THE ROLE OF FINANCE IN DEFEATING AL-SHABAAB

Tom Keatinge

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## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>A Brief History of Al-Shabaab</td>
<td>5</td>
</tr>
<tr>
<td>Al-Shabaab’s Sources of Funding</td>
<td>9</td>
</tr>
<tr>
<td>The Impact of Restricting and Depleting Al-Shabaab’s Financing</td>
<td>27</td>
</tr>
<tr>
<td>Conclusions and Recommendations</td>
<td>29</td>
</tr>
</tbody>
</table>
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Introduction

Over the past six months, all eyes have been on Islamic State, its rapid territorial gains across northern Syria and Iraq, and the extensive financial resources it has gathered. Yet it should not be overlooked that Al-Shabaab has also developed an impressive and, thus far, sustainable financing model that relies on the ‘financial control and surveillance of cashflows’, involving both domestic and external sources. According to the UN, in 2011 Al-Shabaab’s annual revenue was in the region of $70–100 million per year. Despite military pressure and global efforts to starve it of financing, the group continues to operate effectively, allowing it to function as a quasi-government in the areas of Somalia that it controls. As with Islamic State, undermining the financial management of Al-Shabaab and offering those people subject to its control better governance will be at the heart of the group’s ultimate failure and defeat. Much still needs to be done on both counts.

The majority of rhetoric and literature in the counter-terrorist field considers military, ideological, and development-based tactics and strategy. Yet there is a further, important – indeed, existential – element that is often overlooked when assessing the means by which terrorist and insurgent groups can be restricted and defeated, namely financing. The belief that financing is an important ingredient of any struggle is certainly not new – in his series of Philippic speeches, the Roman orator Marcus Tullius Cicero (106 BC – 43 BC) observed that: ‘The sinews of war [are] a limitless supply of money.’ More recently, following 9/11 ‘Combatting the Financing of Terrorism’ became a central plank of President George W Bush’s War on Terror, exemplified in Executive Order 13224, which was signed on 23 September 2001 and launched ‘a strike on the financial foundation of the global terror network’ with the aim of starving the terrorists of funding. Targeting the finances of terrorist groups has become a cornerstone of the international community’s efforts to disrupt such groups around the globe.

The sourcing of financing is not a new imperative for terrorist and insurgent groups and is also often a critical factor in the fomenting of civil war and rebellion. However, since the end of the Cold War the extent to which groups have had to raise funding themselves, rather than rely on benevolent

state sponsorship, has markedly increased. With the notable exception of Hezbollah through its connection with Iran, organisations seeking to progress from a hand-to-mouth existence to a more planned and organised model must now work harder to acquire the income required to source arms, build recognition and sustain support. Even those groups that have enjoyed a measure of state sponsorship have had to be financial managers as well as military experts. For instance, in the mid-1970s the Italian Red Brigades had an annual funding need of $8–10 million, equivalent at that time to the turnover of a medium-to-large-sized company operating in northern Italy, whilst the Palestine Liberation Organization (PLO) established itself as a quasi-state, levying taxes and earning as much as $600 million per year by the mid-1980s.

On the face of it, terrorist attacks are cheap to conduct. The 2005 London transport bombings are estimated to have cost just $8,000, the 2004 Madrid train bombings $10,000, and even 9/11 itself is estimated to have cost only $4–500,000. However, these ‘direct’ costs are only a small part of the financing terrorists require; the majority of the funding is needed to create what the Financial Action Task Force (FATF) describes as the ‘enabling environment necessary to sustain activities’. For example, the CIA estimated that Al-Qa’ida’s annual financing requirement prior to 9/11 was $30 million, spent mainly on the training, education and indoctrination of its members, contributions to host regimes such as the Taliban, and the expense of maintaining its military infrastructure of camps, safe houses and equipment.

The Central Importance of Funding to Terrorism

Until 21 September 2013, many thought Al-Shabaab to be in retreat, even though some, such as the UN Monitoring Group on Somalia and Eritrea (UNMGSE), had issued general warnings that attacks in Kenya were a possibility. Since striking a rugby club and restaurant in Kampala in July

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9. The FATF was founded in 1989 by the G-7 to inform and guide the global effort to combat money laundering by the narcotics industry. Following 9/11 it had counter-terror finance added to its mandate and is thus at the heart of today’s global CTF regime. See <http://www.fatf-gafi.org/>.
2010, killing over seventy people watching the football World Cup final, the group had appeared to be wilting under a combination of well-marshalled, overt African Union military pressure and covert US force, losing key strategic and financially important territory as well as support both at home in Somalia and amongst the country’s diaspora. However, the attack on Westgate, a four-day siege and massacre at an upmarket Nairobi shopping mall which killed more than 70 people, sent a vivid reminder that although Al-Shabaab has lost territory, it has not lost the capability to mount violent attacks of the kind that require time, planning and, critically, funding.13

The importance of financing to groups such as Al-Shabaab is clear from their actions. As this Whitehall Report will demonstrate, sophisticated financial management lies at the heart of their operations and financing and fundraising capabilities are ‘imported’, with key financial roles often held by group members with international experience. Thus, the focus of this report is twofold. First, it will assess and analyse the means by which Al-Shabaab maintains ‘the enabling environment’ that allows it to continue to control significant areas of south-central Somalia and its population, as well as launch attacks both within Somalia and beyond its borders, despite the military and leadership setbacks experienced over the past eighteen months.

Secondly, in the belief that ‘funding is both the lifeblood of a terrorist organisation and one of its most significant vulnerabilities’,14 it will propose measures which, in supplementing the military efforts of the African Union Mission in Somalia (AMISOM), will assist in restricting the operations of the group by curtailing access to the wide range of both internal and external funding sources which Al-Shabaab currently enjoys.

Whilst Al-Shabaab may have suffered tactical defeats on the ground in Somalia, it is still operating a highly efficient and expansive fundraising operation, particularly when contrasted with the limited and disorganised finances of the Transitional Federal Government (TFG) in Somalia and its successor since August 2012, the Federal Government of Somalia (FGS). Money talks, and from a purely financial perspective Al-Shabaab has been talking to the local people more forcibly, more convincingly and more effectively for many years despite life in Al-Shabaab-controlled territory being far from democratic, with discipline maintained via an extreme interpretation and violent

13. A range of estimates have been proposed for the cost of the Westgate attack. For example, Jonathan Schanzer, a former counter-terrorism expert at the US Treasury, calculates a ‘direct’ cost in the region of $100,000 seems likely based on price of automatic rifles, ammunition, grenades, cost of training and lodging, and the alleged rental of a kiosk in the mall in advance of the attack. Author interview, December 2013.

implementation of Sharia Law. For all the efforts of sympathetic Western
governments, aid agencies and regional military powers, until there is a
demonstrably better financial alternative, Al-Shabaab is likely to continue
to command sufficient support to prosecute its insurgency by recruiting and
paying fighters and providing welfare and support to inhabitants within its
areas of control.

Al-Shabaab has developed highly effective tax, fundraising and payment
systems to sustain itself and the welfare it provides based on the ‘financial
control and surveillance of cashflows’, involving both domestic and external
sources. The result is a model that gives ‘the impression of being financially
competent and less corrupt than the central and local authorities it
opposes’. If the group is to be defeated these sources must be undermined.
In particular, those that facilitate the critical trade-based funding secured by
Al-Shabaab via the export of charcoal through trading centres in the UAE and
Saudi Arabia – in contravention of UN-sanctioned bans – must be shutdown.

