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AGAINST TRANSNATIONAL
ORGANIZED CRIME

COMMERCE UNDER SIEGE

DISRUPTING AL-SHABAAB'S
HOLD ON MOGADISHU'S
ECONOMY

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Cover: A civilian walks near a destroyed building after an attack on the
SYL Hotel in Mogadishu, February 2016. © *Mohamed Abdiwahab/AFP*
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ACRONYMS AND ABBREVIATIONS

AGO	Attorney General's Office
AML	Anti-money laundering
CBS	Central Bank of Somalia
CFT	Countering the financing of terrorism
DNFBP	Designated non-financial businesses and professions
FCA	Financial Conduct Authority, UK
FGS	Federal Government of Somalia
FRC	Financial Reporting Center
HIPC	Heavily indebted poor countries
NAMLC	National Anti-Money Laundering and Countering the Financing of Terrorism Committee
NIRA	National Identification and Registration Authority
NISA	National Intelligence and Security Agency
SNA	Somali National Army
TF	Terrorist financing



EXECUTIVE SUMMARY

In February 2022, General Stephen Townsend, who at the time headed up United States Africa Command, cautioned that the Somali Islamist group al-Shabaab was the 'largest, wealthiest and most deadly' al-Qaeda affiliate remaining in the world. As noted in the Somali National Development Plan, an estimated US\$1.5 billion per year is spent by international partners on peacekeeping, counter-insurgency and support to the Somali security sector. This is largely due to the threat posed by a remarkably resilient group that is thought to number little more than 5 000 to 10 000 core members.

Al-Shabaab's 'wealth' and resulting resilience are due in large part to the robust 'taxation' apparatus it has established throughout southern and central Somalia. Through a network of dozens of road checkpoints, levies on imports into Mogadishu and the direct extortion of Somali businesses, the militant group is estimated to generate upwards of US\$100 million annually. These revenues have proved more than sufficient to sustain al-Shabaab's domestic insurgency – as well as its external terror operations – over the long-term.

Despite relinquishing direct control of Mogadishu more than a decade ago, al-Shabaab's intelligence network is extensive and deeply embedded across various sectors in the capital. The group sources intelligence from multiple channels, including corrupt officials, business contacts and intermediaries within critical economic sectors such as real estate, as well as trade. Notaries play a particularly crucial role, providing al-Shabaab with detailed information on property transactions, ownership and financial agreements, which the group uses to calculate its extortion demands. Additionally, al-Shabaab's informants within Mogadishu's seaport and other strategic locations supply information on cargo movements, allowing the group to levy taxes on imports and exports. Business owners faced with extortion demands from al-Shabaab are caught in a perilous balancing act between yielding to the group's violent coercion tactics or complying with government regulations.

The return to power of President Hassan Sheikh Mohamud in an indirect presidential election in May 2022 (after a five-year absence) ushered in an era of renewed energy and optimism in the fight against al-Shabaab. In August 2022, the president declared a three-pronged 'total war' against al-Shabaab, incorporating military, ideological and financial elements. During the early phases of the offensive, significant progress was made in reclaiming territory from al-Shabaab as well as targeting the group's financial lifelines. In January 2023, the freezing of 250 suspected al-Shabaab bank accounts and the closure of mobile money accounts signalled a shift towards a more financially focused onslaught.

These efforts initially raised optimism among business owners and government officials alike. Encouraged by the efforts of the Federal Government of Somalia (FGS), some business owners temporarily ceased making payments to al-Shabaab, hopeful that the crackdown would weaken the group's grip on the city's economy. However, as the military offensive began to stall and government pressure diminished, the risk premium attached to resisting al-Shabaab's taxation demands spiked afresh. Faced with the resurgence of al-Shabaab's coercive tactics and lacking sustained support from the government, most firms reverted to 'business as usual' and resumed paying 'taxes' to the militant group. The inability to sustain the offensive against al-Shabaab may well be remembered as a crucial lost opportunity.

The FGS's 'financial offensive' against al-Shabaab included measures against financial crime, such as freezing and investigating accounts, imposing sanctions and tightening regulatory guidelines. However, compliance challenges persist and efforts against financial crime are only as effective as the enforcement mechanisms supporting them. The Financial Reporting Center (FRC) and the Central Bank of Somalia (CBS), while nominally leading the country's anti-money laundering and countering the financing of terrorism (AML/CFT) efforts, have struggled to enforce compliance effectively, particularly among designated non-financial businesses and professions (DNFBPs) such as real estate agents, notaries and lawyers. These professions are highly susceptible to exploitation by al-Shabaab.

This report recommends a multifaceted strategy to dismantle al-Shabaab's financial networks, including providing AML/CFT compliance support and training for DNFBPs and the ministries that oversee them, incentivizing private sector compliance through certification mechanisms, linking overseas financial licences to Somali AML/CFT benchmarks and leveraging machine learning for smarter sanctions enforcement. By addressing these areas, the Somali government and its allies can disrupt the group's revenue streams more effectively and loosen its grip on the country's economy.



Al-Shabaab has accumulated a substantial pool of wealth through a sophisticated taxation system that reportedly generates hundreds of millions of dollars annually. © Hassan Ali Elmi/AFP via Getty Images



INTRODUCTION: AL-SHABAAB'S FINANCIAL FOOTPRINT IN MOGADISHU

Mogadishu remains the nexus of Somalia's economic and financial activity, since most major companies and financial institutions are based in the city. An ever-changing skyline attests to the economic boom taking place in the capital. Its seaport, handling an influx of 7 000 to 10 000 containers each month, serves as a vital entry point for goods into the federal member states of southern and central Somalia.

The FGS's Annual Revenue Performance Report for 2022–2023 recorded a gross domestic revenue of US\$329.5 million for the fiscal year 2023, reflecting a 25% increase from the previous fiscal year.¹ The vast majority of this revenue is derived from business activity in Mogadishu. However, Mogadishu's rapid economic growth does not only benefit the country's legitimate governing authorities, because wherever the FGS generates revenue, so does al-Shabaab.

Al-Shabaab has established a sophisticated criminal enterprise that has extensively infiltrated virtually all aspects of political and economic life in Somalia. For nearly two decades, the group has developed a centralized extortion system that generates revenues in major urban centres and along major transit routes in southern and central Somalia. Its 'taxation' catchment extends far beyond territory under its direct control, to include Mogadishu.²

Despite efforts by the FGS, al-Shabaab's 'pay or die' extortion continues in the capital, where the group maintains detailed records in order to collect a 2.5% annual *zakat* (forced charitable tax) from wealthy individuals and businesses. Collection is enforced by the *Amniyat*, al-Shabaab's intelligence and security arm, using the ever-present threat of violence, to the extent that non-compliant business owners risk assassination or destruction of their businesses.³ Drawing on detailed intelligence, al-Shabaab exploits shipping imports, real estate transactions and other commerce, profiting from activities that are usually beyond the reach of non-state actors. One research study concluded that the group's 'taxation' in Mogadishu for the Islamic year 1441 (corresponding to August 2019 to August 2020 of the Gregorian calendar) yielded approximately US\$56 million, or about one-third of its total revenue.⁴

Between February and April 2024, over 70 interviews were conducted with businesspeople, citizens and security officials in Mogadishu for this report. Due to the sensitivity of the research and risk of reprisals from al-Shabaab, all interviewees were granted anonymity.



HASSAN SHEIKH MOHAMUD DECLARES WAR ON AL-SHABAAB

During a televised speech in August 2022, President Mohamud declared ‘total war’ against al-Shabaab.⁵ The offensive was to consist of three prongs: military, ideological and financial, with the latter aspect designed to dismantle the group’s financial networks and eliminate its grip on Somalia’s economy.⁶

Working in concert with clan militias (the so-called *Ma’awisley*) and international partners, the Somali National Army (SNA) initially made significant military gains against al-Shabaab, reclaiming territory across Hirshabelle and Galmudug. The *Ma’awisley* and other clan uprisings had predated Mohamud’s declaration, dating back to June 2022 following the assassination of a clan elder in Beletweyne.⁷ Boosted by local frustration with al-Shabaab’s predatory behaviour and its refusal to moderate extortion demands amid pressure on incomes caused by widespread drought, these operations combined grassroots mobilization with a clear federal commitment to countering al-Shabaab at every level.

The first phase of the military offensive, from August 2022 to January 2023, targeted the Middle Shabelle region. The SNA liberated 70 communities, including Rage-El, where locals joined the fight to terminate 13 years of al-Shabaab rule. This phase killed 3 000 militants and left more than 3 700 injured, according to the FGS Ministry of Information. The SNA received support from international partners such as the US, Türkiye and the African Union, but emphasized that Somali soldiers and clan fighters led the assault.

