international assets. Such measures are effective when applied to a financial model that is dependent on donors and beneficiaries, but they are unable to destabilize ISIS economic model, which largely differs from that of al-Qaeda. The group’s financial self-sufficiency ensures that it is free from such pressure, and the hawala system offers a way out by enabling large non-monetized transactions. Further, these sanctions, falling as they do within the scope of extended recommendations, consist simply of “calls”, “exhortations” and “condemnations”, and are not accompanied by any coercive measures. Finally, regarding specific designations, only five individuals have been designated by the UN since 2014 as financial facilitators for ISIS (two Kuwaitis, a Qatari, a Jordanian and a Yemeni). Only airstrikes

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78 Taxes on water and electricity were respectively only 1 dollar and 1.5 dollar before the start of the airstrikes, according to F. Dahmoush al-Mashhour and Syrians for Democracy, op. cit.

aimed at destroying cash storage facilities could therefore reduce the organization’s cash reserves, even though their true impact is difficult to ascertain\textsuperscript{80}.

**Regarding the trafficking of antiquities, which is difficult to stop, the UN resolutions are equally ineffective.** The example of the International Criminal Court (ICC) which took action for war crimes against the Ansar Dine group following the destruction of mausoleums in Timbuktu in Mali in 2012 could give rise to procedures concerning the destruction and looting of antiquities by ISIS.

**Territorial attrition depriving ISIS of its resources thus constitutes the most effective way of combating the group’s funding.** However, an embargo could be envisaged for as long as ISIS offers military resistance. The embargo imposed in 1993 by the UN against UNITA (National Union for the Total Independence of Angola), a non-state actor, created a precedent. UNITA controlled part of the Angolan territory and had access to oilfields. Such an embargo enforced by the UN would not only allow to sanction violating states, entities or individuals, but its effectiveness could be guaranteed by the international coalition.

**VII. Ambitions in Libya**

**ISIS has expressed its ambitions for Libya** since the announcement of the “caliphate”. Its leaders seek to extend their sphere of influence to this country, being well aware of the rich natural resources there, particularly oil, as well as the country’s strategic position at the crossroads of the Middle East, Africa and Europe. Abu al-Mughirah al-Qahtani, former Emir of the Libyan province, declared that: “Libya is of great importance because it is in Africa and south of Europe. It also possesses vast and inexhaustible resources\textsuperscript{81}”. The implementation and development of terrorist groups such as ISIS are facilitated by the fragile social situation and the precarious security conditions in Libya\textsuperscript{82}.

Jihadist movements appeared in Libya in the 1990s with the creation of the Mujahedeen Brigade\textsuperscript{83} by fighters returning from Afghanistan and who maintained close links with al-Qaeda. Other groups emerged at the same time: al-Qaeda in the Islamic Maghreb (AQIM), which exploits the country’s political instability and uses Libya as a fall-back zone, and then in 2011, sections of Ansar al-Sharia, formed by radicals from several towns (Derna and Benghazi among others).

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\textsuperscript{80} The United States destroyed an IS cash storage facility in Mosul, on 11 January 2016, which “served to deprive ISIS of millions of dollars”, according to Defense Secretary, A. Carter, “Department of Defense Press Briefing by Secretary Carter at U.S. Central Command Headquarters, MacDill Air Force Base, Florida”, U. S. Department of Defense, January 14, 2016.

\textsuperscript{81} Islamic State, “From the battle of al-Ahzab to the war of coalitions”, Dabiq No. 11, September 2015.

\textsuperscript{82} Power is currently disputed between two authorities: one supported by the international community and exiled in the east and the other representative of the coalition of militias controlling Tripoli and the west.

\textsuperscript{83} Saraya al-Mudjahidin, renamed the Libyan Islamic Fighting Group in 1994.
In the spring of 2014, 800 Libyans who had gone to fight in Syria returned to their country and have formed the early nucleus of ISIS in Libya\(^84\). The group was further strengthened by foreign recruits, mainly from Maghreb, as well as fighters from the West. This influx has been encouraged by regular appeals from the leaders of ISIS, some of whom have moved to Libya\(^85\), like probably Boubaker al-Hakim, one of the most influential French fighters in the organization. **Libya is the only ISIS province given such guidance and transfer of skills, both technical and media-related.** Moreover, the organization has benefited from the rallying of factions and local groups that have sworn allegiance. Following its expulsion from Derna in June 2015, the group currently controls the town of Sirte, as well as around 250 km of coastline flanking the town. **Several banks have been looted in Sirte** (for an estimated amount of 4 M$\(^86\)), **extortion has begun** (sometimes even with retroactive taxes\(^87\)), and the town’s commercial establishments have been registered with a view to generalized taxation.