Whilst restricting Al-Shabaab’s financing will certainly be effective in
disrupting the group, of equal importance is the establishment of a strong,
legitimate and sustainable government in Somalia, recognised by the
population as presenting a trusted and viable alternative to the harsh regime
of Al-Shabaab. Thus, the FGS must also significantly improve its financial
management and service delivery to all areas if it is to appear credible and
have any chance of success. According to the most recent UN Monitoring
Group report, ‘underlying corruption as a system of governance has not yet
fundamentally changed and, in some cases, arguably has worsened.’ This
must change.

15. Other examples of disciplined, tight financial management by terrorist organisations
can be seen in a 2008 report from the CTC at West Point examining personnel
records seized from AQI that revealed the minute detail with which finances were
managed, and the recently published documents from West Africa detailing the
meticulous expense and record keeping of AQIM in Mali. Brian Fishman, Bombers,
Bank Accounts, and Bleedout, Harmony Project (New York, NY: CTC West Point,
2008); Associated Press, ‘$0.60 for Cake: Al-Qaida Records Every Expense’, 30
December 2013.
No. 99, 26 June 2014.
A Brief History of Al-Shabaab

The recent history of Somalia since the collapse of Siad Barre’s regime in 1991 is characterised by chaos, limited and corrupt government, violence, outside influence, and insecurity – creating an environment in which a series of groups seemingly providing security and espousing various forms of Islamism have emerged.¹ Al-Shabaab was originally formed from the remnants of Al-Itihaad Al-Islamiya (AIAI), a group which emerged from the chaotic post-Barre regime to seize strategic locations and, where they established control, implement a strict form of Sharia Law, bringing security to previously lawless areas. Both AIAI and its successor organisation, the Islamic Courts Union (ICU), were swept aside by Ethiopian military interventions in 2004 and 2006 respectively, leaving only the most extreme elements of ICU’s military wing standing, the core of Harakat Al-Shabaab Al-Mujahidin.

As it emerged from the shadows of these groups to lead the insurgency against the invasion by Ethiopian forces, Al-Shabaab grew rapidly from a core of just thirty-three in 2005 to a fighting force of at least 5,000 by the time the Ethiopians withdrew in January 2009,² controlling ‘an area equal to the size of Denmark, with perhaps 5 million inhabitants’³ – equivalent to approximately half the population of Somalia.⁴ Fatal to the ICU, the Ethiopian invasion and occupation from December 2006 until January 2009 provided fertile ground for nationalistic recruiting and fundraising for Al-Shabaab as it harried the Ethiopian army with its guerrilla tactics. During this period it also brought stability, security and a form of government to the areas it controlled, albeit as it also hardened its religious ideology, enforcing a more extreme form of Sharia Law than that imposed by the AIAI and ICU.⁵ Importantly, the control Al-Shabaab exerted also gave it access to sources of revenue through which

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³ Ibid., p. 72. The UN also estimates a fighting force of 5,000 in its most recent report; UNMGSE, 2013, p. 7.


⁵ On taking control of Kismayo, Al-Shabaab is reported to have forced women to wear the veil, banned the playing and watching of football, and meted out punishments including severing limbs for crimes such as theft or flogging for failure to comply with new social codes. Somalia Report, ‘Life in Kismayo Under Shabaab Rule’, 2012, <http://www.somaliareport.com/index.php/post/2770>. 
to finance its fighting and welfare operations, particularly via the port city of Kismayo, an important link for both Somali and Kenyan traders as well as the few NGOs still operating in south-central Somalia.

Once Ethiopian forces withdrew from Somalia in January 2009, to be replaced by AMISOM peacekeepers, two distinct groupings began to emerge within Al-Shabaab. These were split between Al-Shabaab’s spiritual leader Sheikh Aweys – who, with his protégé Sheikh Mukhtar Robow, represented an ‘indigenous’ faction with fundamentally domestic aims – and Sheikh Moktar Ali Zubeyr (known as Godane), who, educated in Pakistan, had a more ambitious and extremist agenda, and who ultimately prevailed in taking control of the group. The hitherto primarily nationalistic rhetoric of Al-Shabaab twisted to become more global and ideological, pledging allegiance to Osama bin Laden, and mirroring the language of Al-Qa’ida by promoting Somalia as a jihad destination where the ‘far enemy’ of the US and regional governments as well as the ‘near enemy’ in the form of the ‘apostate’ TFG could be battled in the name of Islam.6

In the past two years Al-Shabaab has been weakened militarily. Its international support has dwindled as diaspora funding has reduced and other jihadi theatres, notably Syria, have risen in prominence; its domestic support has wavered in the face of a reduced threat from Ethiopia, its continued extreme imposition of Sharia Law, and its mismanaged response to the 2011 drought and subsequent famine; it has lost dominant control of key strategic territory, particularly in Mogadishu and the ports of Kismayo and Barawe, to AMISOM and the Kenyan military; and infighting has broken into the open with key figures killed or leaving the organisation, which allowed Godane to tighten his control of the group until he was killed by a US drone strike in September 2014. Early indications are that his successor, Abu Ubaidah (also known as Ahmad Omar), will continue Godane’s tactics and policies of Godane, having been close to him and coming from the same clan.7

Yet despite these setbacks, Al-Shabaab continues to harass and harry, adapting to its changed environment, ‘adopting an economy of effort strategy’8 aimed at preserving the core of its fighting forces and resources,9 deploying suicide bombers and improvised explosive devices (IEDs) in Mogadishu, attacking NGO and UN facilities, harnessing grievances and expanding its activities

into neighbouring Kenya, attracting fighters, and taking advantage of the continued failure of the recognised Somali government to establish any form of meaningful governance in the limited parts of the country it controls. As the September 2013 attack on Nairobi’s Westgate Mall showed, the potency and effectiveness of the group to terrorise remains significant.

Financing has been critical to Al-Shabaab’s survival, as with other terrorist and insurgent groups. It is the lifeblood that allows a group such as Al-Shabaab, in the face of significant military pressure, not just to survive but mount sophisticated and devastating attacks.
Al-Shabaab’s Sources of Funding

WHEREAS SOME insurgent groups can benefit from the availability of ‘lootable’ and ‘unlootable’ resources\(^1\) such as diamonds, narcotics,\(^2\) oil and gas in territory they control, Al-Shabaab lacks such sources of funding. It has instead developed a highly diversified and innovative funding model,\(^3\) which relies on the ‘financial control and surveillance of cashflows’,\(^4\) and involves both domestic and external sources, much of which is within its control and not heavily reliant on third parties. According to the UN, in 2011 Al-Shabaab’s annual revenue was in the region of $70–100 million stemming from ‘duties and fees levied at airports and seaports, taxes on goods and services, taxes in kind on domestic produce, jihad contributions, checkpoints and various forms of extortion justified in terms of religious obligations, or zakat’.\(^5\) These sources of revenue can be divided into four broad categories which this report will review: taxation and extortion; commerce, trade and contraband; diaspora support; and external assistance.\(^6\)

Critical to maintaining financial discipline are governance, procedures and people.\(^7\) Al-Shabaab has created an air of authority and a sense of law and order through developing a range of administrative bodies that are far more effective than those of the Somali National Government and its predecessors. This range of administrative bodies includes the Maktabatu Maaliya (Ministry of Finance) which has both domestic and international responsibilities for the group’s finances. Whilst the collection of most taxes is operated at a local level where Al-Shabaab’s intelligence service Amniyat plays a key role, the Maktabatu Maaliya is tasked with developing financing strategies and revenue-maximisation programmes around target

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2. Al-Shabaab does benefit to some extent from the local trade in khat. Narcotics challenge Al-Shabaab’s ideology given its popularity and therefore taxation potential. On the one hand, given the Sharia view on drugs, the group burns transport and storage associated with the khat trade, a highly unpopular measure given the importance of khat to farmers and traders, but on the other hand it benefits from taxing the domestic khat trade as well as taxing its export.
5. UNMGSE, 2011, p. 27.
6. Ibid
7. Al-Shabaab’s financial management has been led by several central figures, a number of whom are either foreign nationals or trained abroad, such as Saudi-born Sheikh Mohamed Abu Faid, Omar Shafik Hammami (known as Abu Mansur Al-Amriki and, prior to his death in 2013, responsible for financing foreign fighters) and Ibrahim Afghani, who until his death in 2013 ran the group’s Maktabatu Maaliya.
opportunities such as charcoal exports. Creating this sense of ‘government-in-waiting’ is not without its disadvantages, as it generates expectations amongst the population that are almost impossible for an insurgent group to meet. For example, in the financial sphere it is not clear what Al-Shabaab’s policies are for promoting development and economic growth, factors that are critical in maintaining the long-term support of the population without the use of terror and violence.