While making impressive territorial gains, the military offensive on its own did not significantly impact al-Shabaab’s ability to generate revenue because the recaptured areas had not been crucial to the group’s financial base. According to the research study cited in the Introduction, the group’s revenues for the Islamic year 1441 generated an estimated US\$23.73 million in the Hirshabelle region.⁸ Over the same period, revenues in Galmudug were estimated at US\$11.19 million.⁹ Taken together, these regions accounted for only 21.3% of al-Shabaab’s total estimated revenue of US\$163.8 million for the Islamic year 1441.¹⁰ Conversely, al-Shabaab generated the vast majority of its revenue from Mogadishu and the Juba Valley, which were largely untouched by the FGS military offensive.¹¹

However, recognizing that territorial gains alone would not dismantle al-Shabaab’s financial networks, the FGS shifted focus towards a more targeted financial offensive designed to cripple the group’s economic lifelines.



President Hassan Sheikh Mohamud (second from right) launched a three-pronged war against al-Shabaab in August 2022, attacking them on financial as well as military and ideological fronts. © Hassan Ali Elmi/AFP via Getty Images

The financial offensive

Less than six months after the launch of the military offensive, the FGS took its first targeted measures to disrupt al-Shabaab's financing. President Mohamud and his National Security Advisor endorsed a terrorist financing (TF) disruption strategy developed by the FRC, with support from the UN Office on Drugs and Crime. This strategy, to be implemented through the AML/CFT Task Force, outlined a phased, multifaceted approach to combat and weaken al-Shabaab's finances over the long term. In January 2023, the FGS announced that it had frozen 250 bank accounts and 70 mobile money accounts that it suspected were affiliated with the militant group. This marked the first major AML/CFT enforcement action since the FGS established the AML/CFT Task Force in 2019. Later that same month, al-Shabaab spokesperson Ali Dheere condemned the government's initiatives, labelling them as a Western scheme aimed at depriving Somalis of their wealth.

The overall effectiveness of the financial campaign is difficult to assess. The FGS' own reports – internal and public – on the success of its efforts have been highly inconsistent. For instance, a report by the FGS Attorney General's Office (AGO) in November 2023 claimed that a total of US\$150 million 'destined to al-Shabaab' had been frozen.¹² Conversely, an FGS press release in February 2024 claimed that the government's financial disruption efforts had resulted in the seizure of only US\$7 million.¹³ Another AGO report circulated in May 2024, however, painted a far more sober picture. The report stated that a total of only about US\$750 000 of al-Shabaab funds had been frozen.¹⁴ It also enumerated several challenges in prosecuting AML/CFT cases in the Somali context, including the 'limited case analysis and evidence' the AGO typically received from the FRC, Somalia's financial intelligence unit.

Nonetheless, excitement in the Mogadishu business community about the financial campaign's progress led many businesspeople to cease paying 'taxes' to the militant group temporarily. After strong initial gains, both the military and financial aspects of the offensive against al-Shabaab have since lost momentum.

The offensives stall

In mid-August 2023, President Mohamud announced his intention to 'eliminate al-Shabaab within five months' or at the minimum reduce the group's control of territory to minor, harmless pockets.¹⁵ However, by that time the military offensive had already begun to stall. Analysts pointed to several factors contributing to this: an inability to deploy holding forces in newly liberated areas; a failure to mobilize and equip clan militias sufficiently; resource and logistical constraints; and al-Shabaab's resilience.

A mere week after Mohamud's proclamation, FGS forces suffered a major setback in Galmudug at Cowsweyne, where al-Shabaab militants attacked a recently captured military base and killed as many as 178 government soldiers.¹⁶ The planned second phase of the offensive never fully materialized.

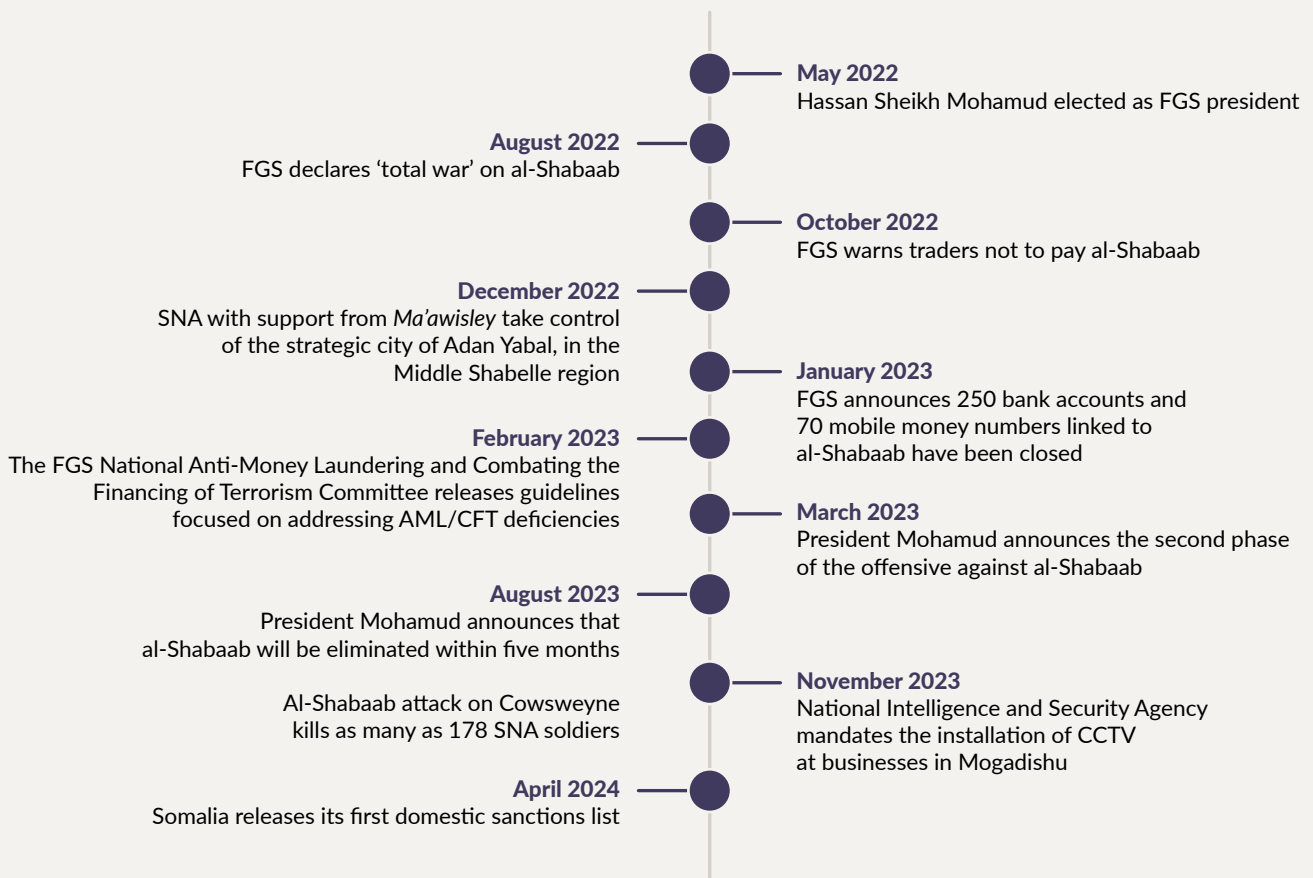


FIGURE 1 The offensive against al-Shabaab.

As of August 2024, al-Shabaab remained a significant threat, entrenched in southern and central Somalia, even in areas targeted by the government offensive. The group still controls roughly half of Hirshabelle state and most of the hinterland of eastern Galmudug.

