
Al-Shabaab

Financial Assessment



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Al-Shabaab

FUNDING LEVEL¹



KEY AREAS OF ACTIVITY

- Somalia, notably in the southern and western parts of the country
- Networks of members in Kenya



FINANCIAL OVERVIEW

Al-Shabaab – the Somalia-based branch of al-Qaeda (AQ) – currently controls less territory and fewer ports than in years prior, but will likely be able to sustain itself by exploiting the country’s economic activity. Al-Shabaab probably will see its funding grow in years to come as the African Union Mission to Somalia (AMISOM) campaign draws down. The group most likely makes high tens of millions of dollars a year,² but earned up to \$100 million a year as late as 2011, before AMISOM recaptured much of southern Somalia.³ The group’s funding comes primarily from an extensive taxation system. Taxes on sugar and livestock were increasingly important to al-Shabaab in 2016, as taxes on charcoal declined.⁴ Al-Shabaab’s current lack of port access makes smuggling and taxing shipments more difficult,⁵ though corruption within the Kenyan army controlling southern Somalia allows such activities to continue.⁶ The group’s diverse income stream includes money from foreign donations, kidnapping, and extorting humanitarian organizations. The group’s focus on low-cost terrorist and insurgent operations, rather than formal state-building, allows it to stretch resources.

BACKGROUND

Al-Shabaab formed in the early 2000s as a component of the Islamic Courts Union (ICU). The ICU grew from a merger of sharia courts in Somalia that arose to keep order in the anarchic aftermath of the overthrow of dictator Siad Barre in 1991.⁷ After this merger, the remnants of an anti-Barre militant group re-formed as the youth wing of the ICU,⁸ naming themselves al-Shabaab (“The Youth”).⁹ In 2006, the ICU gained control of Mogadishu and surrounded the remnants of the UN-recognized Transitional Federal Government.¹⁰ Fearing that the ICU’s influence would spill over the border, Ethiopian forces invaded Somalia and took control of Mogadishu in late 2006.¹¹ This led to the dissolution of the ICU but energized al-Shabaab, which regrouped in southern Somalia.¹²

By 2009, al-Shabaab had grown stronger, capturing parts of Mogadishu and much of southern Somalia, including the vital port city of Kismayo.¹³ In 2012, AQ formally recognized al-Shabaab as an official branch.¹⁴ Al-Shabaab then gained worldwide notoriety for its massacre of civilians at Nairobi’s Westgate mall in 2013,¹⁵ and again at Kenya’s Garissa University in 2015.¹⁶ Although al-Shabaab’s conventional military strength has declined in recent years due to a 2012 split with an affiliated group, Hizbul Islam,¹⁷ and AMISOM offensives, the group has broadly increased its sophistication and the number of its terrorist attacks.¹⁸ In early 2017, despite the loss of its main ports¹⁹ and some defections to the Islamic State (IS),²⁰ al-Shabaab began to re-expand following the withdrawal of Ethiopian troops supporting the AMISOM mission.²¹ The group is active in Kenya, around Mogadishu, and in rural areas in southern Somalia.²² Al-Shabaab has recently shifted some operations to northern Somalia, likely in hopes of deepening its ties to al-Qaeda in the Arabian Peninsula (AQAP).²³

Action Points (for additional details, see page 6)

1. Leverage U.S. Treasury expertise to assist the Somali government in formalizing the country’s financial system.
2. Negotiate a revised AMISOM mandate to last beyond 2020.
3. Work with Kenya to end protectionist sugar policies and smuggling through the Somali border.
4. Sanction facilitators of the illegal charcoal trade. Push Gulf nations to enforce the UN charcoal ban.

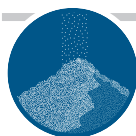


Al-Shabaab: Main Sources of Funding



CHARCOAL

- The UN import ban on Somali charcoal has been ineffective.
- Al-Shabaab made an estimated \$83 million per year from 2012-14 on taxing and trading charcoal, its largest funding source at the time.



SUGAR

- Sugar is smuggled to Kenya through al-Shabaab-controlled territory because of high Kenyan tariffs.
- Al-Shabaab charges a \$1,000 “tax” per sugar truck, which generated over \$12 million in 2015.



TAXATION AND EXTORTION

- Sales transactions are taxed at 10 percent and salaries at 5 percent.
- Al-Shabaab extorts humanitarian groups, requiring “registration payments” and taxes to operate.



ROAD TOLLS AND PORT FEES

- Taxes on port commerce have constituted a major portion of the group’s revenue.
- Al-Shabaab operates a comprehensive collection system, and often provides cheaper routes for truckers and smugglers to transport their wares.



DONATIONS

- Some remittance money sent from abroad, including from the U.S., goes to al-Shabaab.
- Al-Shabaab supporters in the Somali diaspora have used fraudulent charities to send the group money.



EXTERNAL ASSISTANCE

- Eritrea provided direct financial assistance from 2006 into 2011.
- Multiple MENA states, including Saudi Arabia and Iran, and groups such as Hezbollah, provided arms to the ICU in 2006.



KIDNAPPING FOR RANSOM

- The group in 2013 received \$5.1 million for kidnapping a pair of Spanish nationals.
- Al-Shabaab kidnaps local citizens for much lower ransoms.