For Al-Shabaab, the distinction between domestic and external sources is important; indeed, while domestic resources are primarily within the group’s control to exploit, external sources are harder to earn and have proven to be reactive to events within Somalia as well as to broader, geopolitical considerations. For example, as will be expanded upon later in this Whitehall Report, the Ethiopian military invasion and subsequent withdrawal influenced the generosity of diaspora support and anti-Ethiopian regional powers, notably Eritrea; military action such as Al-Shabaab’s attacks in Kampala discouraged diaspora support (as is also likely to have been the case following the Westgate attack); and geopolitical events such as the escalation of the civil war in Syria and the Islamic State’s declaration of the Caliphate may mean that donations desert Al-Shabaab for more attractive or ‘worthy’ jihadi theatres of operation.

Given the importance to Al-Shabaab of maintaining awareness of its mission and efforts amongst its ideological supporters, it comes as no surprise that the group has developed a highly effective social-media capability. The advent of social media services such as Twitter and Facebook has dramatically increased the ability of insurgent groups to promote their ideology and source support or funding. Al-Shabaab is no exception, making impressive use of social media, often aiming to attract foreign fighters to Somalia to fulfil their desire to wage jihad, but also by creating a more general awareness of Al-Shabaab’s struggle and good works at a time when aspirant jihadi fighters and donors are overwhelmed with causes to support across the Middle East and Sahel.

Personal fundraising and recruiting trips reinforce the messages conveyed by social media. For example, Al-Shabaab has actively recruited from Somali diaspora centres such as the Stockholm suburb of Rinkeby, easing the passage of potential recruits by providing the funds for plane tickets if needed; and

elsewhere in Sweden, Sheikh Hassaan Hussein Adam and other notable supporters of Al-Shabaab have made visits to places such as the Bellevue Mosque in Gothenburg.\textsuperscript{12}

As can be seen from this introductory overview, Al-Shabaab’s external cashflow is precarious, unreliable and inconsistent. Therefore, monitoring, diverting, and capturing domestic money flows and maximising the return from this source is fundamental to the survival and ongoing operation of the group. This report will now consider each of the key means by which Al-Shabaab raises funds, first expanding on external sources before reviewing Al-Shabaab’s impressive domestic financing arrangements.

**The Somali Diaspora and Remittances**

With an estimated 14 per cent of its population living outside the homeland,\textsuperscript{13} Somalia and its citizens rely more on the diaspora community for financial support than perhaps any other country. Driven abroad by over twenty years of civil war along with natural disasters such as the 2011 famine, the diaspora is widely dispersed, with significant communities across the Horn of Africa as well as in Western Europe, North America and the Middle East. This so-called ‘missing million’\textsuperscript{14} represents an existential financial resource for the people of Somalia, with a recent study by the Food Security and Nutrition Analysis Unit – Somalia (FSNAU), a component of the UN’s Food and Agriculture Organization (FAO), suggesting that remittances to Somalia amount to a minimum of $1.2 billion per annum.\textsuperscript{15} The relative significance of this flow is thrown into sharp relief when compared with average international aid flows of $834 million a year, and estimated foreign direct investment and export trade of $102 million and $516 million a year, respectively.\textsuperscript{16}

This financial commitment brings much-needed aid and welfare to Somali citizens, but it has also at times extended to support to Al-Shabaab. The core issues to understand in this regard are the extent and magnitude of the diaspora funding that is provided to Al-Shabaab and whether the international security community can constrain Al-Shabaab by further restricting these remittances.

Funds specifically remitted in support of the domestic insurgency have been sensitive to a number of factors and reflect the extent to which the global Somali population has supported the actions and motivations of the various fighting groups. During the ICU period, the diaspora provided significant

\textsuperscript{12} UNMGSE, 2010, p.28.
\textsuperscript{14} Ibid., p. 3.
\textsuperscript{16} Ibid.
support, encouraged by the greater stability it brought to the areas under its control by imposing a broad and basic level of security, reducing crime, providing social and educational services, and offering the basic utilities of life that had been absent since the fall of the Barre regime in 1991. Although the ICU was shattered by the Ethiopian invasion of December 2006, Somali nationalism at home and abroad transferred its allegiance to Al-Shabaab as the group seemingly most capable of resisting foreign influence.

Today, the picture is very different, with diaspora financial contributions to Al-Shabaab having been dramatically reduced due to a combination of international actions (the arrest and prosecution of diaspora members in North America and Western Europe for remitting funds to Al-Shabaab) and domestic events (Al-Shabaab’s use of extreme violence, hard-line ideology and withdrawal, to a great extent, of forces perceived as international invaders); indeed, funds are now likely to emanate only from supporters of the hard-line ideology and ‘alumni’ Al-Shabaab members.

Since the designation of Al-Shabaab as a ‘Foreign Terrorist Organization’ by the US State Department in 2008, it has been illegal for anyone in the US to provide material support or resources to the group. The US Department of Justice has pursued a number of cases against those suspected of providing material support to Al-Shabaab, including its Operation Rhino targeting approximately twenty young Somalis from the Minneapolis area. Similar actions have been undertaken by other Western governments seeking to interdict remittance flows destined for Al-Shabaab. However, interrupting these illicit flows is not easy. With no functioning banking system for decades and no central banking connection to the global financial community, Somali remittances make the journey home via a hawala network – a highly efficient, reliable, cost-effective but (to the authorities) opaque ‘trust-based’ transfer system. For the humanitarian community, hawala is an essential mechanism for providing finance to the unbanked in developing countries. For the international security community, hawala has proved to be an enigma and despite attempts at control and regulation in a range of

21. For a good overview of this system, see Center on Global Counterterrorism Cooperation, Capitalizing on Trust: Harnessing Somali Remittances for Counterterrorism, Human Rights and State Building (Goshen, IN: Center on Global Counterterrorism Cooperation, 2012).
countries, continues to be viewed as a potential weakness in the structure of the global counter-terror finance regime.22

In the case of Somalia, restricting Al-Shabaab’s access to funds transferred by *hawala* – whether sent explicitly for the purposes of supporting the group or, more likely given the international prosecution of diaspora donors to Al-Shabaab, innocently received by Somali citizens and then expropriated by Al-Shabaab – is extremely challenging. Furthermore, even if *hawala* routes are disrupted, cash couriers can also be used to transfer small amounts of cash legally, up to the $10,000 limit required to be declared in most jurisdictions, with larger sums also easy to smuggle. Nor is it just the authorities from whom couriers hide funds. Al-Shabaab’s effective informer network means that those using the *hawala* network to receive funds can still find themselves being taxed by Al-Shabaab when knowledge of cash receipts reaches the group.23

The connection with, and support for, their homeland displayed by the Somali diaspora is impressive and powerful, contributing significantly to the financial resources of the country. Although it appears that the shift in Al-Shabaab’s rhetoric from nationalistic to jihadi has deterred much of the diaspora support it previously received,24 it remains critical that the international community develops ways of working with the diaspora to ensure their financial commitment is deployed in the most effective way and that leakage to Al-Shabaab is restricted.