Meanwhile, the financial disruption efforts of the AML/CFT Task Force had begun to taper off as well. Despite being approved by the FGS leadership, the TF disruption plan stalled at the conceptual stage, hindered by a lack of FGS capacity to implement it, coupled with the loss of military momentum. Efforts to combat al-Shabaab financially may have been further undermined by a lack of prioritization in gathering financial evidence during military operations, with captured materials often failing to reach intelligence channels capable of analyzing them effectively. Additionally, poor compliance by financial entities with reporting requirements has hindered the FRC's ability to generate leads on potential terrorism financing for further investigation by authorities. According to the May 2024 AGO report, the FRC had referred only two new AML/CFT cases since April 2023.¹⁷

The political will underwriting the FGS offensive also appears to have weakened, even extending to President Mohamud's rhetorical stance against al-Shabaab. Speaking in June 2024, Mohamud stated that 'the [end] game with al-Shabaab is through negotiation'. Rumours that the FGS was engaged in back-channel negotiations with al-Shabaab brokered by the Qatari government resurfaced.¹⁸ The FGS subsequently denied that any such mediation was taking place.¹⁹

The inability to sustain the offensive against al-Shabaab may well be remembered as a crucial lost opportunity. Mogadishu businesspeople interviewed for this study indicated that their initial enthusiasm over the anti-al-Shabaab campaign faded as the offensive lost momentum. Initial willingness to rebuff al-Shabaab extortion demands ebbed when it became clear that government pressure would not be maintained. After this initial honeymoon period, most interviewees reported that affairs reverted to 'business as usual', with business owners resuming payments to al-Shabaab.



IMPACT OF THE OFFENSIVE ON MOGADISHU'S BUSINESS COMMUNITY

The business community in Mogadishu has always encountered a difficult choice when faced with al-Shabaab demands for 'taxes': assent to the demands and risk being labelled as terrorist collaborators, or refuse to pay and risk violent reprisals from the militant group. These reprisals have often been deadly. For instance, a 2018 turf war between al-Shabaab and the Islamic State group's Somalia faction over control of Mogadishu extortion revenue culminated in the targeted killings of 11 employees of Hormuud Telecom in a single month.²⁰ The business community has understandably bristled under this double tax burden: extortion payments to al-Shabaab in addition to what they are required to pay to increasingly assertive federal revenue collection authorities. Widespread resentment over government taxation has been exacerbated by the fact that the FGS has historically proved incapable of protecting either the physical security or property of businesspeople from al-Shabaab reprisals.

Nonetheless, during the early months of the military offensive against al-Shabaab, government pressure on Mogadishu's business community to resist the militant group's demands intensified. The FGS Ministry of Commerce and Industry declared that traders who made payments to the group would face the utmost legal repercussions, including revocation of government-issued trading permits.²¹ Additionally, any company found to incorporate members of al-Shabaab or collaborate with the group would have their real estate confiscated by the government.²² Despite these threats, our research did not identify any instances of the government actioning this, ultimately undermining the deterrent effect of such pronouncements.

Multiple Mogadishu-based businesspeople interviewed for this study reported that they had taken extra precautions during this period of uncertainty, such as switching off their phones to avoid 'taxation' demands, or relocating temporarily to cities such as Istanbul, Nairobi and Dubai. In addition to refusing al-Shabaab's 'taxation' demands, they were also willing to support state initiatives promoting public safety, including the installation of CCTV cameras on business premises in Mogadishu.

Attacks related to the installation of CCTV cameras

In late 2023, the National Intelligence and Security Agency (NISA) ordered businesses in Mogadishu to install CCTV cameras in and around their premises, in a bid to monitor threats and collect evidence of al-Shabaab's financial activities. Numerous traders in Mogadishu initially complied with the FGS order. In retaliation, the group targeted cooperating businesses in a series of bombings in late 2023 and early 2024.

The first of these attacks took place on 28 November 2023, when an improvised explosive device detonated at an auto spare parts shop in the Howlwadaag district.²³ This was followed by a similar explosion on 4 December in Bakara Market.²⁴ In the deadliest such incident, at least eight people were killed and 19 others injured in multiple bombings in Bakara Market on 6 February 2024.²⁵ The explosions targeted six major electronics vendors, according to business leaders. Following the attacks, store owners reported receiving anonymous calls from individuals claiming to belong to al-Shabaab, who warned them against installing CCTV.²⁶

This violent backlash against businesses cooperating with government directives underscored the perilous environment in which Somali companies are forced to operate.



Somali police officers stand guard at the scene after an explosion at Bakara Market in Mogadishu, 6 February 2024.

© Reuters/Feisal Omar



AL-SHABAAB'S INFILTRATION AND EXPLOITATION OF MOGADISHU'S BUSINESS COMMUNITY

Al-Shabaab's infiltration of Mogadishu's business sector encompasses both direct and indirect methods of control and revenue generation. The group's influence ranges from securing payments from businesses through *zakat* and taxation on goods passing through key hubs like Mogadishu's seaport, to recruiting informants and intermediaries within critical economic arenas, such as real estate and import-export businesses. Al-Shabaab's finance department leverages detailed financial information from these informants to calculate and enforce their 'taxation' demands. Additionally, the group engages with local businesses to establish both 'willing' (i.e. the firm engages of its own accord) and 'unwilling' (forced) investment arrangements.

In the real estate sector, the group employs intermediaries and proxies to manage properties and control market activities. This complex network of control poses significant challenges to Somali authorities in identifying the beneficial ownership of businesses and properties, especially given the lack of a reliable national identification system and the pervasiveness of ongoing corruption.

Al-Shabaab's intelligence sources

Al-Shabaab attempts to force all major businesses in southern Somalia to make an annual *zakat* payment, equivalent to 2.5% of their accumulated wealth. Only small businesses such as street hawkers are exempt. Separately, businesses are taxed when importing goods through the port. If goods are transported into Somalia's hinterland, the cargo is taxed again in transit at al-Shabaab-controlled checkpoints. Furthermore, agricultural produce is taxed by al-Shabaab at harvest time and again when sold.

Al-Shabaab's assessments of *zakat* levies and taxation rates depend on the group's finance department (*Maktabka Maaliyada*) gaining and maintaining access to accurate information about the net worth and annual turnover of businesses and businesspersons.

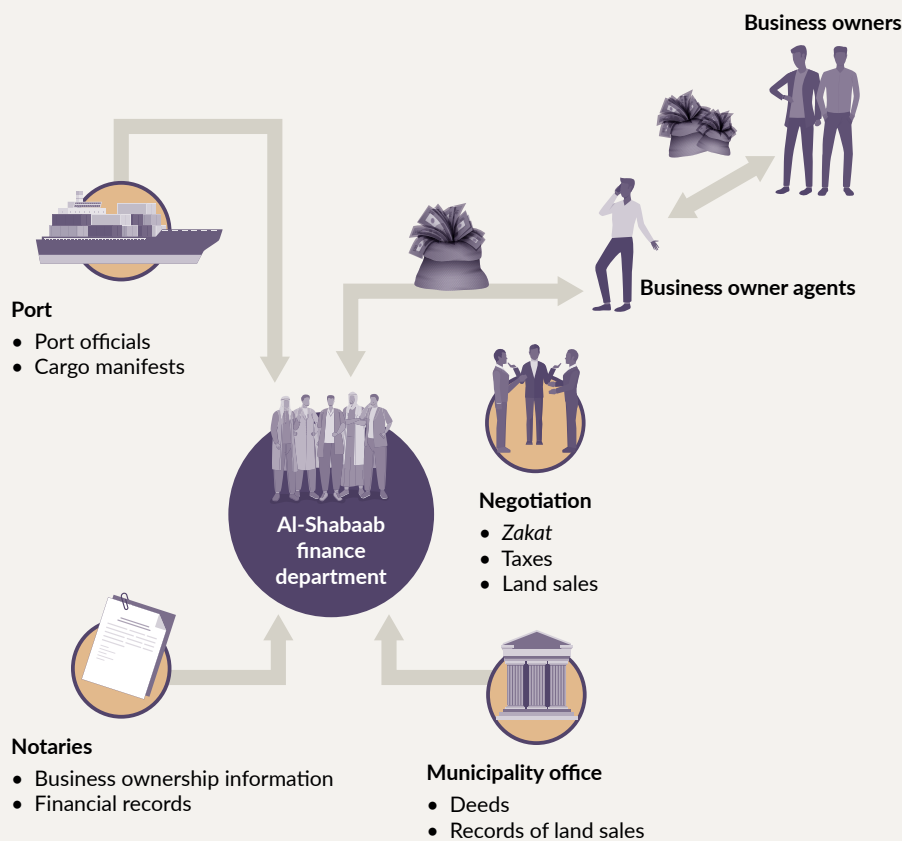


FIGURE 2 Sources of intelligence for al-Shabaab.

Once this information is obtained, representatives of al-Shabaab's finance department approach the designated agents of business owners to present their *zakat* demands. The agents may disagree with the finance department's assessment of the company's net value, and even present documentation to support a different valuation. Negotiations sometimes ensue to establish the precise amount due.