The group’s expansion has nevertheless been curbed at several different levels. The fighting forces on the ground, estimated at between 3,000 and 5,000 individuals, are limited at the moment. Further, ISIS has **not been able to attract the support of local populations**, which view it as a foreign organization. Libyan society, which largely **shares the same faith**, does not provide the same opportunity as in Iraq and Syria to capitalize on tensions between different communities. Finally, the **international community is organizing a coordinated military response**. For now, it has carried out a number of ad hoc airstrikes\(^88\) primarily targeting the group’s command centres and its military installations, in a bid to break up its organization and slow down its progression. Thus, ISIS emir in Libya was killed in Derna in November 2015,

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\(^84\) The al-Battar Brigade was formed in 2012 by Libyan fighters in Syria.

\(^85\) Before the Iraqi Abu Nabil al-Anbari, alias Abu al-Mughirah al-Qahtani, arrived in Libya to take up command of the group, he had been governor of the province of Saladin, according to A. al-Tamimi, “Eulogy to Abu Nabil al-Anbari: Islamic State leader in Libya”, Aymenn Jawad al-Tamimi’s Blog, 7 January 2016.

\(^86\) US Department of the Treasury, may 2016

\(^87\) Some testimonies report that several thousand dollars are sometimes demanded retroactively – Human Right Watch « We Feel We Are Cursed – Life under ISIS in Sirte, Libya », may 2016

while a training camp in Sabratha was destroyed in February 2016, causing the death of several dozen jihadists. In this context, Italy recently provided the United States with authorization to use an air base in Sicily to carry out drone attacks against the group. Further, American and European Special Forces are currently operating in the country.

Even if ISIS in Libya continues to attract fighters from other groups motivated by money, it has been unable to duplicate the economic model deployed in Syria and Iraq. Its current sources of financing are still weak and derive mainly from extortion and currency transfers from Iraq and Syria reaching Libya either through smugglers or via the hawala system.

Although the Sirte Basin in which it is implanted accounts for almost 80% of Libya’s oil reserves, ISIS controls none of the oil or gas fields and no refineries for now, which are defended by seasoned militias. The frequent attacks on the fields have for now only disturbed production and added to the country’s destabilisation. However, even if ISIS were to achieve control of the oil installations, because of its limited human, financial and technical means, it is unlikely that the group would be able to exploit these resources or to sell them, either in local circuits or for export. There is indeed no local black market in Libya comparable to the situation in Syria. Any transportation outside the country would have to be carried out by road tankers since ISIS does not control any pipeline or oil terminal.

Revenue from other sources, principally from any of the numerous forms of trafficking that already exist in Libya (humans, arms, antiquities, etc.) is also still very low. Extortion, a key source of finance in Syria and Iraq, is only in the incipient stages, although the risk of a similar spread exists (84% of Libyan workers are employed in the public sector). Hostage-taking is far less prevalent than in Iraq or Syria. The main risk remains that of additional revenue in case ISIS extends its territory (influx of fighters or alliances with local groups). This would enable ISIS for example to control migratory routes and zones of illicit trade with

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89 The main target of this strike was Noureddine Chouchane, a Tunisian executive of the IS hierarchy suspected of being one of those behind the attack on the Bardo Museum in Tunis in March 2015.
93 ISIS launched a campaign against the oil installations in early January, in particular attacking the oil terminal in Ras Lanuf, after H. Gambhir, “ISIS’s Campaign in Libya: January 4 – February 19, 2016”, Institute for the Study of War, February 19, 2016.
94 ISIS looks to recruit technicians and engineers, attesting to its lack of qualified workers, after A. Masi, “Biggest ISIS Threat to Europe Now Comes From Libya, Not Syria and Iraq”, International Business Times, February 21, 2016.
95 Libya is in fact one of the main routes into Europe for illicit trade and trafficking of all kinds.
96 UNESCO has expressed concern for the sites of Ghadames, Cyrene, Leptis Magna and Sabratha.
97 UN Security Council, “Report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to paragraph 13 of resolution 2214 (2015) concerning the terrorism threat in Libya ...”, op. cit. A tax grab similar to that carried out by the group in Syria and Iraq is thus a distinct possibility.
Europe, as well as providing them with access to the country’s rich ancient heritage sites, and allowing systematic taxation of the population and traffickers.