**‘Deep-Pocketed’ Donors and Al-Shabaab’s Al-Qa’ida Connection**

The decline in the availability of external, diaspora-sourced remittance funding has rendered Al-Shabaab ever-more reliant on internal sources of financing. This challenge has been exacerbated by the loss of control of key financially important territory, such as Bakara Market in Mogadishu and the major port facilities of Kismayo and Barawe, albeit the group continues to earn some benefit from taxing related transport and trade. Before considering Al-Shabaab’s domestic funding strategy, it is appropriate to pause and reflect on the relationship that the group has developed with Al-Qa’ida. This relationship may be influenced by financing needs and offers a possible source of external funding to supplement lost diaspora revenue.

On 9 February 2012, Al-Shabaab leader Godane and Al-Qa’ida’s new leader Ayman Al-Zawahiri announced the formal affiliation of Al-Shabaab with Al-Qa’ida, something that had been considered for some time, most notably in 2009 when Al-Shabaab’s pledge to Al-Qa’ida was rebuffed by Osama bin Laden.

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The death of Bin Laden in May 2011 and that of a key Al-Qa’ida East Africa lieutenant Fadil Harun a month later, appear to have cleared the way for the new alliance as succeeding Al-Qa’ida leader Al-Zawahiri had been in favour of it for some time.

The global effort to starve Al-Qa’ida of financing has greatly diminished the organisation’s ability to provide funding and resources to its affiliates. However, there is no doubt that its ideology continues to appeal to donors around the world who seek opportunities to perform ‘proxy jihad’ by donating money in support of jihadi fighters. This concept of ‘Tajheez Al-Ghazi’ is a form of sponsorship which ‘allows those who cannot, or will not, join the Jihad physically for whatever reason, to achieve the honour and heavenly reward of waging jihad by proxy.’ By aligning itself with Al-Qa’ida it is possible that Al-Shabaab will appear more attractive to such donors whose contributions may balance the reduction in diaspora funds. Bin Laden himself recognised the importance of financial support, establishing a network of fundraisers across the Middle East in what became known as the ‘Golden Chain.’ As illustrated by a December 2013 US Treasury Designation Order on Qatari-based Umayr Al-Nu’aymi, who is alleged to have channelled funding to a range of jihadi causes including $250,000 to Al-Shabaab, these deep-pocketed donors can, when attracted to a particular cause, gather and deliver significant funds.

However, such an alliance is not without risks. In a letter written to Godane in August 2010, Bin Laden observed that a formal pledge of allegiance from Al-Shabaab might be harmful to its cause, as it could encourage greater mobilisation of enemies against Al-Shabaab and deter merchants in the region from aiding the Somali people suffering from ‘immense poverty and malnutrition.’ He therefore recommended that such a relationship should ‘be carried out … through unannounced secret messaging [and] without any

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26. Some claim he was set up by Godane as a way of allowing Godane to consolidate power as Al-Qa’ida’s East African leader; see Abdi Aynte, ‘Understanding the al-Shabaab/al-Qaeda Merger’, *African Arguments*, 19 March 2012.
official declaration.’ It is clear from this advice that Bin Laden feared for the financial consequences for Al-Shabaab should the organisation be officially affiliated to Al-Qa’ida. By allying itself formally with Al-Qa’ida, Al-Shabaab was also deepening the rift among its supporters (both within the country and in the diaspora) between those that viewed Al-Shabaab’s mission as nationalistic and those that believed in the broader, extremist interpretations of the global jihadi messages of Bin Laden and his followers.

Eritrea
Thus far, the considered sources of external financing are individual or group contributions. The final external source from which funds and materiel have been received in varying amounts over time according to the UN is Eritrea. In contrast to the nationalistic motivation of diaspora support or the proxy jihad of donors, funding from Eritrea is underpinned by the country’s rivalry with Ethiopia. The government of Eritrea acknowledges that it maintains political links with Somali armed opposition groups, including Al-Shabaab, but the UN believes that this support also includes ‘financial and – allegedly – military assistance to armed opposition groups in Somalia’ which at times amounted to as much as $40–60,000 per month funnelled to Al-Shabaab and other armed opposition groups such as Ras Kamboni, via Eritrean embassies in neighbouring countries and carried into Somalia via couriers.

More recent reports by the UN suggest that ‘the relative importance of Eritrea as a source of military and financial support … appears to have declined,’ most likely as a result of increased international scrutiny placed on the actions of the Eritrean government, as well as the reduced, overt involvement of Ethiopia in Somalia. It also appears that Eritrea is seeking a more subtle means of interfering in Somalia by building relationships with those close to key government officials as well as with so-called ‘spoiler groups’ that are emerging within Somalia. These relationships will inevitably involve some form of financial support and thus, although the level of support provided by Eritrea to Al-Shabaab has substantially declined, Eritrea is likely to remain a ‘small but troubling part of the overall [security] equation’ in Somalia for the foreseeable future.

32. This assertion is made consistently in the annual UNMGSE reports.
33. As well as countering Ethiopian interests in the region, Eritrea also maintains ‘arguably legitimate grievances’ against Ethiopia for failing to implement agreed boundary decisions. See UNMGSE, p. 13.
34. UNMGSE, 2011, p. 69.
36. UNMGSE, 2013, p. 126.
Al-Shabaab’s Reliance on Domestic Funding Sources

As the review of Al-Shabaab’s external financing sources reveals, the group cannot rely on a consistent flow of offshore money, as supporters’ appetite to provide funding is subject to a range of factors, most of which are outside the control of Al-Shabaab. Firstly, the withdrawal of Ethiopian ‘invaders’ and the tighter focus of international regulators on remittances has significantly reduced direct diaspora support. Secondly, whilst affiliation with Al-Qa’ida has offered the possibility of support from ‘deep-pocketed donors’, other jihadi theatres such as Syria are able to compete (more successfully) for these financial resources. Thirdly, Al-Qa’ida-related ideology pursued by Al-Shabaab almost certainly deters much of the remaining nationalist financial support from abroad. Lastly, international scrutiny combined with Ethiopia’s withdrawal appears to have reduced the flow of funds from the Eritrean Government.