Mogadishu's seaport

Mogadishu's seaport is vital to southern and central Somalia. It supports the basic commodity needs of more than 8 million people and serves as a crucial tax base for both the government and al-Shabaab, which taxes incoming shipments. Interviews for this study suggested that al-Shabaab's ability to generate substantial revenue from the seaport has remained largely unchanged in the face of the FGS offensive that began in August 2022.

Reports also indicate that al-Shabaab maintains informants within the port who supply information used for extortion. The group reportedly obtains importation manifests from port employees, which it uses to impose customs taxes on all imports and exports. Additionally, our research identified that a logistics company owner operating nearly 150 container trucks served as the chair of a committee comprising multiple trucking companies that collectively paid al-Shabaab for all incoming containers they handled.²⁷

Beyond revenue generation, the seaport is also used by al-Shabaab to import goods necessary for their operations. For instance, in May 2023, NISA seized assorted military equipment that was reportedly bound for al-Shabaab (see case study).²⁸

Case study: Al-Shabaab import networks linked to China

Al-Shabaab's infiltration of Mogadishu's seaport appears to extend far beyond access to cargo manifests and other port data that facilitates the group's extortion attempts of Somali importers. Evidence indicates that the militant group maintains direct relationships with individuals and entities that import goods through the seaport. Such relationships may facilitate al-Shabaab's access to non-lethal military materials intended to equip its insurgency.

In mid-May 2023, NISA seized two containers at Mogadishu's seaport that were full of non-lethal materials destined for al-Shabaab. The containers were reported to have originated in China, although the port of origin and transit route were not specified. Items discovered within the containers reportedly included agricultural drones, optical scopes, material for military uniforms, tent canvas, military radios and helmets, ghillie (camouflage) suits, night vision and swimming goggles, portable solar panels, eyewear fitted with concealed cameras, flashlights and batteries, and audio recording pens.²⁹ While multiple media reports referred to explosives also being present in the containers, no independent confirmation of this reporting was available. (However, it is possible that al-Shabaab intended to modify the agricultural drones to deploy improvised explosive devices.) Following these seizures, NISA arrested 10 businesspeople and other individuals suspected of involvement in this alleged 'smuggling network'.³⁰

Additionally, in April 2023 Kenya's anti-terror police detained in the port city of Mombasa a Somali-Kenyan



The seaport in Mogadishu, where al-Shabaab militants have reportedly formed connections with importers to supply their operations. © Tony Karumba/AFP via Getty Images

businessman allegedly connected to this network. A debrief of this individual while in custody revealed that he had moved to China in 2013, where he studied at university and worked for his uncle's freight company procuring goods to ship to Somalia.³¹ He remained in China until 2020, when he returned to Kenya due to the COVID-19 pandemic.³²

The GI-TOC is aware of at least one other al-Shabaab network that is under investigation by Somali authorities for allegedly importing Chinese goods for the group. The subjects of the investigation are a Mogadishu-based textile importer and its registered owner. A September 2022 report by the FRC identified two bank accounts registered to the company and an additional two to the owner. In total, US\$13.7 million passed through the four accounts, the largest aggregate amount transacted by parties targeted in an FGS investigation.³³ In late 2022, the FRC froze the four accounts affiliated with the company. At the time they were frozen, the accounts contained a total balance of less than US\$12, possibly indicating that the account holder(s) had forewarning of the FRC's impending enforcement action.

Bank records for the company revealed financial activity consistent with the wholesale import and resale of textiles from China. SWIFT transfers from the accounts totaling almost US\$3.6 million were made to various Chinese textile exporters and general trading companies between 2019 and 2022. There were also significant financial transfers to two textile exporters based in Dubai. However, the company also appears to have facilitated the import of various other goods. Indeed, it is likely that the investigation into the company was initially triggered by information that it had imported Chinese motorcycle alarms on behalf of a Mogadishu-based motorcycle and spare parts supplier, which in turn was suspected of acting as an al-Shabaab intermediary.³⁴ Al-Shabaab reportedly intended to use the alarms as triggers for improvised explosive devices. The use of Chinese-manufactured motorcycle alarms by al-Shabaab is consistent with the group's longstanding modus operandi. For instance, a 2012 report by UN sanctions monitors revealed that motorcycle alarms of a certain Chinese make and model had been 'consistently found in all regions of Somalia, suggesting a readily available supply'.³⁵

Bank data confirmed the existence of a financial relationship between the motorcycle and spare parts company and the textile importer. An account affiliated with the former had transferred almost US\$70 000 to accounts affiliated with the latter in three transactions between August 2020 and April 2021. However, it could not be confirmed if these specific transactions were related to the purchase of motorcycle alarm systems.

The broader dynamics of how al-Shabaab imports non-lethal materiel from abroad are still poorly understood. For instance, it is not known whether businesses importing

goods through Mogadishu's seaport are fully or partially owned by the group, or are simply used on a case-by-case basis for the acquisition of needed goods. It is also unclear whether al-Shabaab typically maintains operational cells in China, or possibly other export markets that the group exploits. The modalities of how goods imported through Mogadishu's seaport ultimately reach al-Shabaab-controlled areas also merit further inquiry. These are valuable avenues for further research to deepen understanding of al-Shabaab's logistical supply chains and international trade relationships. ■

The real estate sector and the role of notaries

Given the significant amount of money flowing into real estate, al-Shabaab imposes heavy taxes on the sector, monitoring it almost as closely as the seaport. The group is believed to track nearly every major transaction in Mogadishu. Realtors receive calls from al-Shabaab, during which they are given precise details of their deals and instructed to pay a non-negotiable amount. They typically comply.

Our research identified a junior government employee at the municipal level who reportedly represents al-Shabaab in collecting money and providing information on individuals buying or selling land and houses in Mogadishu. The employee alerts al-Shabaab to purchases and sales, as well as the values of these transactions, which al-Shabaab uses to calculate its payment demands. In exchange for providing this information, this individual receives a 5% cut from al-Shabaab.³⁶

All public notaries in Mogadishu are legally required to be registered with the FGS Ministry of Justice. As the regulator of notaries, the ministry is responsible for issuing guidelines for the sector, which outline the AML/CFT obligations and procedures in consultation with the FRC.³⁷ Public notaries play a crucial role in the real estate sector since purchases are only considered legal if documented by these professionals. Among other functions, they are also important in the rental market as they verify the ownership of properties that are subject to rental agreements. Alongside the Benadir Regional Administration, notaries are also responsible for maintaining records on property ownership and rentals in the city.³⁸ They likely possess the most comprehensive information on the beneficial ownership of commercial entities and real estate holdings in Mogadishu.

Our research identified five Mogadishu-based notaries who reportedly provide sale and purchase information on land, vehicles, real estate, farms and other financial agreements to al-Shabaab.³⁹ While all based in Mogadishu, the identified notaries also provide information on surrounding regions and other cities.

During a March 2023 meeting between the FGS National Anti-Money Laundering and Countering the Financing of Terrorism Committee (NAMLC) and notary and lawyer associations, the NAMLC chair seemed to allude to notaries sharing information with al-Shabaab when he highlighted that 'notaries are in control of properties nationwide; sharing that information with terrorist groups is a crime'.⁴⁰

Furthermore, in this meeting, the NAMLC and the FRC called upon notaries to fulfill their financial reporting obligations.

As a designated non-financial business and profession (DNFBP), notaries have AML/CFT responsibilities and reporting requirements akin to those of a financial institution. These include conducting customer due diligence, implementing a compliance programme, and submitting large cash transaction reports and suspicious transaction reports. Despite efforts by the NAMLC and the FRC, there is no indication that notaries, or any DNFBPs, are fulfilling their AML/CFT obligations (see later section).

A case study in al-Shabaab infiltration: The SYL Hotel attack

Al-Shabaab's infiltration in Mogadishu extends beyond the business community, reaching into critical government institutions. The group has penetrated nearly all levels of government and security services in the capital, including the National Assembly and NISA. Additionally, estimates have suggested that around one-third of the Somali Police Force in Mogadishu may be compromised to varying degrees.⁴¹

On the evening of 14 March 2024, a suicide bomber initiated an attack using a vehicle-borne improvised explosive device against the SYL Hotel in Mogadishu. This led to a night-long siege by five armed al-Shabaab militants, resulting in multiple deaths and injuries. All five militants were eventually killed. The SYL Hotel, located near numerous FGS ministries, including Villa Somalia, is frequented by government officials and is located within a heavily secured area.