VIII. Conclusion: an unsustainable model in the medium-long term

Since its inception, ISIS has sought to cast itself as a real and well-functioning state. This is amply illustrated by its overabundant media productions, most of which concern the civilian conditions of the populations under its control\(^98\), through which it seeks to prove its own legitimacy and viability.

The group’s statehood credentials are nevertheless under significant strain at different levels.

With respect to its military capacity, ISIS various defeats in 2015 and early 2016 have inflicted heavy losses\(^99\) within its ranks and greatly reduced its territorial holdings. The military progression of ISIS was effectively stemmed by mid-2015, the capture of Ramadi and Palmyra being its last major victories. The group’s situation has continued to worsen since then\(^100\), despite a number of short-lived breakthroughs\(^101\) achieved for the most part through alliances with local militia. These setbacks, due to intensified coalition and rebel actions, are correlated with the recent shortage of fighters. The latter may be explained through the cumulative effect of several phenomena: desertions, pay cuts, a dwindling influx of foreign fighters, which has been slowed as much by the loss of control of the Tell Abyad region on the Turkish-Syrian border as by increasingly tight Turkish border surveillance, and the redeployment of fighters to Libya.

In human terms, in addition to desertions, Islamic State has been hit hard by a ‘brain drain’ and the exile of populations with a wide range of social professional skills (specialized gas and oil field technicians, specialized production plant workers, farmers, medical staff, forced to sell their equipment before fleeing in order to avoid irreversible confiscation\(^102\)). All of this has led to a shortage of skilled workers and a reduction in supply of services in key areas such as the oil, gas and medical sectors.

The reduction of territory and the drain of populations, together with their corollary, the reduction of resources (of both natural and criminal origins) constitute an important challenge to the group, both externally and internally. Coupled with the increasing military pressure, a real threat of implosion has emerged.

However, the imminent collapse of ISIS is far from certain. At the beginning of the U.S.-led coalition campaign, some observers predicted a short lifespan for the group and anticipated

\(^{98}\) C. Winter, “Documenting the Virtual Caliphate”, Quilliam Fundation, October 2015

\(^{99}\) Particularly during the aborted taking of Kobane.

\(^{100}\) Tell Abyad on the Turkish border, Baiji in the north of Tikrit, Ramadi, Kubaisa (Anbar), Sinjar (which was a key point on the Raqqa-Mosul road), al-Shaddadi in the province of Hasakah, Palmyra.

\(^{101}\) E.g. the cutting off of the road used by the Syrian regime to supply Aleppo.

\(^{102}\) A. al-Tamimi, “A Caliphate…”, op. cit.
a budget deficit that would soon render the group unsustainable. This turned out to be wrong. Indeed, the negligence towards the locals, particularly in rural areas, showed by their governments before the conflict led them to accept ISIS domination, which until recently provided them with inexpensive services and food, such as bread and electricity\textsuperscript{103}. Accustomed to a poor quality of life after years of civil strife, these populations are willing to accept further deterioration of their quality of life rather than to risk rebellions that would spell violent repression, as was the case of Deir ez-Zor province in 2014 (or Sirte in 2015).

Additionally, ISIS’s military defeat is not imminent, since dissent and rivalry among its adversaries outweigh its military weakness\textsuperscript{104}. The organization continues to control urban strongholds such as Raqqa and Mosul from which it will be difficult to remove its fighters\textsuperscript{105}.

Hence, the perception of the group’s strength as a transnational terrorist group highlighted by its attacks in Brussels, Paris, and Egypt contrasts with the reality faced by the group in Syria and Iraq: it now leans more towards a profile of mercenary entity focused on armed conflict than that of a well-established state. However, as things stand, ISIS economic collapse remains some way off in the mid-term.

\textsuperscript{103} E. Solomon and S. Jones, \textit{op. cit.}
\textsuperscript{104} Although one of the coalition’s aims is to drive ISIS out of the border zone with Turkey in the north of Aleppo, strong dissent continues between the local Syrian rebel groups supported by Turkey and the Syrian Democratic Forces led by the Kurds.
\textsuperscript{105} A. al-Tamimi, “A Caliphate…”, \textit{op. cit.}
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