DRUGS

- Al-Shabaab levies taxes on khat, a common intoxicant in the region.
- At least two ships interdicted with heroin off the Somali coast have allegedly included smugglers connected to al-Shabaab.



OTHER

- Al-Shabaab has potentially trafficked exotic wildlife and ivory in small quantities.

Significant Financial Events

2009

Al-Shabaab captures the port of Kismayo and parts of the capital, Mogadishu.²⁴ The group earns millions annually from ports it holds in southern Somalia.²⁵

August 2011

Al-Shabaab is ejected from all of Mogadishu.²⁶

October 2012

Al-Shabaab loses the port of Kismayo to a combined Somali-Kenyan force, hampering trade taxation,²⁷ but leading to financial diversification.²⁸

July 2015

Al-Shabaab loses the towns of Baardheere and Diinsoor in an AMISOM operation, further squeezing its tax base.²⁹

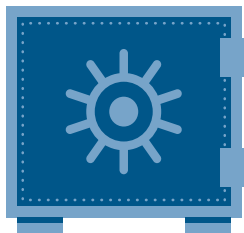
2015

Al-Shabaab bans charcoal trafficking after an agreement to share profits with the semi-autonomous regional government in southern Somalia breaks apart.³⁰

May 2016

The UAE cracks down on Somali charcoal imports, damaging al-Shabaab’s finances while also destabilizing the provincial government in southern Somalia.³¹

Al-Shabaab



ACCESS TO BANKING SYSTEM

Al-Shabaab has little access to conventional banking outlets,³² and thus extensively uses the *hawala* system,³³ money transfer services, and cash couriers.³⁴ The banking system in Somalia is so weak that foreign countries often transact with the Somali government in cash.³⁵ As a result, a large proportion of citizens rely on mobile money services to transfer money and pay bills.³⁶ Some al-Shabaab funds may interact with the banking system through these services. Indeed, al-Shabaab sympathizers in

Kenya have been known to fund the group through mobile payment systems,³⁷ which are ubiquitous in Kenya³⁸ and often interact with the banking sector by depositing customers' funds in commercial banks.³⁹ In 2010, fearing the potential for foreign interdiction and a loss in tax revenue, al-Shabaab banned mobile banking in areas it controlled.⁴⁰ However, al-Shabaab eventually dropped its opposition to mobile money. In 2012, the UN sanctioned an al-Shabaab-linked individual for the 2010 creation of an anonymous mobile money network, ZAAD, that the group likely used to transfer and pay funds.⁴¹ By late 2014, the group frequently received extortion payments through mobile banking services,⁴² and by 2016, the group "abandoned its previous reticence to using mobile money" and paid most of its salaries with mobile banking.⁴³

Though Somali money service businesses typically have some degree of regulation,⁴⁴ the weakness of counter-terror finance protections led most U.S. banks to end banking relationships with Somali entities in 2015.⁴⁵ Following the attack at Garissa University in 2015, Kenyan authorities closed 13 Somali-run money transfer businesses in Kenya⁴⁶ and froze "dozens" of bank accounts believed to be linked to the group.⁴⁷ A recently-formed Somali financial intelligence center will struggle to combat terror finance given its small staff and weak compliance systems.⁴⁸

Al-Shabaab has benefited from Somali businessmen who maintain banking relationships in the Gulf. These businessmen voluntarily fund al-Shabaab through a process known as trade-based money laundering,⁴⁹ where, for example, they overestimate the value of imported charcoal from Somalia and underestimate the value of exported sugar to Somalia. This money laundering goes through bank accounts in the Gulf states. Further, al-Shabaab-linked businessmen in Somalia may sustain their trades by moving money from Somalia to bank accounts in Dubai through *hawala* brokers, and then by using those accounts to buy and import the goods they sell to Somalia.⁵⁰



STRATEGIC STRENGTHS

- Al-Shabaab has a relatively robust and efficient bureaucracy,⁵¹ offering an alternative to the oft-corrupt Somali government and helping the group systematize revenue earnings instead of relying on *ad hoc* funding.⁵²
- Al-Shabaab has proven able to survive military losses, routinely adopting insurgent tactics and attracting fresh recruits. As such, conventional military defeats are likely to hinder, but not destroy, the group.⁵³
- Remittances constitute about a quarter of Somalia's GDP.⁵⁴ Given the importance of these flows to everyday Somali citizens and the poor financial regulatory system, al-Shabaab can continue to tap this resource.
- Lack of economic opportunities make the local population vulnerable to recruitment.⁵⁵
- Al-Shabaab maintains active recruiting and funding channels in Kenya, providing the group with added resiliency to efforts to damage its income streams or recruiting in Somalia.