This attack was part of a troubling pattern. Prior to the incident, al-Shabaab had reportedly repeatedly demanded a *zakat* payment from the SYL Hotel's owners, making their

last demand a month before the attack. The owner received two phone calls warning him to pay US\$12 500 to a designated bank account, from callers located in Bakara Market and Jilib Marka.⁴²

Despite having been attacked by al-Shabaab on at least four previous occasions, the owners of SYL Hotel apparently felt secure enough to refuse payment due to the hotel's location within government checkpoints and proximity to government institutions. Investigations by NISA following the attack led to the arrest of 16 individuals, including four suspected vehicle owners and five security personnel manning various checkpoints.⁴³ Reports in Somali media claimed that a technician at the Somali Federal Parliament had facilitated the attack – a claim that a parliament spokesperson later denied.⁴⁴ While investigations remained ongoing, several senior government officials were reportedly coordinating efforts to release the arrested individuals. It remains unclear whether their motivations were clan-based or due to al-Shabaab affiliations. ■



The SYL Hotel in Mogadishu, pictured here after an attack in 2016, has been repeatedly targeted by al-Shabaab due to its popularity among government officials. © Nour Gelle Gedi/Anadolu Agency/Getty Images

Example of al-Shabaab investment in real estate

Our research identified several instances of al-Shabaab investment in real estate, specifically investment and ownership of apartment buildings in various districts of Mogadishu. The manager of a Mogadishu-based trading and construction company is reportedly retained by al-Shabaab to build upscale apartment buildings in the city, along with a company used to purchase the land and acquire the associated construction materials.⁴⁵ Like legitimate construction projects, only a portion of the cost needs to be paid upfront, and the remainder can be financed through a financial institution. Unsurprisingly, al-Shabaab identifies individuals with clean criminal records and no apparent affiliation with the group to purchase and manage apartment buildings on its behalf. The standard rent for an unfurnished apartment can be around US\$600 per month, while a furnished one can cost approximately US\$1 200 per month. Therefore, a 30-unit apartment building might generate between US\$18 000 and US\$36 000 per month.

Willing and unwilling support

Al-Shabaab is thought to generate a substantial budget surplus, which the group partly invests in real estate and small to medium-sized businesses, both within and outside areas under its control. The core structure of its investment model appears largely unchanged, despite the FGS offensive. Our research identified multiple companies in Mogadishu that are linked to al-Shabaab, although the specific investment structures remain unclear in some cases. Generally, the group's investments fall into two typologies: 'willing' and 'unwilling' arrangements.

In 'willing' arrangements, a businessperson seeks a loan from al-Shabaab and, in return, the group takes a share of the company's revenue – typically between 20% and 50% – for a set period. Several businesses in Mogadishu and farms in regions such as Middle Shabelle have been identified as having received these 'willing' investments, often facilitated by family members of al-Shabaab militants who handle the negotiations, agreements and payments.⁴⁶

'Unwilling' support by al-Shabaab is far less favourable, involving coercion rather than voluntary participation. In these cases, al-Shabaab targets individuals or struggling businesses, injecting cash to launch or salvage them, but under terms dictated by the group. Unlike in 'willing' arrangements, where business owners seek out al-Shabaab, the group approaches the individual and forces them into a deal. While these businesses appear to be independently owned, al-Shabaab retains true control, taking 80% to 90% of the profits indefinitely. These arrangements are likely to be managed by al-Shabaab's financial officials, with oversight from the group's intelligence wing, the *Amniyaat*.

Examples of 'willing' support arrangements

A trading and construction company in Mogadishu was struggling financially after more than a decade of operation. To stay afloat, the CEO secured a loan of nearly US\$500 000 from al-Shabaab, in return for ceding 20% of the company's profits over six years.⁴⁷ Since then, the company has flourished as an importer in Mogadishu, bringing in construction materials, second-hand vehicles and spare parts from the Middle East, Africa and South East Asia. The company's loan arrangement with al-Shabaab has about one year left to run. It is important to note that this profit-sharing is in addition to standard extortion, illicit taxation and *zakat* payments demanded by the group.

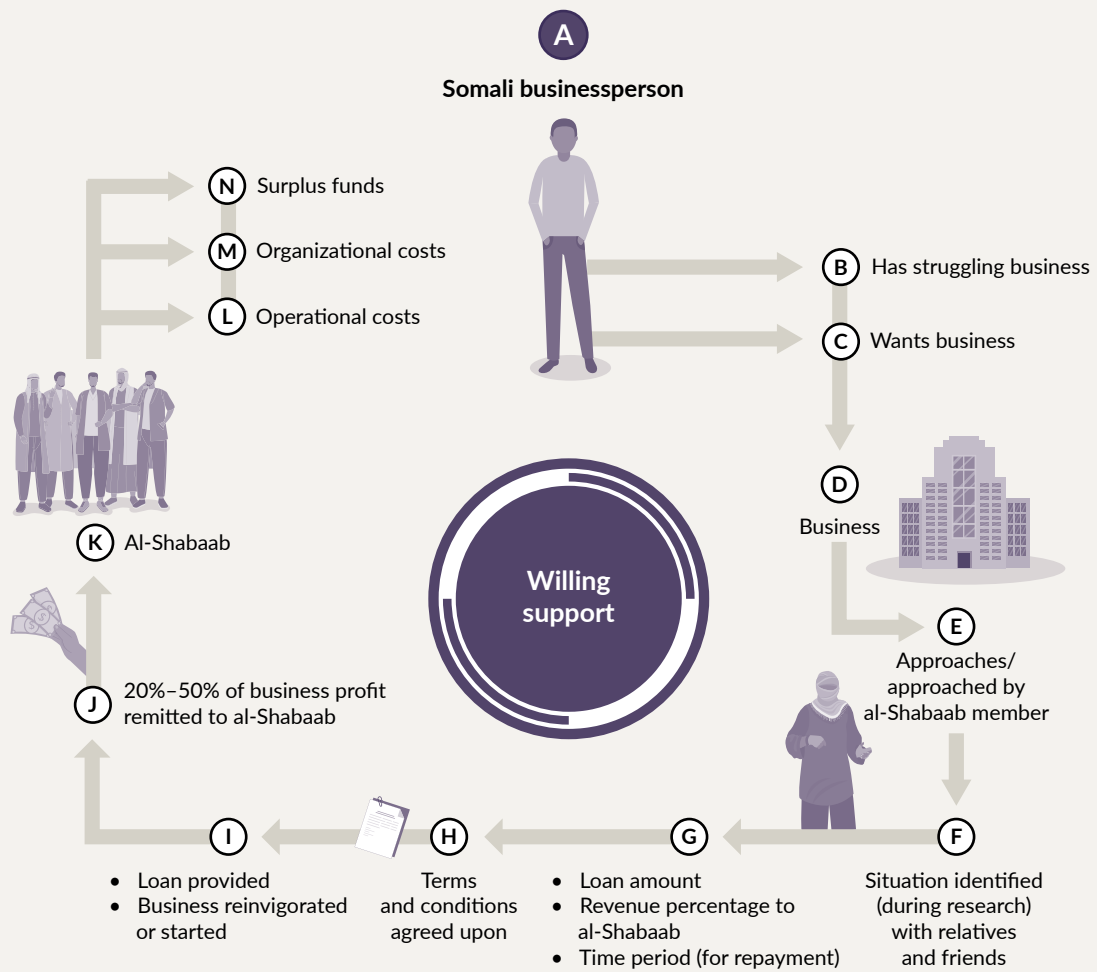


FIGURE 3 Al-Shabaab's 'willing' support investment model.