This paucity and fragility of offshore support means that Al-Shabaab has been forced to develop reliable and consistent means of raising funds domestically. Al-Shabaab has excelled at this, raising taxes on services, property, livestock, businesses, individuals, transport, and aid agencies. In addition, Al-Shabaab has developed ‘industrial-scale’ business operations such as charcoal export, sugar import and contraband smuggling, next to dominating trade flows through strategically important hubs such as Mogadishu’s Bakara Market and Kismayo port.38

General Taxation

Although Al-Shabaab could previously rely on some level of funding from supporters within Somalia, this has declined significantly since the Ethiopian army withdrew, resulting in the development of a thorough and highly sophisticated taxation system to address its funding needs.39 According to the UN,40 Al-Shabaab collects detailed information on a wide range of businesses (including agriculture and livestock) operating in areas under its control. Their value is assessed and taxes are imposed through a number of means: sales taxes on stores and commercial operations;41 corporate taxes on businesses (mainly in the form of protection money); tax in-kind

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38. Bakara Market and Kismayo port were controlled by Al-Shabaab until mid-2011 and September 2012 respectively when they were retaken by AMISOM and Kenyan forces.
39. In contrast to groups such as the Tamil Tigers, Al-Shabaab does not yet widely use its Amniyat security service to expropriate funds from citizens outside its areas of control or from the diaspora. As the group loses territory, this source of funding can be expected to increase. Author interview, January 2014.
40. UNMGSE, 2011, p. 28.
41. Marchal cites 10 per cent as being the normal sales tax rate, with a similar tax applied to transport operators. Marchal, ‘The Rise of a Jihadi Movement in a Country at War’, p. 73.
and land tax on farmers;\textsuperscript{42} corporate zakat of 2.5 per cent on profits; and a requirement for ad-hoc jihad contributions to support specific military operations. According to Marchal, Al-Shabaab also collects donations for the construction of large projects such as mosques, schools, or health centres without disclosing how much of the donor’s contributions is invested in the proposed project.\textsuperscript{43} A similar ad-hoc tax of 5 per cent was applied to salaries to raise extra revenue during the 2011 famine to contribute to the so-called ‘Drought Committee’ – this was supplemented by ‘voluntary contributions’ from market traders.\textsuperscript{44}

The UN’s 2013 report provides interesting information on the extent to which, and efficiency with which taxes are collected. Testimonies from late 2012 reveal that the 280 Al-Shabaab fighters in Johar, located in the Middle Shabelle region of Somalia, were divided into three groups: a security unit (for community policing, manning checkpoints, and implementing Sharia), a mobile fighting unit, and a thirty-three men-strong Zakawat unit responsible for collecting local taxes. The wages paid to these fighters were $100-500 per month with the Zakawat unit collecting up to $750,000 per month from an area known for its sugarcane plantations and situated on a key arterial road.\textsuperscript{45}

Al-Shabaab has created a highly effective taxation system from which, as demonstrated, it can generate significant and broad-based revenue in the areas where it maintains control. However this model is not without risks. Much of the collected taxes are transferred away from the source population and this can lead to fermenting of animosity and resentment. This is particularly the case if Al-Shabaab needs to place greater reliance on taxation as a result of decreasing external support or losing control of strategic financial hubs.\textsuperscript{46} As the warlords and their militias discovered in 2005, support will quickly decline if the population views taxation simply as self-serving ‘plunder’ and sees nothing in return for its financial sacrifice.\textsuperscript{47} A further development in this point is the recently reported sharp increase in road taxes that are apparently being applied to buses and trucks, increasing the costs for businesses that are already struggling.\textsuperscript{48} Thus, to the extent the FGS can build a relatively effective, corruption-free, and sustainable welfare

\textsuperscript{42} Reporting by the UN as $10 per cultivatable acre. UNMGSE, 2011, p. 28.
\textsuperscript{43} Marchal, ‘The Rise of a Jihadi Movement in a Country at War’, p. 66
\textsuperscript{44} Ibid., p. 73.
\textsuperscript{45} UNMGSE, 2013, p. 56.
\textsuperscript{46} In the Afgooye District in 2011 Al-Shabaab imposed new taxes on small businesses, increased tax on larger businesses, and taxed people living in public buildings. See Hansen, \textit{Al-Shabaab in Somalia}, p. 114.
\textsuperscript{47} Hansen, \textit{Ibid.}, p. 32.
and security platform, the appeal of Al-Shabaab and its taxation regime will certainly fade.

**Controlling Trade and Taxation: Kismayo Port and Bakara Market**

Until Al-Shabaab withdrew from Kismayo in September 2012 and Bakara Market in Mogadishu in mid-2011, these two locations were the key fundraising nodes for Al-Shabaab and the financial anchor of the ‘government-in-waiting’ style of operation that the group ran across much of south-central Somalia.

Captured in August 2008, Kismayo was under the joint control of a loose alliance which included Al-Shabaab and Ras Kamboni until early October 2009 when an ongoing dispute over the distribution of port revenues and the town administration escalated into all-out conflict. Ras Kamboni’s attempts to form a coalition to counter Al-Shabaab failed, and its leader Ahmed Madobe and his forces were routed, losing not just their foothold in Kismayo but also control of a number of other strategic Lower Jubba Valley towns.  

At that point, the UN estimated that Al-Shabaab could generate $35-$50 million per annum from the port, with the majority of this revenue coming from taxing goods that passed through Kismayo’s port facilities. This trade was dominated by the export of charcoal and the import of sugar, further boosted by Al-Shabaab’s efforts to entice business away from the main government-controlled port in Mogadishu by gaining a reputation for being a more efficient operation with lower fees. Although these payments were not welcomed by local traders, they were accompanied by the benefits of a newly tarmacked road, and the need to pay only one fee in a simplified, quicker system that swept away the previous roadblocks, checkpoints, and interference by local militias.

Like Kismayo, Mogadishu’s Bakara Market is a significant hub for trade and commerce across Somalia which, together with Suuq Baad, another key market in the capital, was estimated by the UN to generate $30-60 million in tax revenue per annum. Until Al-Shabaab withdrew from Bakara Market, it was, in the estimations of some, Al-Shabaab’s largest source of financing.

50. UNMGSE, 2011, p. 28.
53. Ironically, reports suggest that the recapture of the port by the Kenyan Defence Force has been met with some dismay given the accompanying return of graft and corruption.
54. UNMGSE, 2011, p. 28.
generating at least 40 per cent of the group’s operating budget, based on taxation of the 4,000 businesses operating there and the transport that moved goods to and from the market. A fifty-man-strong Al-Shabaab tax collection team levied ‘protection’ taxes according to the size of the business, with payments ranging from $50-$250 per month.

For Al-Shabaab, losing two such important sources of revenue, together with the recent loss of the other main southern port Barawe, might be critical. Yet the group still enforces an extensive toll network on the surrounding roads, and thus continues to benefit substantially from the trade that the port and market generate. Indeed as discussed below, it may be possible that Al-Shabaab’s earnings from Kismayo have increased since the Kenyan military reopened the port for charcoal export. Furthermore, even if funding is reduced, rendering Al-Shabaab’s grand plan of providing the country with an alternative administration ‘doomed’, a study of the evolution of groups such as Al-Qa’ida suggests that they adapt their interpretation of jihad to a leaner financial outlook. Perhaps a greater risk faced by Al-Shabaab is that, in losing control of significant business and trade-based funding sources, it may rely more heavily on taxation of the population within its areas of control, breeding greater resentment.

Charcoal Export

The importance of Kismayo to Al-Shabaab is most evident from a short study of Somalia’s environmentally disastrous charcoal export business. In February 2012, the UN passed Security Council Resolution 2036 that ‘expressed concern that charcoal exports from Somalia are a significant revenue source for Al-Shabaab’ and consequently decided that UN member states should ‘take the necessary measures to prevent the direct or indirect import of charcoal from Somalia as well as [urge] the Somali authorities to take measures to prevent the export of charcoal’.

59. Considerable environmental damage is done by the charcoal business, with charcoal burners clearing vast swaths of forest, with ever-more sophisticated, mechanical saws and other equipment, resulting in ‘desertification’ and rural people thus having to move as they can no longer feed their livestock. Muhyadin Ahmed Roble, ‘Al-Shabaab Razes Somali Forests to Finance Jihad’, Jamestown Foundation Terrorism Monitor (Vol. 8, No. 42, 18 November 2010); Integrated Regional Information Networks, ‘Somalia: Charcoal Trade Booming Despite Ban’, 20 January 2011.
The fact that the UN felt the necessity to pass such a resolution underlines the centrality of the charcoal export business to Al-Shabaab’s funding. The UN estimated in its 2012 report that Al-Shabaab earned $25 million per annum from the charcoal business when it exercised control over Kismayo, charging export taxes, road tolls, and port usage fees, on top of the export proceeds. Although the loss of Kismayo appears to be damaging for Al-Shabaab’s financial position, it may offer a perverse benefit. According to the UN, under pressure from local traders the Kenyan army lifted the export ban in Kismayo after they captured the port in September 2012 and as much as one million sacks are once again being exported each month from Kismayo.

