Daesh, taxation and oil revenue: What does this mean for the Middle East?

This paper will explain the two main ways in which Daesh generates income and how this is connected to state-building and security in the Middle East. According to the celebrated economist Douglass North the state provides three key functions, "exchange of services for revenues, design of property rights to maximise revenues and revenue extraction" (Lu and Thies 2013: 240). Whereas terrorist organisations and other illegitimate powers are forced to extract resources from societies through coercion, a functioning state has 'infrastructural power' meaning that there is cross-penetration of state and society (Hehir and Robinson 2007: 3). This allows the state to claim that is a working for the common good while it extracts extract resources in a "regularised, routinised fashion" (ibid: 4).

This revenue extraction occurs predominantly in the form of taxation, the 'lifeblood' of a state, and allows it to perform its role (Lu and Thies 2013: 240). It is reported that Daesh charges import taxes, rent for businesses, fines for breaking laws, utility bills, and income tax (Williams-Grut 2015). The citizens of Daesh must pay *Zakat* which is an obligatory form of almsgiving dating back to the times of the prophet Mohammed (Solomon and Jones 2015). Typically, it means that any Muslim capable of doing so must pay 2.5% of their capital and this is used to help fight the holy cause. Farmers pay between 5% and 10% depending on whether the crops are irrigated or rain-fed and parties that wish to trade with Daesh also pay Z*akat*, entitling them to travel in and out of Daesh territories as well as sell their products. Further to this non-muslims that live permanently in Daesh territory are required to pay *jizya* if they wish to continue to do so. These taxes are based upon the Quran and further show that Daesh seeks to legitimate itself by acting in accordance with Quranic practices. What this all means is that Daesh has been able to amass a considerable sum of money from tax, with one report suggesting this could be as much as $900 million a year (Williams-Grut 2015). Whilst Daesh may claim that this money is taxation in order to build a state, an FATF report stated it is "a sophisticated protection racket where involuntary "donations" purchase momentary safety or temporary continuity of business" (FATF 2015). This has been a feature of state extraction in the Middle East and many countries of Africa as regimes use war and threat of war to create a 'protection racket' (Lu and Thies 2013: 249). This suggests that coercion is more a feature of Daesh's taxation system than the infrastructural power which a strong state would have. On the other hand if people are willing to pay Daesh to live, work and trade in its territory, they must have an incentive for doing so, whether this be protection, wealth or otherwise.

Of course, taxation is not the only way that Daesh funds its caliphate, oil has also been key to its success. Middle Eastern state-building is 'tied' to oil wealth with oil-rich rentier states selling to external sources (Lu and Thies 2013: 241). What this means for state-building is that the state does not have to extract so much from society, allowing it to take a chosen path without the need for political bargaining with society (ibid: 249). It also allows a state to buy loyalty from important internal actors or non-rentier states who need oil to survive. Whilst it is unclear whether this is still the case, especially since the US-led aerial campaign, oil revenue was believed to be Daesh's main source of income up until mid 2015. Reports vary however it is thought that they bring in between $1-3 million a day or $50 million a month in oil trade (Williams-Grut 2015, Laub 2016). Daesh sells its oil at well below market price which is partly why it is believed that among Daesh's trade partners are the Assad regime, the Iraqi Kurds and the Turks, all of which are enemies of Daesh (Laub 2016). This oil wealth allows it to build its state capacity with less extraction from society, potentially reducing the likelihood of dissent and allowing it to use the money in ways that it sees fit. Whilst some argue that this wealth goes straight to the group's leaders (Solomon and Jones 2015), it may also be used to enhance state capacity or win support. This does not bode well for those seeking for an end to conflict in the the

Middle East. If Daesh is able to extract resources from source and use the profit from this to increase war-making capabilities and garner support from its 'citizens' the end may be far from sight.

Whilst taxation and oil revenue are far from the only means through which Daesh generates income, they are surely the most significant. Despite a vast number of people fleeing from the caliphate, Daesh continues to generate huge amounts of money from taxation. This suggests that many either fear leaving or feel that they are better off with Daesh. As one refugee stated, "You will not find anyone in this camp...who supports Isis…[b]ut most of them accept that at least they tried to protect us, Syrian Sunnis, who the world has abandoned" (Luhn, Chulov and Graham-Harrison 2016). Using money generated from taxation and oil, Daesh has been able to provide protection, rudimentary services and give subsidies to win over important actors in Syria and Iraq (Fromson and Simon 2015: 40). Whilst Western powers have been bombing oil fields and refineries, it is potentially the belief that Daesh is a viable option that is its richest source of wealth.

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