In a second case, al-Shabaab approached the owner of a Mogadishu pharmacy business within the past two years and offered to pay nearly US\$300 000 for the business. In addition, al-Shabaab offered the owner an employment contract for a set period and a percentage of the business's profit. The owner accepted the offer and is fulfilling the employment contract, which comes with a monthly salary of several thousand dollars.⁴⁸

Example of an 'unwilling' support arrangement

A Mogadishu businessman operated a small electronics shop in Bakara Market between 2016 and 2020. In 2020, his business struggled significantly due to an overdependence on a few large customers, increased competition and the COVID-19 pandemic. Al-Shabaab approached the owner and compelled him to accept a takeover bid amounting to US\$170 000. The group then injected additional capital to revitalize the company. The company is currently thriving and has expanded its imports of electronic equipment from India and China. In exchange for running the business, the identified business owner receives a profit share and salary equating to roughly 10% of company profit, the remainder of which accrues to al-Shabaab.⁴⁹

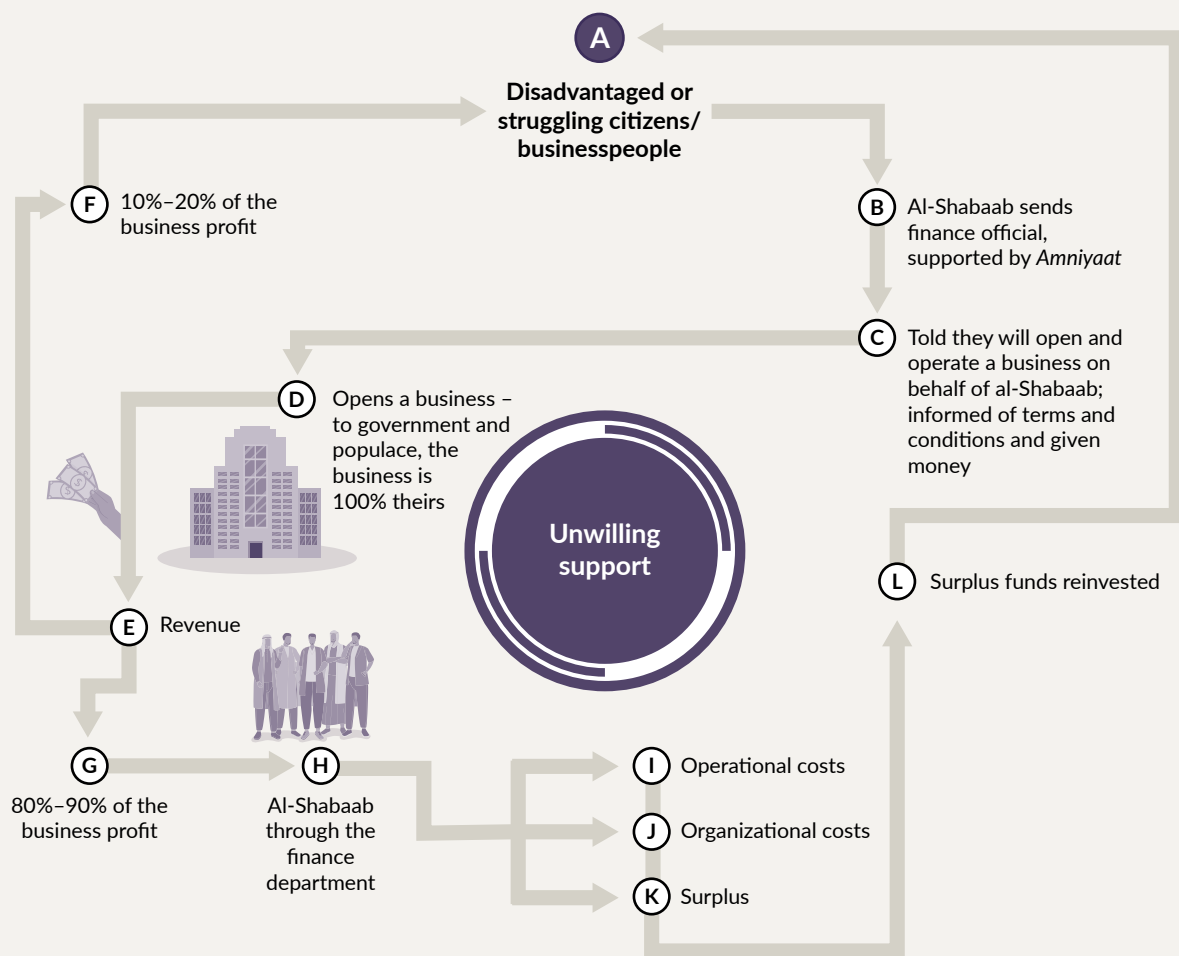


FIGURE 4 Al-Shabaab's 'unwilling' support investment model.

Challenges in establishing beneficial ownership

Al-Shabaab's rampant use of proxies and intermediaries greatly complicates financial investigations by Somali regulators and law enforcement. Determining the beneficial ownership of commercial entities and real estate is especially challenging in the absence of a credible national identification system in Somalia.

Establishing identity in Somalia is challenging due to the lack of effective civil registration systems, which have been disrupted by decades of civil war. Additionally, widespread corruption, the availability of falsified documents and the absence of standardized identification processes further complicate efforts to verify and establish personal identities. For instance, falsified Somali passports are notoriously easy to obtain and have previously been issued to members of al-Shabaab as well as other illicit actors.⁵⁰ In one especially notable case, a diplomatic passport was issued to a pirate kingpin, with the apparent full knowledge of government officials.⁵¹

Biometric technology offers a possible solution. In 2023, the FGS launched an ambitious biometric national ID card initiative with financial and technical support from the World Bank, as well as Pakistan's National Database and Registration Authority. However, rollout of the new ID cards has been slow. As of April 2025, the initiative had achieved a total of 50 000 registrations out of a target of 10 million, according to the website of Somalia's National Identification and Registration Authority (NIRA). Without a reliable means of verifying personal identity, full implementation of AML/CFT measures in Somalia will remain an elusive goal.



STRENGTHENING AML/CFT COMPLIANCE IN SOMALIA

Al-Shabaab's deep infiltration of Mogadishu's business community and financial networks poses a significant challenge to Somalia's economy and security. The group's ability to extract funds from businesses through both coercion and willing partnerships highlights the importance of effective AML/CFT measures.

In 2020, the director general of Somalia's FRC stated that major Somali financial institutions, including banks and money transfer companies, were compliant with regulations set by the FRC and the CBS under the AML/CFT law of 2016.⁵² However, our research suggests otherwise, indicating that very few suspicious transaction reports are being filed by these institutions, particularly the major ones.⁵³ This is corroborated by a report from the AGO, which noted that of all the cases referred to this office, only one originated from a suspicious transaction report.⁵⁴ Moreover, there is a severe lack of public financial literacy concerning illicit finance, further complicating compliance efforts.

Under the National Intelligence and Security Agency Act of 2023, NISA remains the principal security agency responsible for counterterrorism, including CFT.⁵⁵ Most of the CFT-related cases identified in 2022 and early 2023 were assigned to NISA, which possesses a financial investigations unit. However, our research found that this unit lacks the expertise and knowledge needed to handle cases effectively.

Additionally, mobile money providers have consistently failed to adhere to AML/CFT laws. In February 2023, the NAMLC issued a directive to various reporting entities, including mobile money providers, thereby ending a grace period.⁵⁶ However, well over a year later, despite multiple meetings and engagements, the NAMLC is still seeking ways to ensure compliance with its directives in accordance with national AML/CFT laws and regulations.⁵⁷

Somalia enacts its first domestic sanctions list

In April 2024, Somalia took a significant step under the newly enacted Targeted Financial Sanctions Act of 2023 by sanctioning an initial nine individuals suspected of financing terrorism.⁵⁸ The sanctioned individuals were all tied to al-Shabaab, either as key players in the group's financial operations or as facilitators in procuring weapons and supplies. Among them were senior figures such as Abdullahi Tahlil Hirey, responsible for arms procurement and logistics, and Hassan Ali Afgoye, who oversees al-Shabaab's finances and is closely connected to the group's leadership.

Other designees held crucial financial positions, such as Abdikarim Ahmed Jugjuge, the head of the finance department in Benadir region. While this marked a critical move in Somalia’s fight against al-Shabaab, the effectiveness of these sanctions remained uncertain due to persistent compliance challenges and the group’s sophisticated use of financial proxies.

These domestic sanctions followed several rounds of US sanctions imposed on Somali individuals and entities. Somalia’s regulators face significant challenges in enforcing both domestic and international sanctions due to limited resources, weak institutional capacity and a lack of technical expertise. Private sector operators, particularly financial institutions, are often perceived as unwilling to conduct adequate sanctions screening, largely due to the fear of lost business, limited enforcement actions and a lack of understanding of compliance requirements. This has created a gap in sanctions implementation, rendering it difficult to identify and freeze the assets of designated individuals and entities. Additional challenges stem from the multitude of spelling and formatting variations common in the Somali language. This orthographic variability, as well as the ubiquity of certain Somali names, adds to the challenge of sanctions enforcement in the Somalia context, particularly when additional identifiers (for example, phone numbers) are not supplied in sanctions listings.

AML/CFT compliance among DNFBPs

Under Article 4 of Somalia’s AML/CFT Act of 2016, reporting entities include DNFBPs, which encompass a range of professionals and sectors: lawyers, notaries, trust and company service providers, accountants, real estate agents and dealers in precious metals or stones. While NGOs and non-profit organizations are not technically classified as DNFBPs, they are subject to enhanced due diligence due to the inherent risk they pose. As noted above, al-Shabaab is known to use notaries to collect financial information on commercial entities and real estate transactions that help in calculating its *zakat* and wider ‘taxation’ levies.