Al-Shabaab’s control of the supply and distribution chain outside Kismayo means the group is almost certainly benefiting from taxes on transport and rural operations connected with the recommencement of the charcoal export business. Combined with the continuing, although dwindling, access to other southern ports and the increase in production and market value of charcoal, it would seem that the loss of Kismayo may not be as financially catastrophic as predicted. Indeed, the UN estimates that Al-Shabaab continues to earn in excess of the $25 million per annum it was amassing prior to losing Kismayo.

Imports, Facilitated by Charcoal Exports, Provide Further Revenue

As discussed throughout this report, Al-Shabaab’s financing model is built on control of cashflow, allowing the group to generate a range of incomes. The charcoal business is a revealing case study, as not only does Al-Shabaab benefit from the transportation and export process, it also generates additional revenue by facilitating imports, in particular of sugar, concrete, and cars, and associated smuggling revenue through illicit trade into Kenya. According to the UN, Al-Shabaab ‘generates millions of dollars of revenue each month through a coordinated trading cycle built upon the export of charcoal.’

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62. Ibid., p. 422.
63. It is reported that 4 million sacks of charcoal with a market value of $60 million were stockpiled at the port at the time of its recapture. See UNMGSE, 2013, p. 38. This has been reiterated in the most recent UN Monitoring Group Report; UNMGSE, 2013, p. 11.
64. The UN highlights the checkpoint at Buulo Xaaji near the Kenyan border which generates between $675,000 and $1.5 million per month primarily from taxing charcoal trucks travelling to Kismayo. See UNMGSE, 2013, p. 39.
68. UNMGSE, 2011, p. 29.
The Kenyan military naturally denies involvement in facilitating this business cycle. Whether this is true or not, a market requires buyers as well as sellers, therefore the UN and other international authorities should ensure that import/export traders, primarily based in the large free-trade zones in the UAE, adhere to the UN-sanctioned bans. Dramatically reducing this source of ‘lifeblood’ for Al-Shabaab could be expected to have a considerable impact on the group, given the breadth of financial benefit it accrues from this import/export trading business regardless of whether it maintains direct control of the process or not. In the face of disappointing efforts to restrict this trade this is almost certainly why the UN published ‘Implementation Assistance Notice No. 1’ in May 2014, drawing the attention of member states to their Security Council Resolution obligations.69 In light of evidence from the latest UN Monitoring Group report of the continuing failure of the UAE and others to tackle this trade, May’s declaration has been strengthened by passing UN Security Council Resolution 2182. This resolution allows states, for a twelve month period, to inspect vessels in territorial waters and on the high seas, suspected of carrying charcoal from Somalia, in violation of the UN ban.70

There are, of course, plenty of naval vessels available in this area to undertake this mission as they also continue to protect shipping lanes from piracy.

Ivory Poaching and Smuggling: a Developing Source of Revenue?

In September 2013 the Clinton Global Initiative announced an $80 million partnership to tackle the scourge of elephant poaching in Africa. This is in itself a worthy cause, but it is not only a matter of wildlife conservation but also an increasingly fundamental issue for national and international security.71 Ivory smuggling is one of the world’s most lucrative criminal activities, valued at $7-10 billion per annum72 with a considerable portion of these funds flowing through the hands of African insurgent organisations such as the Lord’s Resistance Army and Al-Shabaab.

A sharp focus has been brought to this subject with the publication of several investigations into the connection between ivory and terrorism in East

These appear to highlight the financial gains of those involved in the poaching and smuggling process, from the poacher who can earn over $50 per tusk, the Al-Shabaab broker who exports ivory at $200 per kilo, to the end distributor, often in the Far East, where the ivory fetches $1,500-2,000 per kilo. Some estimate that one to three tonnes of ivory are exported from ports in southern Somalia every month whilst others suggest that these figures are considerably exaggerated. Either way, despite no mention of this issue in the most recent UN Monitoring Group report, the nexus between the illegal wildlife trade and transnational security is clearly a growing concern that needs to be urgently addressed.

A number of initiatives, including a high-level inter-governmental conference on the illegal wildlife trade hosted by the UK government in London in February 2014, indicate that the international community has belatedly made the connection between the illicit wildlife trade and transnational security, caused by the need for groups such as Al-Shabaab to find new revenue streams as the global counter-terror finance effort restricts traditional sources such as diaspora and donor funding. Whilst ivory smuggling does certainly not make up a core or meaningful portion of Al-Shabaab’s financing, it could become relatively more important as other sources of financing are restricted. Ivory smuggling could contribute valuable funds towards smaller Al-Shabaab operations such as the attacks in Kampala and Nairobi, as well as a continuation of the domestic suicide bombing and IED campaigns.

**Al-Shabaab and Piracy: a Symbiotic, Pragmatic, but Opportunistic Relationship**

To the outside world, Somalia has become synonymous with piracy and it is tempting to suggest that this form of fundraising is key for Al-Shabaab given the size of the ransoms paid by shipping lines and insurance companies. This is however not the case, as there is no clear evidence indicating that Al-Shabaab is either directly involved in the piracy business or operates a ‘structured co-operation’ with the pirate groups. In 2010, the US Senate reported there to be ‘no direct connection between Al-Shabaab and Somali Pirates’ although conceded that there is ‘an indirect’ connection as pirates

sometimes operate from ports such as Haradhere in Al-Shabaab controlled territory and thus pay a ‘user fee.’\textsuperscript{78} Given its general financing \textit{modus operandi} it is reasonable to surmise that even if Al-Shabaab is not coordinating and operating piracy missions, it is finding ways of benefiting from the resulting revenue generated by the pirates.\textsuperscript{79}

Despite Al-Shabaab’s insistence on the implementation of extreme Sharia Law and the apparent conflict of piracy with these principles, its relationship with piracy underlines the pragmatic approach the group takes to sourcing its funding. This is in contrast to the ICU, which in 2006 prevented pirates from operating from bases in ICU-controlled territory\textsuperscript{80} due to their ‘un-Islamic’\textsuperscript{81} and ‘lavish lifestyle’.\textsuperscript{82} For Al-Shabaab, piracy simply offers an appealing and opportunistic source of revenue, charging anchorage fees to use port facilities\textsuperscript{83} and taxing piracy proceeds 15–20 per cent.\textsuperscript{84}

As global naval powers and shipping companies become more effective at combating piracy emanating from Somalia, revenue opportunities have declined with the UN estimating gross piracy proceeds at $31.75 million in 2012, down from $82 million in 2009.\textsuperscript{85} With much of the piracy operations based outside Al-Shabaab controlled territory and with these operations in decline, whilst it would be wrong to dismiss piracy as an indirect source of Al-Shabaab financing, it would also be misleading to over-emphasise its importance.\textsuperscript{86}

\textsuperscript{79} It is worth bearing in mind that if direct links were to be discovered between ransom payments and Al-Shabaab (a designated terrorist organisation), then consistent with the requirements of counter-terror finance legislation in most countries, insurance companies and banks would no longer be able to make or facilitate ransom payments. It would thus be highly ‘awkward’ for governments if a direct connection were to be proven.
\textsuperscript{82} Vilkko, ‘Al-Shabaab’, p. 23.
\textsuperscript{83} World Bank, ‘The Pirates of Somalia’, p. 78.
\textsuperscript{84} For example, Reuters reported in 2011 that Al-Shabaab had agreed a 20 per cent deal with pirates based in Haradhere; see \textit{Reuters}, ‘Somali Rebels Agree Ransom Deal With Pirate Leaders’, 22 February 2011; see also Vilkko, ‘Al-Shabaab’, p. 24; and UNMGSE, 2011, p. 228.
\textsuperscript{85} UNMGSE, 2010, p. 36; and UNMGSE, 2013, p. 20.
\textsuperscript{86} It is worth noting that whilst piracy has declined, according to the UN it appears that these groupings have now moved onshore to conduct contraband and smuggling operations, business from which Al-Shabaab might also expect to profit. See UNMGSE, 2013, p. 17.
Aid Agencies: a Welcome Source of Tax and Credibility

Thus far consideration has been given to local individuals, their businesses, and trade. It is also important to consider international actors, such as aid agencies, as a source of Al-Shabaab revenue given the significant and continued dependence of much of the country on support from the global NGO community.