STRATEGIC VULNERABILITIES

- Al-Shabaab's sugar and charcoal trading provides a clear target for trade and border policies designed to counter the group's finances. More robust inspection of shipments at ports could significantly damage al-Shabaab's finances.⁵⁶
- The Kenyan Defense Force (KDF) is largely believed to be profiting by allowing al-Shabaab's smuggling to continue.⁵⁷ Al-Shabaab is reliant on smuggling in southern Somalia, so concerted efforts by Kenyan authorities to end their army's complicity could significantly disrupt a major al-Shabaab funding source.
- Al-Shabaab's attempts to collect taxes have provoked resistance and fighting with local militias, underscoring that the group cannot extort as freely as it would like.⁵⁸
- The group has alienated locals by destroying and misappropriating humanitarian aid in previous famines, risking unrest and local pushback.⁵⁹

Al-Shabaab

GOVERNMENT COUNTER-MEASURES

The U.S. State Department designated al-Shabaab as a terrorist organization in 2008.⁶⁰ The U.S. has given African forces military support to degrade the group's land holdings and deplete the group's tax revenue. These actions have included funding military contractors,⁶¹ sending advisors⁶² and special operations forces to train AMISOM soldiers,⁶³ direct special operations support, aerial surveillance from at least two Somalia bases and a Djibouti airfield,⁶⁴ and air strikes.⁶⁵ As of 2014, the U.S. had committed nearly a billion dollars' worth of money and in-kind support to the AMISOM mission.⁶⁶ In March 2017, the U.S. added Somalia to a list of "areas of active hostilities,"⁶⁷ allowing more direct U.S. military involvement.⁶⁸ In April 2017, the U.S. deployed a small contingent of soldiers to train and assist the Somali army in their anti-al-Shabaab operations.⁶⁹

Additionally, the U.S. State Department has administered a regional partnership with a focus on countering al-Shabaab financing,⁷⁰ and trained the Somali government to investigate and prosecute counterterrorism cases.⁷¹ State and Treasury have helped Somali regulators develop effective regulations, provided know-your-customer training to Somali remittance agents, and provided supervisory training to the Central Bank of Somalia.⁷² Finally, U.S. law enforcement vigorously investigates and arrests suspected funders of the group.⁷³

U.S. OFFICE OF FOREIGN ASSETS CONTROL (OFAC) SANCTIONS

1 organization, 10 individuals

Of the ten individuals affiliated with al-Shabaab and designated by OFAC (as of June 23, 2017), six individuals have also been designated by the United Nations. For a detailed listing of designees, please see the *Terror Finance Briefing Book Appendices*, available on FDD's website.⁷⁴

NOTABLE OR RECOMMENDED DESIGNATIONS



NON-DESIGNATED CHARCOAL AND SUGAR SMUGGLERS

The UN has documented numerous instances in its yearly reports of individuals smuggling Somali charcoal, with some key unsanctioned individuals flagged in consecutive years.⁷⁵ These individuals are providing a lifeline to al-Shabaab by flouting the UN's 2012 ban on exporting Somali charcoal.⁷⁶ This continued trade allows al-Shabaab to tax charcoal shipments and make money from revenue-sharing agreements and money laundering. These individuals may have avoided U.S. and UN sanctions because al-Shabaab has not been a high enough priority.⁷⁷



'ABD AL-RAHMAN BIN 'UMAYR AL-NU'AYMI

Called "one of the world's most prolific terrorist financiers,"⁷⁸ Nu'aymi was sanctioned by the U.S. Treasury Department in 2013 for funding AQ and its branches for over a decade. This included support to al-Shabaab. Al-Nu'aymi "provided approximately \$250,000 to two U.S.-designated al-Shabaab figures":⁷⁹ a high-ranking religious leader⁸⁰ and a group spokesman.⁸¹ Al-Nu'aymi was sanctioned by the UN in September 2014.⁸² His current presumed location is Qatar.⁸³

WILDCARDS

Unexpected developments which would greatly impact the group's financing



FUNDING INCREASE

Bank de-risking brings a decline in remittance payments. Financial pressure on the population, along with rising local hostility to AMISOM forces, leads to civil unrest.⁸⁴ This unrest presents al-Shabaab with an opportunity to exploit the chaos and retake territory.⁸⁵



FUNDING INCREASE

Al-Shabaab answers the Somali government's call for peace talks,⁸⁶ which halts military pressure on the group and provides concessions which give it a financial lifeline.



FUNDING DECREASE

AMISOM's mandate is extended beyond 2020.⁸⁷ This renewed international commitment to Somalia is accompanied by increased support and resources for the Somali army, helping it secure more of the country.

Al-Shabaab: Action Points

1. Leverage U.S. Treasury expertise to assist the Somali government in formalizing the country's financial system.

International banks have pulled out of Somalia entirely to avoid the risk of transacting on behalf of al-Shabaab. This has pushed much of the flow of remittances into complicated arrangements going through the UAE. The Treasury Department should help Somalia develop a system to deliver remittances directly, by implementing know-your-customer systems in Somalia. Additionally, with the prevalence of mobile banking, the Treasury Department should work with Somali authorities to develop appropriate monitoring systems and procedures for mobile transactions. Lastly, the Treasury Department should help develop Somalia's financial intelligence unit through training and personnel exchanges to further develop anti-money laundering and combating the financing of terrorism (AML/CFT) systems in the Somali finance sector.