DNFBPs	Regulating ministry
Lawyers	Ministry of Justice and Constitutional Affairs
Notaries	Ministry of Justice and Constitutional Affairs
Trusts and company service providers	Financial Reporting Center/Ministry of Commerce and Industry*
Accountants	Professional Accountancy Organization**
Real estate agents and brokers	Ministry of Public Works, Reconstruction and Housing
Dealers in precious metals and stones	Ministry of Petroleum and Mineral Resources
Import/export companies	Ministry of Commerce and Industry
Vehicle dealers	Ministry of Commerce and Industry

FIGURE 5 DNFBPs and the FGS ministries that oversee them.

NOTE: *The regulatory responsibility for trusts and company service providers varies between jurisdictions, although the national financial intelligence unit is typically the primary oversight entity. Ministries or governmental bodies responsible for the registration and regulation of companies, like the Ministry of Commerce and Industry, also play a key regulatory and oversight role.

**Regulation of accountants varies from country to country, but it is standard for professional organizations to be the primary oversight and certification body. The profession in Somalia remains largely unformalized, with accountants utilizing certifications from other countries like Kenya. The Somali Institute of Certified Public Accountants is positioning itself to fill this role in Somalia.

There are several trades that, while not traditionally classified as DNFBPs, the FGS might consider designating as such due to their exposure to money laundering and terrorism financing risks, notably import/export companies and vehicle dealers. Al-Shabaab has utilized both these commercial activities to enhance operational capabilities, whether for revenue generation or acquiring necessary goods. As seen above, one company partially owned by al-Shabaab is involved in the import of second-hand vehicles.⁵⁹ These commercial activities often handle large cross-border cash flows, which can be exploited to obscure or move illicit funds.⁶⁰ Including them under the DNFBP framework – as has been done in Kenya, Nigeria and the UAE – would align Somalia with international best practices and bolster AML/CFT implementation.

Harnessing the influence of Somalia's international partners to enhance AML/CFT compliance in Somalia

Somalia's financial institutions operate in an international environment. To bolster AML/CFT measures in Somalia effectively, it is crucial to employ available pressure strategically to influence their behaviour both within their domestic operations and overseas. To achieve these aims, other governments have several opportunities at their disposal to support the FGS in enhancing AML/CFT compliance by placing pressure on Somali financial institutions operating abroad.

The first of these opportunities is the ability to impose penalties on Somali financial institutions' overseas subsidiaries and affiliated entities. To take the UK as an example, Somalia's two largest financial service providers, namely Hormuud and Dahabshiil, maintain significant presences in the country. The companies respectively control two of the most prominent global remittance gateways, namely Taaj and Dahabshiil Money Transfer. In the UK, Dahabshiil Money Transfer trades under the Financial Conduct Authority (FCA)-licensed company Dahabshiil Transfer Services Limited, while Taaj operates in a more decentralized manner. A network of affiliated companies and agents in the UK utilize the Taaj gateway to facilitate the transfer of remittances into Somalia. Funds that enter the Taaj gateway from abroad may be further routed through the EVC-Plus, Sahal, Zaad and Kenya's M-PESA mobile money platforms, as well as to Salaam Somali Bank accounts in Somalia.

Because of the sizeable Somali diaspora in the UK, revenues generated within the country are highly significant to both Hormuud and Dahabshiil. The importance of the UK market creates an opportunity for the UK government to encourage enhanced AML/CFT compliance within Somalia. For instance, the granting of FCA licences to UK affiliates and agents might be made contingent on their parent institutions meeting certain benchmarks. Several such hypothetical benchmarks are proposed in the recommendations at the end of this report. The UK is not alone in this opportunity, as sizeable Somali diasporas reside in the United States, Europe and elsewhere, meaning similar significant remittance revenues are generated in other jurisdictions.

Regional governments in East Africa can also engage strategically in this area to exert pressure on Somali financial institutions operating within their borders. As these institutions expand into East African markets, they become increasingly susceptible to regulatory pressure within these jurisdictions. Linking expansion into these new markets to the achievement of key benchmarks could help drive compliance with international AML/CFT standards among Somali financial institutions and their subsidiaries and affiliates.

For example, Hormuud currently has an established presence in Kenya, Ethiopia and Djibouti, and launched the first Islamic bank in Uganda in March 2024.⁶¹ Additionally, Salaam African Bank acquired Kenya's Uwezo MicroFinance Bank in March 2021, subsequently rebranding it as Salaam Microfinance Bank. Also in Kenya, Hormuud's Taaj money transfer service interfaces with Safaricom's M-PESA, one of the world's pioneering mobile money services.⁶² Somali financial institutions have also sought to develop partnerships with international payment processing networks. Most recently, in July 2024 Hormuud Telecom's Somaliland affiliate, Telesom, announced a partnership with MasterCard to launch Somalia's first digital credit card.⁶³ The same month, Salaam Somali Bank announced that the bank would be offering Visa prepaid and debit cards.⁶⁴

As the regional and international footprints of Somali financial institutions continue to expand, additional points of intervention are likely to present themselves. These strategic levers, if utilized effectively, could significantly advance AML/CFT compliance in Somalia, ensuring that financial institutions align more closely with international standards.



A money transfer service in Mogadishu. Some money transfer providers in the country operate internationally, providing opportunities for foreign governments to encourage better financial practices in Somalia. © Mohamed Abdiwahab/AFP via Getty Images



CONCLUSION: AL-SHABAAB IS WINNING THE STALEMATE

Despite years of counterterrorism efforts by the FGS and its international partners, al-Shabaab remains deeply entrenched within nearly all aspects of political and economic life in Somalia. The FGS military offensive that began in August 2022 initially reclaimed some territory and disrupted al-Shabaab's revenue streams, but had limited impact in degrading the long-term financial viability of the group. As both military and financial offensives stalled, many businesses resumed paying 'taxes' to the group. The *status quo ante bellum* was restored, leaving the business community once more caught between the demands of the government and the ever-present threat of violence from al-Shabaab.

Al-Shabaab has not wielded direct control in Mogadishu since African Union peacekeepers evicted the group from the capital in 2011. As long as African Union troops continue to back the Somali government, al-Shabaab will lack the military capability to retake the city. However, al-Shabaab has every reason to believe it is winning the current stalemate. Somalia's international partners have become frustrated with the drawn-out conflict. The African Union stabilization force in Somalia, once approximately 22 000-strong, will soon be drawn down to fewer than 12 000 personnel. Originally intended to conclude operations by 31 December 2024, the UN Security Council passed a last-minute extension to the mission's mandate (albeit under a new name). However, its long-term funding remains in limbo.⁶⁵ In recent months, a resurgent al-Shabaab has resumed open operations on the outskirts of Mogadishu, instilling fear among residents and prompting US officials to debate evacuating their embassy from the city.⁶⁶ On 18 March 2025, an improvised explosive device targeting President Mohamud's convoy on the streets of Mogadishu narrowly missed killing him. With momentum on its side, there is also little chance that al-Shabaab will be interested in pursuing a negotiated settlement.

Military force alone has proved insufficient in eliminating al-Shabaab's presence in Somalia. The best means to achieve lasting progress against the group is a comprehensive strategy to dismantle the sophisticated financial infrastructure that sustains its insurgency. Al-Shabaab generates an estimated US\$120 million to US\$180 million per year, roughly one-third of which is believed to derive from Mogadishu.⁶⁷ This revenue is more than sufficient to sustain the group's requirements, including salaries to its members, weapons purchases, local administration, and its internal and external terror operations. Removing this financial lifeline offers the best chance to weaken the crippling grip the militant group has held on Somalia for nearly two decades.

This paper's findings strongly support prioritizing a CFT strategy focusing on Mogadishu. The logic of a Mogadishu-centric approach is manifest. First, there is little definitive evidence that al-Shabaab maintains significant assets outside Somalia. As a result, Mogadishu's rapidly expanding economy has become not only the prime destination for the group's surplus capital but also the only market in the country capable of absorbing the scale of revenue it generates. Second, the FGS's sphere of political control as well as technical capacity is almost entirely localized within the capital. Third, the financial sector serving southern and central Somalia is also almost entirely centralized within Mogadishu.

