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A Development-Oriented Stabilisation Policy for Mosul

The Islamic State (IS) has not only surprised everyone with its cruelty but also by proving to be one of the world's richest terrorist organisations. Now that its economic gains are draining due to military setbacks and financial strains, IS-held territories are increasingly struggling through economic hurdles – the challenge ahead is to link military interventions against IS with concrete economic plans.

This policy brief focuses on key political economy aspects that a post-intervention strategy in Mosul needs to consider and address. The recommendations that it gives are based on the argument that a development-oriented stabilisation approach is fundamental to guide provincial, national and international policies towards the reintegration of Mosul into the social, political and economic fabric of the country. By so doing, it reiterates the arguments presented in a recent [MERI policy report](#) recommending a multi-faceted approach to the liberation of Mosul.

Understanding the challenges ahead

Taking Mosul back from IS is a strategic and symbolic priority for the governments in Baghdad and Erbil as well as for the international community. A military campaign alone, however, would not be sufficient to plant solid foundations for lasting peace, unless socio-economic issues are addressed as well. To this end, two key aspects require further clarification.

The economic costs of armed conflict

Human and physical destruction are the most brutal and visible, but hardly ever the only, effects of armed conflicts. Economic disruption is caused by capital flights, falling trade and investment, and labour losses. Indirectly, the collapse of political institutions, the breakdown of public services, and an insecure property rights system are among the factors inflicting additional costs to populations living in conflict-affected contexts.

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Accounts from IS-held territories, including Mosul over the past two years, present rather contradictory scenarios. At the peak of its expansion, IS and the territories it controls have been described as a [thriving business environment](#), with the organisation reaching every aspect of the economy, including the collection of *Zakat* (religious tax), fees for services, remittances, and revenues from trade and agriculture, in addition to illegal activities such as confiscations and revenues from smuggling (oil, antiquities, weapons, and people).

Things have changed since 2014 and there is now [very limited liquidity](#) circulating in Mosul. After almost two years, IS' conquest of Mosul has aggravated the socio-economic conditions of its inhabitants, already suffering from years of violence and instability. The local economy is in disarray, with all private sector activities on hold, prices of basic commodities on the rise, and rampant unemployment. Public salaries are no longer flowing from Baghdad to civil servants in the city as they used to, cutting another important source of income. The organisation, then, can no longer rely on revenues from oil after losing [control of all Iraqi oil fields](#).

These rather contradictory scenarios are indicative of the shortcomings of depicting conflict as resetting the economy to zero – what scholars and analysts often refer to as “development in reverse”. Indeed, it shows the lucrative opportunities that conflicts offer. Processes of accumulation through which the expansion of IS was made possible generated new patterns on the ground that need to be accounted for when designing policies for economic recovery.

The economic drivers of armed conflict

The political marginalisation of the Sunnis has been elaborated on in the report [The Future of Mosul](#). However, the primacy of socio-political drivers (grievances) of conflict has since the 1990s been contested by new analyses emphasising the significance of economic (greed) factors. Greed-induced behaviours vary greatly but they can be attributed to two complexly intertwined dynamics in the IS-held territories, including Mosul.

On the one hand, IS offers new income opportunities for an ever-growing young population with few other alternatives other than, when available, nepotistic relations. This is recounted in [the story of many young people](#) joining the organisation as fighters. While this was true for the initial period of IS military and economic expansion, it continued to be so when the economy crashed. On the other hand, the emergence and establishment of IS across swathes of Iraqi and Syrian territories is rooted in the convergence of political and criminal agendas. Even before the formation of a proto-state, IS and its predecessor organisations could rely on a [prolific criminal market](#) inside Iraq and at its crossroads. Beneficiaries of such activities are top-hierarchy organisation members but also a network of intermediaries whose linkages often end up in local and international criminal groups.

The disruptive rise of IS in the international scene has to do with the combination of the grievances produced by the marginalisation of society (or part thereof) in Iraq and a mixture of profit-maximising and/or income-generating behaviours. A successful plan for taking Mosul back from IS for good needs to include policies designed to tackle such a diversified set of issues.

A development-oriented stabilisation policy

The liberation of Mosul is destined to occur not only in the midst of the current economic crisis but also of a political crisis amongst what appears to be an [ever-fractured political class](#). Putting back on track the second largest Iraqi city's economy requires foremost substantial investments. But key additional requirements can be identified, including through stocktaking past failures.

Know your economy: While the current economic crisis could be an opportunity to effectively deliver on existing plans such as the [Private Sector Development Strategy 2014-2030](#), in the last 13 years few substantial steps have been taken to move the Iraqi economy away from a rentier model and this transformation is not going to happen overnight. The post-2003 reconstruction of Iraq has shown that some of the economic policies pursued were ideologically-oriented and ill-suited for the country. At the same time, the debate on economic policies cannot be treated exclusively as a technical issue. Any policies for the recovery of Mosul's economy need to be informed by an evidence-based assessment capable of capturing recent changes in the economy of Mosul in conjunction with a national perspective. In addition, economic policies need to target the disenfranchised youth population, providing them with tangible and immediate training or job opportunities. This should be coupled with the necessity to eradicate lucrative opportunities offered by criminal activities, with the provincial and federal governments retaking full control of their territory and seriously committing to implement anti-corruption measures.

A concerted action: The reconstruction of Iraq after the 2003 invasion and occupation of the country witnessed a vast spectrum of agencies operating in the economy (the CPA, USAID, United States Army, State Department, World Bank, a number of smaller private agencies, private capital flows, federal and provincial budgets). The result has been a confusing and at times contradictory understanding of what path of economic development Iraq should follow. A recommendation to set an appropriate and concerted economic plan for the city is more than simply a recommendation for coordination between and among donors and implementing agencies. It rather means reaching an agreement on which economic model can realistically work in Mosul, in light of the economic structure of Iraq.

Keep the money in the city: While attempts are under way to attract [funds for the reconstruction](#) of the liberated areas, two aspects need to be considered. Firstly, mechanisms to avoid misappropriation of funding – an issue that has been critical in the reconstruction of Iraq – need to be in place to guarantee transparency and accountability. Secondly, there should be an effort to keep money in the city so that it can be filtered down to society. This can be achieved by ensuring that public sector positions (including security) are filled in by local people and that the local economy is reactivated leveraging on key city sectors such as food production, silversmiths and higher education.

Beyond security: The military intervention in Mosul needs to be followed by a clear approach towards its future. While the primary objective is stabilisation, this needs to be development-oriented. Security is certainly crucial in any attempt to sustain a political settlement in the Nineveh governorate and to facilitate social reconciliation among its population. However, the human and welfare dimension of security needs to receive adequate attention, as without addressing issues such as needs, rights, and expectations, the socio-economic fabric of Mosul will continue to be permeable to extremist propaganda.

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