2. Negotiate a revised AMISOM mandate to last beyond 2020.

AMISOM forces are due to leave Somalia by 2020, with withdrawals beginning in 2018.⁸⁸ As the U.S. Africa Command warned in its 2017 Posture Statement, al-Shabaab stands to reclaim significant territory if the Somali government does not have the military strength to secure the country by then.⁸⁹ Eight countries supply police and soldiers to AMISOM, with most soldiers coming from Burundi, Kenya, Ethiopia, and Uganda.⁹⁰ The U.S. should elevate the importance of continuing the mission with direct outreach to these countries, pledging continued funding in exchange for a longer AMISOM mandate. This could come in the form of negotiating a conditions-based withdrawal plan, similar to what was proposed at the 2017 London Conference on Somalia,⁹¹ that provides added flexibility for AMISOM troops to stay in Somalia if key stability goals are not met. Further, the U.S. can directly contribute to the UN Trust Fund in Support of AMISOM and encourage the EU to commit to allocating resources for the mission to continue.⁹² The U.S. should also push AMISOM to adopt anti-corruption measures, such as those outlined in a 2014 Human Rights Watch report that detailed the involvement of AMISOM forces in sexual exploitation in Somalia.⁹³ Congress could make regional or AMISOM-specific aid contingent on the adoption of such measures.

3. Work with Kenya to end protectionist sugar policies and smuggling through the Somali border.

There is significant evidence that members of the KDF have colluded with al-Shabaab to keep the charcoal and sugar smuggling trades in place, which they profit from. The U.S. should consider this a form of terrorist financing, and work with the Kenyan government to end it. Kenya's sugar protectionism could be phased out over time. If Kenyan tariff reduction is not feasible, the U.S. could make the cessation of Kenyan armed forces' engagement in smuggling a key condition in future bilateral trade and investment negotiations.

4. Sanction facilitators of the illegal charcoal trade. Push Gulf nations to enforce the UN charcoal ban.

The UN Monitoring Group on Somalia and Eritrea has identified individuals repeatedly in its yearly reports who flout the ban on Somali charcoal exports. Often, ships and key facilitators are mentioned without any UN sanctions as follow-up. The U.S. should direct the Treasury Department to sanction those ships and individuals. Additionally, the U.S. should encourage the Financial Action Task Force (FATF) and the Eastern and Southern Africa Anti-Money Laundering Group to scrutinize the regional AML/CFT risks from charcoal ban violations, particularly by Gulf countries.

Al-Shabaab: Financial Details

Al-Shabaab's funding is likely to withstand the international community's current military countermeasures given how deeply the group is embedded within Somalia's economy. If al-Shabaab regains ports and land in southern Somalia, its ability to smuggle and tax charcoal, sugar, and other goods will increase.

- Al-Shabaab likely earns revenues in the high tens of millions of dollars, largely from taxes on the transporters and producers of charcoal and sugar.⁹⁴
- Al-Shabaab had revenue of \$70-\$100 million in 2011.⁹⁵
- The group has “the most diversified and innovating funding method” of the AQ branches, according to former U.S. Deputy National Security Advisor for Combating Terrorism Juan Zarate.⁹⁶
 - From charcoal taxes, charcoal sales, and port taxes, al-Shabaab earned an estimated \$38-56 million in 2014 alone.⁹⁷

CHARCOAL

The growth of the charcoal trade is likely to be a major determinant of al-Shabaab's finances. The illicit trade had been one of the group's main sources of funding, earning it tens of millions of dollars annually through taxes and direct sales, but the group has withdrawn somewhat from charcoal trafficking in order to pressure adversaries who also benefit from it. If the group reaches an agreement with the semi-autonomous regional government in southern Somalia and lifts its semi-implemented charcoal ban, the group could see its revenues increase sharply.

- In 2011, charcoal was “Southern Somalia’s principal export product,” according to the UN.⁹⁸
- Al-Shabaab has made money off charcoal at three points in the “value chain”:⁹⁹ taxes on charcoal transited across Somali roads, taxes on charcoal exports from al-Shabaab-held ports, and “shareholdings”¹⁰⁰ in the sale of the charcoal to buyers in Middle Eastern countries.¹⁰¹
- In an attempt to stem al-Shabaab’s funding, the UN banned charcoal exports from Somalia in 2012.¹⁰²
- Prior to losing the port at Kismayo in 2012, al-Shabaab earned an estimated \$25 million per year from exporting charcoal.¹⁰³
- After the ban and the loss of the port of Kismayo in late 2012, the UN estimated that al-Shabaab’s revenues from charcoal actually rose, as “the scale of charcoal export from Somalia ... increased by 140 percent.”¹⁰⁴
- The main importers of al-Shabaab’s charcoal in 2013 were the UAE and Saudi Arabia, with shipments increasingly shifting to Oman.¹⁰⁵
- In early 2014, however, Omani authorities moved to block charcoal smuggling per the UN ban. Thereafter, charcoal smugglers shifted their operations to Kuwait and back to the UAE.¹⁰⁶
- Despite the UN’s ban on Somali charcoal exports, the illicit trade continued to increase from 2012 to 2014, netting al-Shabaab up to roughly \$83 million per year. Charcoal was smuggled illegally through other ports in lieu of Kismayo.¹⁰⁷
 - The overall illicit charcoal trade in Somalia – not just with al-Shabaab – in 2014 was estimated at \$360-\$384 million.¹⁰⁸
- In response to the relative failure of its ban, the UN issued a reminder of the ban, and then authorized a combined 30-nation naval force patrolling the region’s waters to interdict the trade in 2014.¹⁰⁹
- Al-Shabaab earns significant revenues from taxing shipments of charcoal across its “hinterland transport network,” earning \$25 million in 2014. The group’s control of southern Somalia allows it to profit from charcoal even when not in control of major ports.¹¹⁰
 - From June 2013-May 2014, al-Shabaab made \$7.5-\$15 million from taxing charcoal at its checkpoints at a rate of \$1.30 per bag.¹¹¹
 - Taxes levied on charcoal by al-Shabaab are sometimes set up to 30 percent of the shipment’s value.¹¹²
- A 2014 UN report noted that “Al-Shabaab representation [in the charcoal trade] at Kismayo port accounts for 33 percent of exports,” enabling the group to make a direct profit from the sales of the charcoal abroad.¹¹³
 - A major part of the reason al-Shabaab continues to earn money from the charcoal trade going through