Al-Shabaab has been able to insert itself into virtually all aspects of economic life in Mogadishu with near impunity. But there is reason for optimism. When the political will exists, the FGS has demonstrated its ability to demand and enforce financial compliance from the Mogadishu business community. Perhaps the most notable examples were the financial reforms implemented by the FGS in furtherance of the International Monetary Fund's Heavily Indebted Poor Countries (HIPC) initiative, aimed at enhancing domestic revenue mobilization. Under a concerted push by the Ministry of Finance beginning in 2016, the FGS modernized its customs systems and greatly expanded its inland revenue and taxation base. As a result, domestic revenue rose four-fold between 2013 and 2023.⁶⁸ To a large extent, this revenue windfall stemmed from the more efficient and aggressive taxation of businesses in Mogadishu. Due to these efforts, the FGS reached the HIPC Completion Point in December 2023, unlocking billions of dollars of international debt relief.

The FGS's CFT strategy must be supported by the same level of commitment that drove its successful efforts to achieve debt relief. The FGS crackdown on al-Shabaab finances in 2023 — short-lived though it was — demonstrated that it was possible to muster the necessary political will within the CFT space. The numerous bank and mobile money accounts targeted during the FGS financial offensive showed that freezing and closure orders could have a disruptive effect, even when they did not result in seizures of significant monetary value. The detection and deactivation of such accounts prevent their future use by al-Shabaab for the collection, storage and transfer of funds. Squeezing al-Shabaab out of the formal economic sector would compel the group to grapple with the delays and inefficiencies associated with cash transactions, along with increased risks of loss, theft and seizure.

A crackdown on al-Shabaab's financial footprint in Mogadishu will not in itself eliminate the group's revenue base. Al-Shabaab's 'taxation' catchment extends across much of southern and central Somalia, fed by an expansive network of road checkpoints that earns the group tens of millions of dollars annually. As originally envisioned in President Mohamud's counter-al-Shabaab strategy, financial efforts must be coupled with military pressure aimed at reducing the physical space in which the group is free to operate. However, in the medium-term, targeting al-Shabaab's economic activity in the capital would raise its cost of doing business, as well as limit its ability to profit from investments in Mogadishu's thriving economy.

Accurately identifying al-Shabaab investments will require stronger regulation and oversight of DNFPBs, which currently represents a blind spot in Somalia's national AML/CFT strategy. The real estate sector is likely the most vulnerable to exploitation by al-Shabaab. Accordingly, the relevant FGS ministries should prioritize encouraging financial reporting by real estate agents, brokers and notaries. Particular emphasis should be placed on verifying the identities of individuals and determining the beneficial ownership of all entities involved in real estate transactions.

Recent history has shown that the FGS's financial disruption efforts must be sustained, coordinated and targeted in order to be effective. Informed by this report's findings, the following section presents a series of recommendations designed to foster a long-term, collectively supported CFT strategy in Somalia.

Recommendations and opportunities for intervention

The following recommendations are organized into primary and secondary categories. Together, they outline a multifaceted approach to dismantling al-Shabaab's financial networks in Mogadishu, including through stronger enforcement of AML/CFT regulations and increased capacity-building support from international partners, particularly for DNFBPs and their associated FGS ministries. A central recommendation involves the creation of an AML/CFT compliance certification process, which could also serve as a reference tool for Somalia's donor partners. The proposed certification process would position Somalia's partners to incentivize AML/CFT compliance among Somali commercial entities seeking to implement donor-funded projects. The greater the donor buy-in to this certification mechanism, the greater potential impact the database will have in driving behavioural changes in the Mogadishu business community, particularly the financial sector.

Primary recommendations

1. Provide comprehensive AML/CFT compliance support and training for DNFBPs and associated ministries.

- Entities frequently utilized by al-Shabaab to generate revenue (e.g. real estate companies) are largely non-compliant with AML/CFT laws, regulations and guidelines, or are not even aware of them. The ministries that oversee these sectors are also largely unaware of their sectors' AML/CFT obligations.
- Target FGS ministries (and their associated sectors) for AML/CFT compliance capacity support include the Ministry of Justice (lawyers and notaries), the Ministry of Public Works (real estate agents and brokers), the Ministry of Petroleum and Mineral Resources (dealers in precious metals and stones), and the Ministry of Commerce and Industry (import/export companies, vehicle dealers).
- Support the identified ministries in establishing and implementing AML/CFT compliance programmes. This includes supporting the development of sector-specific regulations, guidelines on AML/CFT and training each sector on AML/CFT obligations.

2. Incentivize AML/CFT compliance in the private sector through an FGS-led certification process.

- Support relevant FGS authorities, such as the FRC, CBS, NAMLC, Ministry of Finance, as well as the various ministries responsible for overseeing DNFBPs, in developing an annually renewable AML/CFT certification mechanism for designated reporting entities, including DNFBPs.
- Entities seeking to complete the certification process must demonstrate their compliance with AML/CFT laws, regulations and guidelines. Additionally, they must make their beneficial ownership transparent, with their key principals enrolled in NIRA's biometric ID programme or possessing another form of credible identification. The latter requirement aligns well with similar initiatives, for instance the efforts by NIRA to enrol the beneficiaries of humanitarian NGO aid in its national biometric ID card system.⁶⁹
- Somalia's international donor partners should strongly consider an entity's AML/CFT certification status when evaluating its eligibility to implement donor-funded projects.

3. Tighten overseas financial sector initiatives.

- Condition the granting of operating licences to Somali financial institutions and their affiliated entities in other countries contingent on their parent companies showing substantive progress towards achieving certain benchmarks, for example:
 - Compliance with domestic AML/CFT requirements, as stipulated by the Anti-Money Laundering and Countering the Financing of Terrorism Act of 2016.
 - Full and timely cooperation with domestic regulators and law enforcement authorities, particularly the FRC, including compliance with suspicious transaction report and large cash transaction report disclosure requirements.
 - Complete biometric enrolment of customers, and support the rollout and mainstreaming of credible identification documents, such as NIRA's biometric ID card initiative.

- Financial institutions could then be periodically issued a 'clean bill of health' either by Somali regulators (such as the FRC or CBS) or a distinct local monitoring mechanism mandated with this function. This certification would be required for a financial institution's affiliated entities to receive an operating licence in another country.
- Similarly, the approval of correspondent relationships with overseas banks could be contingent on obtaining this 'clean bill of health,' an incentive also envisioned under the World Bank-led Somalia Financial Systems Initiative.

Secondary recommendations

1. Support the revitalization of the national terrorism financing disruption strategy.

- In conjunction with the three-pronged offensive against al-Shabaab, the offices of the FGS President and the National Security Advisor signed off on a national terrorism financing disruption plan, which was developed with support from the UN Office on Drugs and Crime. However, this plan has not progressed.
- Donor assistance is necessary to support the revitalization of a credible terrorism financing disruption plan. This would build, for example, on the recently conducted Terrorism Financing Risk Assessment and involve the adoption of a plan of action defining scope, collective roles and responsibilities of the relevant government stakeholders, including the regulatory authorities, the ministries overseeing DNFPBs, the AGO, NISA and the Somali Police Force, as well as the necessary capacity support to enable implementation.

2. Develop financial investigation and analysis capability within NISA.

- The National Intelligence and Security Agency Act of 2023 formally designated NISA as the primary counterterrorism investigation authority in Somalia. However, while NISA contains a financial investigations unit, its capacity is extremely limited.
- Unlike the FRC, NISA has access to a broader range of intelligence tools and methodologies, including surveillance, undercover operations, and direct links to military and security operations. These additional tools give NISA the potential to disrupt terrorism financing networks more comprehensively than the FRC, which primarily focuses on financial reporting and analysis. Providing specialized training to NISA's financial investigations unit would greatly enhance its ability to integrate financial intelligence with other counterterrorism efforts.

3. Introduce smarter sanctions.

- Sanctions bodies such as the UK Office of Financial Sanctions Implementation, the US Office of Foreign Assets Control and other relevant partners, in consultation with the FRC and CBS, should strive to improve the effectiveness of targeted sanctions in the Somalia context through the application of machine learning tools.
- Natural language processing algorithms might be used to improve screening for sanctioned individuals and organizations in financial records, even with variations in spelling, transliterations and aliases. In Yemen, for instance, such tools have been deployed to evaluate financial transactions and customer records to match sanctioned individuals under UN and US designations.
- Develop machine learning tools to monitor and analyze remittance flows and mobile money transactions for suspicious patterns. Such tools have been used to detect Taliban-affiliated transactions in Afghanistan, as well as monitor al-Shabaab activity on Kenya's M-PESA mobile money platform.
- In addition, incorporating standardized supplementary identifiers (such as phone numbers and email addresses) for individuals and entities in sanctions listings would further aid Somali regulators in the effective enforcement of sanctions.



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