Ever since its formation in 1960, the Somali Republic has been reliant on foreign aid, a reliance that has grown and has become entrenched as the country continues to suffer from a lack of government systems, welfare, a lack of security, and, as during the 2011 famine, a lack of food. For Al-Shabaab, the presence of aid agencies in the country is both a blessing and a curse. On the one hand they represent a potentially valuable source of tax revenue and supplies, whilst on the other they have the ability to undermine Al-Shabaab’s control and are thus often viewed as agents of enemy influence by the group. Aid agencies are faced with a dilemma. Failing to make payments when demanded endangers staff and prevents aid from reaching those that need it; yet payments to insurgent groups may fuel the war economy that has created the need for aid in the first place and attract criticism from donors. Furthermore, in the case of a designated terrorist organisation like Al-Shabaab, such payments may be classed as ‘material support’ by authorities such as the US Justice Department, with associated legal and financial consequences.

A recent report provides a valuable insight into the challenges faced by aid agencies operating in Somalia and the ways in which Al-Shabaab seeks to exploit them for financial and propaganda gains, ‘implementing a highly structured system of regulation, taxation, and surveillance.’ In summary, Al-Shabaab operates a vetting and registration system that includes the requirement to pay fees of up to $10,000 to operate and distribute aid. Once an aid agency has been assessed by an Al-Shabaab Humanitarian Coordination Officer, further taxes and measures might be demanded based on the nature of the aid being distributed or type of project being undertaken. For example construction projects are taxed at a higher rate than food distribution, presumably because Al-Shabaab can co-opt food deliveries and gain propaganda value from undertaking the distribution itself, thereby demonstrating it has something positive to offer to the people as a ‘government-in-waiting’. Furthermore, logos and other identifying features

89. Jackson and Aynte, Talking to the Other Side, p. 1.
often have to be removed from agency vehicles and in some cases security fees of up to $20,000 per month are paid, with one UN agency allocating 10 per cent of its project budget to Al-Shabaab in 2009.90

Tax paid on aid is part of a broad regime of taxation imposed on aid agencies. Fees are also levied on workers’ salaries, the rental of property, and the use of transport, and in many cases aid is stolen or misappropriated. In June 2013 the UK Department for International Development revealed that nearly half a million pounds of its aid had been confiscated by Al-Shabaab in just four months between November 2011 and February 2012.91

Operating in a disputed environment such as Somalia is highly challenging for aid agencies, not just because of the security risks that are presented, but disappointingly also for the bureaucratic impediments imposed by the international security community. In particular, the sweeping requirements of counter-terror finance regulation are highly restrictive on NGOs, politicising their work and leading to the reduced provision of aid through the fear of inadvertently providing prohibited ‘material support’ to terrorist organisations. From a security perspective, this is highly counterproductive as it creates a vacuum into which insurgent groups such as Al-Shabaab step and from which their credibility inevitably profits.

The Impact of Restricting and Depleting Al-Shabaab’s Financing

According to Crisis Group ‘the root cause of Somalia’s many troubles ... is collapse of effective governance, with resulting chronic conflict, lawlessness, and poverty.’\(^1\) Al-Shabaab’s survival is based on its continued ability to source sufficient revenue to pay fighters and deliver effectively the ‘government-in-waiting’ services that present it as a more attractive and effective (albeit extremist) alternative to the FGS. The issues of funding and successful financial control lie at the very heart of this failed state. As Al-Shabaab continues to demonstrate, responsible financial stewardship even when combined with the most violent of tactics, allows it to maintain and sustain control despite experiencing strategic setbacks. Until an effective and credible Somali government can be established, implementing the effective rule of law, and capable of operating without the need for significant military support, Al-Shabaab’s smart financial management will almost certainly ensure that, as Nairobi’s Westgate Mall attack demonstrated, the group remains a significant threat to local and regional security.

Often, Al-Shabaab’s relationship with its fighters and the population it controls is a financial, not ideological relationship, and thus restricting and depleting the group’s finances may help break that relationship. Interviews with former Al-Shabaab fighters indicate how, in many cases, morale is closely linked to financial incentives — financial security, not ideology, is most often cited by Al-Shabaab’s foot soldiers as being the reason they have joined.\(^2\) Where individuals are concerned, this equation is easy to understand. Whilst evidence is anecdotal and application not consistent, salaries of $100-$300 per month are offered,\(^3\) joining bonuses of $400 are paid for the new recruits to hand to their families,\(^4\) and the family of a suicide bomber can receive ‘a couple of thousand’ dollars.\(^5\) This contrasts with a gross national income per person of a mere $107 per annum in 2011.\(^6\)

It therefore seems reasonable to assume that if Al-Shabaab’s financial strength can be depleted, a reversal of support will follow. Evidence already exists of financial constraints affecting the group’s operations. For example

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food shortages have meant fighters often only eat one meal per day7 and further evidence suggests that desertions have increased as fighters have not been paid.8 Thus, the international community and FGS must focus on both restricting and depleting Al-Shabaab’s sources of financing, and importantly ensuring that the FGS meets its financial commitments to its employees and population, building a genuine sense of credible governance and management.

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Conclusions and Recommendations

Lacking the benefit of a commodity-based economy, Al-Shabaab has developed a highly effective and diversified funding model supported by a strong organisational structure. The thousands of pages produced by the UN Monitoring Group are filled with examples of taxation, extortion, corruption, and bribery, imposed on the people of Somalia by both Al-Shabaab and the notional governmental authorities. Financial management is at the heart of the struggle for the support of the people of the country.

This report highlights the key financing sources relied upon by Al-Shabaab, with domestic taxation and trade-based strategies providing the vast majority of funds. Some of this can be frustrated by the international community, but a significant portion can only be addressed by the establishment and maintenance of an effective, competent and trusted national government that offers a demonstrably better financial alternative for the Somali people, along with improved security and governance and rule of law.

Military campaign losses will certainly destabilise Al-Shabaab’s financial situation, both through the loss of materiel, resources and territory, but also through the breakdown of its financial structure leading to the non-payment of its fighters, as one of Al-Shabaab’s primary appeals is the financial security it offers. Failing to preserve this compact could be fatal for Al-Shabaab. It may also lead, as after its significant losses during the Ramadan offensive in August 2010,1 to Al-Shabaab increasing taxes to replenish its coffers, a necessary but divisive strategy that will certainly undermine its support.

But as with Al-Qa’ida itself, military setbacks may not be fatal for Al-Shabaab. Initiatives need to be taken that continue to pressure its sources of funding both at home and abroad, supported and implemented by regional actors not just western authorities. Most importantly, the FGS needs to ensure honesty in meeting its financial commitments to its people.