Al-Shabaab: Financial Details

ports it does not control is the complicity of the Kenya Defense Forces (KDF). The KDF, in Somalia as part of AMISOM, has been implicated in supporting the charcoal trade, rather than prohibiting it. When charcoal is exported from Somalia, corrupt KDF members typically split a \$3 tax on each bag of charcoal with al-Shabaab and the semi-autonomous regional administration in southern Somalia. From these export taxes, al-Shabaab made an estimated \$12-\$24 million annually going into 2015.¹¹⁴

- In early 2015, Al-Shabaab “shifted from taxing charcoal at checkpoints en route to ports to declaring a charcoal ban in areas under its influence in southern Somalia.”¹¹⁵
 - In August 2013, a regional government, called the Interim Jubba Administration, was formed in southern Somalia. In early 2015, the government’s leader, Ahmed “Madobe,” blocked al-Shabaab from receiving its “shares of export proceeds.” In an attempt to destabilize “Madobe’s” regional government, al-Shabaab instituted a charcoal ban.¹¹⁶
 - The ban has entailed “attacking or jailing charcoal burners and traders” in areas where the group is active, though al-Shabaab may still tax charcoal “on an ad hoc basis.”¹¹⁷
 - The ban has led the group to shift its financial model away from charcoal, as it now relies more heavily on other types of funding.¹¹⁸
- Charcoal continued to be a source of funding for al-Shabaab in 2016, though diminished.¹¹⁹
- Since charcoal smuggling shifted back towards the UAE in 2014, the UAE has increased its interdiction efforts, seizing a number of dhows carrying charcoal.¹²⁰ There is evidence that some charcoal smuggling has since shifted to Bahrain as this pressure has increased.¹²¹
 - Charcoal smugglers use fake paperwork declaring the charcoal shipment legitimate, of non-Somali origin. The creator of the fake paperwork gets a cut of the final sale, as do dhow owners (typically Indian) and financiers (typically Dubai-based).¹²²
 - Ali Ahmed Naaji, a “financier of the Jubaland Chamber of Commerce, Industry and Agriculture” in the semi-autonomous administration in southern Somalia, has al-Shabaab ties and is a key player in facilitating Somali charcoal smuggling, according to the UN.¹²³

SUGAR

Unless Kenya lowers its tariffs on sugar, al-Shabaab is likely to continue making substantial sums of money by importing, taxing, and smuggling sugar into Kenya. Sugar has become more important for the organization as the relative role of funding from charcoal has declined.

- The sugar and charcoal trades facilitate each other. Boats coming from Dubai with sugar often carry charcoal on their way back.¹²⁴
 - A 2011 UN report noted that the Somali government was complicit in facilitating the illicit sugar trade in two main ways: First, the government charged noncompetitive import duties, and second, the government turned a blind eye to boats only offloading part of their goods in government-held ports. Both of these actions led to boats unloading the rest of their goods in al-Shabaab-held ports.¹²⁵
- In 2011, the UN estimated that al-Shabaab made \$400-\$800,000 per year on taxing imported sugar. The group exempted “privileged” traders – those connected to al-Shabaab – from paying the tax.¹²⁶
- Somalia exported \$1.2 billion worth of sugar to Kenya in 2014; al-Shabaab was involved in taxing and co-opting this trade in many cases.¹²⁷
- A 2015 UN report estimated that the amount al-Shabaab earned from sugar was “substantially higher” than it had been in 2011. The group had come to rely on sugar-related revenues more as charcoal revenues declined.¹²⁸
 - After al-Shabaab attacked Garissa University in 2015, Kenyan authorities ramped up counter-financing efforts against the group by arresting more sugar smugglers.¹²⁹
- In 2015, al-Shabaab levied a flat tax of \$1,000 per sugar-laden truck¹³⁰ crossing through its territory as it traveled from the port at Kismayo to smuggle its cargo into Kenya. This tax yielded an estimated \$12.2 million per year.¹³¹
- In 2016, the UN Monitoring Group reported that truck charges had increased to \$1,500 in Lower Juba as a way to offset declines in charcoal revenue. The UN estimated that al-Shabaab could thus make \$12-\$18 million annually from taxing such trucks.¹³²

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TAXATION AND EXTORTION

Al-Shabaab's revenues from taxation and extortion are likely to increase as AMISOM forces retrench, allowing al-Shabaab to expand its sphere of influence. The group has increased its taxes in recent years. These revenue streams are heavily dependent on the group's ability to control land in southern Somalia. Humanitarian crises in Somalia can exacerbate the threat from al-Shabaab as it financially exploits the presence of international relief organizations.

• Taxation

- In 2011, al-Shabaab earned between about \$30 and \$60 million (representing at least 40 percent of its budget) from taxes on Bakara and Suuq Baad, major markets in Mogadishu.¹³³ The group deployed collections teams to enter markets and levy “protection taxes” based on business size.
- In 2011, al-Shabaab taxed commercial transactions in the areas it controlled at 10 percent, and salaries at 5 percent.¹³⁴
- As of 2013, the group's tax system levied a 2.5-percent corporate tax, alongside taxes by acre for farmers, and on livestock, consumer goods, and more.¹³⁵
- A former al-Shabaab commander reported in 2013 that the group levied a tax requiring individuals pay one-third of their wealth to the group.¹³⁶
- In 2013, the group levied taxes of \$120 on new home construction and a \$4.50 tax per sack of transported produce.¹³⁷
- A Somali government intelligence official told the UN that al-Shabaab earned \$9.5 million in taxes on farms in southern Somalia's Jubba Valley in 2014.¹³⁸
- Taxing agriculture in the Jubba Valley remained a major revenue stream in 2016.¹³⁹
- Taxation applies to small consumer items, such as t-shirts, soap, and bags of rice (\$2 per bag), as well as major land holdings like farms (\$500 per year).¹⁴⁰ The group even taxes drawing water from town wells.¹⁴¹
- Al-Shabaab's *zakat* taxation “soared” in 2016, despite a decline in the quality of public goods, according to the UN.¹⁴²

• Extortion

- Al-Shabaab has forced groups providing humanitarian assistance to pay registration fees and taxes on the incomes of their employees,¹⁴³ such as during the 2011 Somali famine.¹⁴⁴
- Al-Shabaab requires payments of up to \$10,000 to distribute aid, and often charges security fees of up to an additional \$20,000 per month.¹⁴⁵
 - In 2009, one UN agency paid 10 percent of its budget to al-Shabaab as a license to operate.¹⁴⁶
 - In 2010, aid agencies in Somalia paid an average of \$90,000 in fees and taxes to al-Shabaab every six months.¹⁴⁷
- Al-Shabaab seized nearly \$750,000 in humanitarian aid in a 2011 raid, though some of this aid may have been destroyed later.¹⁴⁸
- Al-Shabaab extorts some remittance money from the Somali diaspora.¹⁴⁹
- The group has extorted Somali telecom companies, according to unconfirmed press reports.¹⁵⁰ Al-Shabaab has reportedly closed telecom branches at times when the support was not received.¹⁵¹
- In 2015, many Mogadishu-based businesses paid a protection fee to al-Shabaab to prevent getting attacked, even though al-Shabaab did not control Mogadishu.¹⁵²
 - Al-Shabaab often extorts \$5,000 as protection money from hotels. In at least one case, a Mogadishu hotel was attacked by the group after the owner refused to pay.¹⁵³
- Shortly after taking the port city of Harardheere in late 2010, al-Shabaab made a deal with Somali pirates to take a cut on their revenues from ransomed vessels in exchange for protection. Sources on the ground put al-Shabaab's cut at 20 percent in early 2011,¹⁵⁴ while the World Bank cited al-Shabaab earning \$100,000 per ransomed pirate ship in late 2010 and increasing to \$200,000 in early 2011.¹⁵⁵
- Al-Shabaab began stealing thousands of heads of livestock in 2016, claiming these thefts constituted a form of *zakat*.¹⁵⁶

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ROAD TOLLS AND PORT FEES

The transportation network across southern Somalia provides al-Shabaab access to vital traffic that will continue to be key to its funding. In the absence of controlling ports – the group lost consistent port access through battlefield losses in 2016¹⁵⁷ – the group’s ability to tax charcoal, sugar, and other goods from truckers traversing its roads will be of increasing importance.

- From late 2008 to late 2012, the al-Shabaab-controlled port in Kismayo generated roughly \$35 to \$50 million by undercutting the fees charged by the Somali government, thereby encouraging importers and exporters to use their port.¹⁵⁸
- A 2010 UN report found that a significant proportion of al-Shabaab’s income and supplies came through its control of ports.¹⁵⁹
- Taxes on trucks in southern Somalia have risen as the group has lost revenue on charcoal due to al-Shabaab’s self-imposed 2015 charcoal ban.¹⁶⁰
- Al-Shabaab-run road checkpoints charge \$30 for a civilian car and up to \$1,500 for a truck of goods. Checkpoints on some major roads can collect up to \$3 million per year.¹⁶¹

DONATIONS

Somalia is heavily reliant on remittances to sustain its population; when coupled with an under-regulated banking and money transfer industry, this makes foreign donations difficult to interdict. As such, the group is likely to continue receiving money in this manner for the foreseeable future.