To conclude, this report offers seven recommendations focused on winning the financial battle against Al-Shabaab.

Firstly, external funding sources must continue to be restricted. The combination of the withdrawal of Ethiopian troops and the resulting change in Al-Shabaab’s rhetoric and activities,2 together with the efforts of the

2. For example, a Somali-born Canadian who formerly managed fundraising for Al-Shabaab in North America noted a considerable decline in financial support for the group after the Kampala bombings as supporters did not believe this action served the interests of the country or the people of Somalia. See Roble, ‘Al-Shabaab Razes Somali Forests to Finance Jihad’.
international community, appear to have significantly reduced and restricted the direct sending of funds to Al-Shabaab from diaspora communities in the US and Europe. However Al-Shabaab still finds ways of benefiting from the generosity of this offshore population by taxing and extorting funds from recipients. The international community thus needs to work with the FGS to create what the UK Government calls ‘safe corridors’ through which funds can be remitted with a limited risk of intervention by Al-Shabaab. Mobile technology and ‘M-Pesa-style’ systems will be key to achieving this goal, a risk that Al-Shabaab clearly recognises given the group is believed to have sought previously to ban the use of mobile money. The international community, particularly in the Middle East, must also disrupt and dissuade deep-pocketed donors that are attracted to Al-Shabaab’s ideological rhetoric by enforcing counter-terror finance regulations, applying designations, and exposing the violent and extremist actions this funding perpetuates.

Secondly, Eritrea must be continually reminded of its international obligations and deterred from providing financial and military support to Al-Shabaab and other groups seeking to destabilise the FGS – the sanction for ongoing interference must be clearly articulated and imposed.

Together with domestic taxation, over which the international community has little control, trade-based financing is one of Al-Shabaab’s funding cornerstones and flows through the UAE and Saudi Arabia as the primary regional trading hubs for the export of charcoal and the import of sugar, concrete and vehicles. Thus thirdly, as highlighted by the recent UN ‘Implementation Assistance Notice’, reiterated by the latest UN Monitoring Group report, and underlined by the passing of UN Security Council Resolution 2182, the international community and the FGS must secure the genuine engagement of the UAE and Saudi Arabia in supporting the restriction of Al-Shabaab’s trade-based financing. Together with greater oversight of Somali trade flows, the UAE government must also bring increased transparency to the local money exchange houses that transfer the bulk of remittance monies into Somalia. Oversight by the UAE authorities currently appears to fall short of international expectations. The UAE and Saudi governments need to be reminded of the importance of their roles in facilitating Al-Shabaab’s survival, and means of exploiting their control over trade and remittances for Somalia need to be developed and implemented.

Aid agencies do invaluable work in Somalia. Thus fourthly, they need to be allowed to continue to do this work without fearing the intervention of international authorities or the FGS seeking to restrict or influence their activities. Such interference risks exposing aid agencies to the suspicion of being enemy agents acting against Al-Shabaab. Furthermore, aid agencies should enhance their efforts to understand Al-Shabaab, developing dialogue and appropriate relationships with the group. Where this has occurred, it has proved effective. Where possible, aid agencies should establish ‘red lines’ that are clearly understood by Al-Shabaab and avoid paying for access and allowing their aid deliveries to be co-opted. It is important that governments and donors fully understand these challenges – the imposition of complex and impractical counter-terror finance regulations by regulators and global bodies such as FATF and the UN on aid agencies are demonstrably counterproductive. An intelligent, flexible, and regular dialogue is needed to ensure aid agencies can operate without fear of political interference or worse, prosecution. These challenges have risen belatedly up the international agenda but leading nations, in particular the US, need to urgently row back and finesse the counter-terror finance regime that impedes and endangers aid agencies, at worst leading to the prolonging of suffering and conflict to the benefit of groups like Al-Shabaab.

Fifthly, the international community needs to take seriously and assess the reportedly growing nexus between the illicit wildlife trade and terrorist and insurgent financing. Supporting the efforts of the Kenyan authorities in countering the scourge of elephant and rhino poaching as well as ivory smuggling should be a priority, with governments following the lead taken by the Clinton Global Initiative in pledging money and support to this fight, a fight that may be as important in security terms as it is for conservation.

Sixthly, together with its leading role in tackling the illicit wildlife trade, Kenya should be supported as a key player in the broader strategy for countering Al-Shabaab’s financing. The country’s porous 682 kilometre-long border with Somalia, the presence of a large Somali diaspora in Kenya, Kenyan-Somali population, business hubs such as Eastleigh, and religious groups and leaders such as the Pumwani Riyadha Mosque Committee and the recently-deceased Abubakar Shariff Ahmed ‘Makaburi’ combine to create a fertile source of both financing and fighters for Al-Shabaab. Kenya itself is a soft target and, as a participant in the war against Al-Shabaab, is suffering a ‘blow-back

effect’ as fighters return home from Somalia, and local, radicalised groups such as Al-Hijra mount attacks.\textsuperscript{11} Amendments to Kenya’s new Prevention of Terrorism Act (2012) to provide even greater legal powers to restrict financing activity have recently been tabled;\textsuperscript{12} the ‘Al-Shabaab/East Africa Al-Qa’ida Disruption Initiative’ funded by the US has, according to the UN, disrupted Al-Hijra;\textsuperscript{13} the UN has imposed sanctions on a number of Al-Shabaab-linked Kenyan nationals, but the international community must continue to provide strong, on-going assistance to Kenya. As the attack on the Westgate Mall and other more recent attacks demonstrate, Kenya stands to suffer as Al-Shabaab adjusts its strategy in reaction to military defeat and financial restriction, and violent extremism develops amongst Kenya’s Muslim population, making the country a front for Al-Shabaab-inspired struggle with a more local face.

As the FGS, backed by AMISOM, gains greater control of the country and its key financial hubs, the Somali economy will grow and the financial scales should begin to tilt away from Al-Shabaab. Thus finally, and most importantly, the population must benefit from this economic improvement. Soldiers, police, and other state employees must receive regular and fair pay, and schemes of employment for those who have been or may be lured to join Al-Shabaab through economic expediency rather than radicalisation of ideology must be developed.\textsuperscript{14} As the UN notes, ‘Mogadishu-based institutions [are] still perceived as a source of instability, violence, and corruption’\textsuperscript{15} and holders of public office and civil servants continue to misappropriate government funds\textsuperscript{16} – this has to change.

Al-Shabaab will certainly also benefit from growth in the domestic economy and increased tax and domestic trade revenue in areas it controls, and it may continue to present an intermittent threat for years to come. But restricting and eradicating its core and significant revenue sources, particularly those based on the import/export trade that can be targeted by a coordinated international community, will severely deplete the organisation’s financial profile leading to a loss of fighters and materiel, thus constraining its activities and territorial control.

Ultimately, financing and funding are at the heart of any conflict. Restricting Al-Shabaab’s revenue sources and frustrating the group’s financial management should be cornerstones of the strategy for its defeat.

\textsuperscript{11} Hansen, \textit{Al-Shabaab in Somalia}, p. 131.
\textsuperscript{12} Rajab Ramah, ‘Kenyan Bill Stiffens Penalties Against Terror Financiers’, \textit{Sabahi}, 1 July 2013.
\textsuperscript{13} UNMGSE, 2013, p. 14.
\textsuperscript{14} For example, Hansen highlights how mismanagement and wasted opportunities are rife – such as the climate of corruption created when newly trained police deserted \textit{en masse} as they were not paid. See Hansen, \textit{Al-Shabaab in Somalia}, p. 6.
\textsuperscript{15} UNMGSE, 2013, p. 12.
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