- The UN noted that trade-based money laundering has occurred through al-Shabaab-linked businessmen in the Gulf overvaluing imports and undervaluing exports, and funneling some of the resulting revenue to al-Shabaab.¹⁶² The bankers and businessmen engaging in this process benefit by gaining preferential access to al-Shabaab-linked businesses and al-Shabaab-controlled ports, which have significantly lower tariffs than ports controlled by the Somali government.¹⁶³
- In 2012, Qatari national ‘Abd al-Rahman bin ‘Umayr al-Nu’aymi sent \$250,000 to two al-Shabaab leaders.¹⁶⁴

- The Somali diaspora sends \$1 billion a year in remittances to Somalia, of which an uncertain portion makes its way to al-Shabaab.¹⁶⁵
 - Given the lack of a formal banking system in Somalia, the country receives many of its remittances in a circuitous manner involving international trade. Remittance agents in Somali diaspora communities instruct agents in Somalia to provide funds to local recipients, which the local agents do using cash on hand. But since the international agent cannot wire money directly to Somalia, they send funds to UAE-based money clearinghouses. The clearinghouses give loans to Somali traders for importing goods. When the traders sell those goods in Somalia, they reimburse the local remittance agent. This complex system makes it difficult to track the flow of remittances and identify recipients.¹⁶⁶
 - A 2010 UN report detailed various fundraising schemes al-Shabaab has used to engage with its diaspora, including regular fundraising trips to Nairobi and an online fundraiser that raised roughly \$40,000.¹⁶⁷
 - Al-Shabaab’s image abroad has been hurt as it has shifted over time from an anti-government nationalist campaign to a campaign of extreme violence targeting civilians, dampening its external fundraising.¹⁶⁸
- Americans have been convicted of fundraising for al-Shabaab.¹⁶⁹
 - Al-Shabaab has had success recruiting Americans, with a dozen convicted for funding the group by 2013¹⁷⁰ and roughly 40 actively fighting for al-Shabaab in early 2016.¹⁷¹
 - From 2008 to 2012, six fundraising cells in the U.S. raised at least \$46,508. These funds were used to support al-Shabaab’s operations in Somalia and to facilitate the travel of Americans going to Somalia to fight for the group. Money was sent to Somalia through *hawala*.¹⁷²
 - U.S. prosecutors sentenced two citizens in 2017 for organizing a fundraising ring sending money to al-Shabaab that included women in Somalia, Kenya, Egypt, the Netherlands, Sweden, the United Kingdom, Canada, and the U.S.¹⁷³

Al-Shabaab: Financial Details

- Al-Shabaab maintains a network of supporters within Kenya known as al-Hijra. The group supports al-Shabaab through fundraising and recruiting.¹⁷⁴
 - Al-Hijra grew out of a social work-focused group at the Pumwani Riyadhha Mosque, which owns large tracts of land. In 2011, it was determined that money for mosque reconstruction had been siphoned off for al-Shabaab, and some rents paid to the mosque were being used to fund pro-al-Shabaab propaganda.¹⁷⁵
 - In August 2016, Kenyan security forces found evidence that the leader of al-Hijra, Ahmed Iman Ali,¹⁷⁶ was indirectly running some Nairobi businesses and collecting rent from others. These ventures made tens of thousands of dollars annually for al-Shabaab,¹⁷⁷ and were remitted to the group through “informal money transfer systems, mobile money transfers, and couriers.”¹⁷⁸
 - In 2012-13, al-Shabaab fundraised among the “Somali business community in Qatar” to fund a “wave of assassinations” of Somali politicians and intelligence operatives.¹⁸⁴
 - Qatar’s status as a “permissive” terror finance jurisdiction has allowed individuals funding al-Shabaab to escape scrutiny and prosecution.¹⁸⁵
- Al-Shabaab has been connected to AQAP since at least 2008, though formal coordination may not have begun until 2010 when an AQAP leader issued a statement enjoining the groups to work together. AQAP sent arms and soldiers to al-Shabaab in 2011.¹⁸⁶ Al-Shabaab’s increasing presence in northern Somalia may presage increased contact and coordination with AQAP in Yemen; in the past, this contact is what likely helped al-Shabaab develop increasingly sophisticated explosives.¹⁸⁷

EXTERNAL ASSISTANCE

Al-Shabaab does not currently receive much, if any, assistance from an outside state or formal non-state actor, though its increasing links to AQAP mean that income, intelligence, or supplies from AQ could come in the future.

- In 2006, before al-Shabaab was designated as a terrorist organization, the governments of Djibouti, Egypt, Eritrea, Libya, Iran, Saudi Arabia, and Syria, in conjunction with Hezbollah, all supported the Islamic Courts Union and its military wing in its fight against the transitional Somali government.¹⁷⁹
- The Eritrean government funded al-Shabaab with at least \$80,000 in 2011.¹⁸⁰ Eritrea sent \$40,000-\$50,000 per month to al-Shabaab from around 2006 through 2008.¹⁸¹
 - In 2012, the UN Monitoring Group assessed Eritrean support to al-Shabaab had stopped under pressure from the international community.¹⁸²
- Qatar has also been accused of providing support to al-Shabaab, both through direct state support and by providing a permissive regulatory environment that allows terrorist financing to occur. Two leaked U.S. diplomatic cables from 2009 cite Somali government officials accusing Qatar of funding al-Shabaab.¹⁸³

KIDNAPPING

*Based on other AQ affiliates and given the prevalence of loosely-regulated money service businesses allowing for easy money transfers, it is likely that the group will rely more on kidnapping for ransom if its land holdings are sufficiently pressured. The group is likely to continue to use the ongoing famine in Somalia to kidnap aid workers.*¹⁸⁸

- In 2013, al-Shabaab made \$5.1 million in ransom for a pair of Spaniards it kidnapped.¹⁸⁹
- Al-Shabaab has also kidnapped Somali nationals, including farmers, for small ransoms.¹⁹⁰
- Al-Shabaab has kidnapped a number of young women in Kenya and trafficked them to Somalia as sex slaves for the militants.¹⁹¹

Al-Shabaab: Financial Details

DRUGS

Given al-Shabaab's proximity to major hubs and shipping lanes of the global drug trade, it is possible that the group will become more involved in profiting from drugs as it looks for new revenue sources in years to come.

- Al-Shabaab raised more than \$500,000 from taxes on khat in 2010.¹⁹²
- Elements of al-Shabaab may profit from heroin trafficking in East Africa, although there is no confirmed link to the trade. A pair of ships assessed to have some connections to the group were caught smuggling heroin in 2014.¹⁹³

OTHER SOURCES OF REVENUE

Al-Shabaab's involvement in the ivory trade, if existent, has probably been opportunistic, and will likely continue to be so given the difficulties in procuring large amounts of ivory.

- Ivory is probably a very minor funding source of al-Shabaab, but there is some evidence that the group has been involved in the illegal trade.¹⁹⁴
 - Somali businessmen believed the group was sending fighters to Kenya to slaughter elephants for their tusks in 2013.¹⁹⁵
- A 2012 UN report named Hormuud Telecom as “one of the single largest financiers of Al-Shabaab,” based on “lump-sum payments” and shareholdings by major al-Shabaab members. The report also named Hormuud Telecom as providing “key material and logistical support to Al-Shabaab,” including “weapons, private fighters, and ammunition.”¹⁹⁶
- In 2015, al-Shabaab posted a recruitment video showing its militants slaughtering a giraffe in the wild.¹⁹⁷ Although the video argued this meant recruits would have sufficient resources for food, it also indicates the group has access to wildlife for other potential uses.

EXPENDITURES

Al-Shabaab runs a sophisticated taxation system which probably allows it to squeeze much value out of the population without spending much on governance activities. The group runs a low-cost operation, spending most of its income on fighters.

- In 2010, fighters received a \$400 signing bonus.¹⁹⁸ In 2013, al-Shabaab fighters made \$100-\$300 per month.¹⁹⁹
 - The UN Monitoring Group's 2016 report found that monthly salaries for al-Shabaab fighters ranged from \$50 for low-ranking fighters to \$1,000 for “senior officers and certain tax collectors,” with a modal monthly salary of \$100. The group pays bonuses to those who complete military campaigns.²⁰⁰
 - Based on a modal salary of \$100, and with an estimated 7,000-9,000 fighters,²⁰¹ this amounts to salary costs for al-Shabaab of \$8.4-\$10.8 million per year.
 - Al-Shabaab likely uses mobile money services to pay its fighters.²⁰² The Monitoring Group's report named Hormuud Telecom as the provider through which most salaries were paid.²⁰³
- In 2010, al-Shabaab sent fighters to assist AQAP in Yemen.²⁰⁴
- Major attacks, such as the assault on a Nairobi shopping mall in 2014, likely only cost the group about \$100,000.²⁰⁵
- Al-Shabaab has a media office, al-Kataib Media Foundation, in operation since 2009. The Foundation creates and distributes propaganda for the group.²⁰⁶
 - This propaganda includes an English-language magazine, documentaries, and press releases.²⁰⁷
- Al-Shabaab operates another media office, Radio Andalus, which provides content for the local Somali population.²⁰⁸
- The group's bureaucratic structure includes accountants who calculate the tax burden for those living under the group's purview.²⁰⁹
 - Al-Shabaab moves its tax checkpoints, but the group issues slips to trucks so that, once a truck's shipment is taxed, it will not be double-taxed.²¹⁰

Al-Shabaab: Financial Details

Al-Shabaab's funding will likely grow if AMISOM forces pull back in the next few years as the group continues to profit from its illicit trade and taxation systems. The group's growing international ties could foster a shift in the group's funding model. The effort to degrade al-Shabaab's financing should focus on fighting corruption and developing Somalia's institutional capacity, such as a formal banking system with strong anti-money laundering and counter-terror finance regulations. Outside of Somalia, the international community will need to enforce the ban on exported Somali charcoal, and develop sanctions on al-Shabaab funders. Somalia and neighboring countries need to develop strong institutions which not only support economic development and governance, but that construct social and national identities that help prevent radicalized narratives. A U.S. diplomatic focus on developing methods to build such institutions would make the U.S. a better counterterrorism partner by strengthening these societies, rather than by extending further aid which can make countries increasingly dependent upon the West's largesse. Regardless, al-Shabaab's history suggests that the group will continue to adapt by changing its form and its funding sources as needed to withstand pressure, indicating that the group will likely remain a security threat in Somalia and Kenya for the foreseeable future.



A Ugandan soldier supporting AMISOM rushes past a Somali woman in a successful 2012 operation to dislodge al-Shabaab from a town near Mogadishu.

Credit: AU-UN IST PHOTO / STUART PRICE

Al-Shabaab: Endnotes

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