

Terrorist financing threats for NPOs operating in Kenya

1. Background information

Based on the national risk assessment report and the risk profile of the country, Kenya faces terrorist financing risk arising from the neighbouring countries with active terrorist groups. The vulnerabilities associated with hawala activities¹, cross border currency movements, weak NPO risk-based regulation and inadequate analysis of cross-border remittances heighten the terrorist financing risks.

Most Kenyans face no day-to-day threat from terrorism. Most of Kenya's political violence is related to pastoralist conflict or the country's contentious elections. Notable exceptions can be found in Kenya's capital and communities near its border with Somalia.

Terrorism in Kenya emanates from Al-Shabaab (AS), an AL Qaeda (AQ) affiliate group operating in Somalia, and Islamic State (IS) affiliate groups in the region, i.e. Islamic State in Somalia operating in Puntland.

1.1. Major groups

Al-Shabaab continues to pose a significant threat to Kenya from its operational headquarters in Jilib, Somalia. The group is affiliated to Al-Qaeda which had been hitherto active in the region. The group has conducted major attacks both on Kenyan critical infrastructure installations and also against the civilian population. The expansive border (about 700 kilometres from Mandera to Lamu) between Kenya and Somalia and the porous nature of this border has enabled infiltration of the Somalia based terrorist groups into Kenya. Al-Shabaab is known to attack western interests in the country as well as civilian populations. Al-Shabaab has conducted infrequent but high-impact attacks in Nairobi in the past and will likely attempt to do so again in the future if it deems such

¹ Hawala is an informal and trust-based transfer method that has been used worldwide for centuries. It works according to the "two-pot system" - i.e. without a direct transaction of money - via middlemen, the so-called hawaladars. A payer who wants to transfer a sum of money hands it over in cash to their local hawaladar ("pot 1") at a payment point. These points are often located in commercial establishments, such as kiosks, restaurants, jewelry stores and the like. The hawaladar contacts the hawaladar located at the payout location abroad ("pot 2") and communicates the amount to be paid out as well as a code for the payout. The payer also receives this code for forwarding to the recipient in order to legitimize receipt of the money. The hawaladar at the payout location hands over the money to the recipient - also in cash and usually in the respective national currency. There is no direct cash or book money flow between pot 1 and pot 2.

attacks to be in its strategic interest. The group also maintains a presence in the Kenya-Somalia border, where it conducts attacks at a low tempo against local communities, security forces and infrastructure. Annual expenditures were estimated at \$21 million in 2019 and increased year on year. The group also approximately collects at least US\$100 million annually largely through zakat (religious almsgiving), taxation and extortion in Somalia. Other noted fundraising activities include kidnapping for ransom, individual donations and revenue from legitimate businesses operated by sympathisers. The group relies on Hawala and cash smuggling to transfer some of the funds from Somalia to its operatives in Kenya to support its activities and operational needs i.e., recruitment, weapons acquisition, facilitation of travel, logistical support and upkeep, and execution of attacks.

Al-Shabaab takes advantage of the porous border in Mandera County and the Boni Forest area to move personnel, weapons, minerals and possibly timber and charcoal, which is used to finance the group.

The **Islamic State** threat in Kenya emanates from Islamic State in Somalia operating in Puntland. In Kenya, IS activities were noted from 2016, through radicalisation and recruitment cells of Kenyans. The cells facilitated the travel of recruits to other target destinations like Libya, Puntland, Syria, Yemen and DRC. The Islamic State has claimed two attacks in Kenya, both in 2016 in Mombasa and Nairobi. These attacks were not well executed or coordinated, and demonstrated a lack of training as well as of technical and financial support. The attackers were not under the direction or control of the Islamic State leadership, but carried out the attacks after pledging allegiance to Al Baghdadi through an Islamic State Telegram channel. IS receives funding mainly from foreign income using online donations, personal funding for lone wolf attackers, robberies, zakat, extortion and mutual support from sympathisers. Broadly, the Islamic State financial model has evolved from direct transfers between the core organization and its affiliates to a more distributed structure of regionally pooled fundraising and money laundering networks. This newer, geographically distributed financial apparatus has been implemented according to the Islamic State's resources and its affiliates' needs and abilities, rather than as a single policy decision instituted simultaneously across the global provinces. Additionally, there remain various self-funding operations conducted by individual affiliates.

While there had been prior activities of **Al-Qaeda** in Kenya, the level of threat from the group has diminished over the years, which can be attributed to the dominance of its affiliate Al-Shabaab in the region.

Self-radicalised individuals also known as ‘lone wolf’ attackers are not common in Kenya due to the dominance of other terrorist groups, particularly the Islamic State and Al-Shabaab, which have recorded a number of attacks against Kenyan targets. Lone wolves manifest in Kenya but not in pure form because individuals acting on themselves are local affiliates of the larger terror groups, either AS or IS, and generate income within their area of operation. They mostly raise funds through own income, donations, crowdfunding and criminal activities.

Kenya has been the target of terrorist attacks in the recent past. Since 1998, when Al-Qaeda attacked the American Embassy in Nairobi, there have been numerous other acts of violence against civilians and critical installations. Notable attacks that have occurred in Kenya include the 2013 Westgate terror attack, the 2015 Garissa University terror attack, the 14 Riverside Drive attack/Nairobi DusitD2 complex attack (2019) and the Mandera bus attack (2022). All these attacks have been conducted by Al-Shabaab save for the 1998 bombing which was conducted by Al-Qaeda. Recent arrests and court rulings indicate that IS maintains a presence in Kenya.

1.2. Regional context

Kenya is a strategic economic hub in the region, giving the country dominance in terms of international visibility and status as compared to its regional neighbours. The country shares borders with Somalia, which is home to the Al-Shabaab terrorist organisation. Somalia's failed governmental structures and extensive ungoverned spaces have enabled Al-Shabaab to thrive and conduct cross-border attacks. Given that the border between Kenya and Somalia is long, un-manned and porous, there have been sporadic incidences of terror attacks from across Somalia targeting Kenyan law enforcement and civilians living along the border. Terrorist groups may try to recruit Kenyan citizens of Somali origin living in the border region.

Somalia has been embroiled in conflict since the fall of President Siad Barre in 1991, creating a governance vacuum and refugees coming into the Kenyan territory. The increased number of refugees has also created a humanitarian crisis which has prompted many non-profit organisations (NPOs) to step in to provide basic (social) needs and for the protection of the Somali refugees. NPOs operating in the Dadaab refugee camp in Kenya in close proximity of the Kenyan-Somali border may face the risk of abuse for terrorist financing purposes.

1.3. NPOs

Kenya has a large NPO sector. Except for some initial actions by the NGO Board, the international standard-setting body Financial Action Task Force (FATF) has assessed the

regulatory and supervisory regime as inadequate. The sector has not been properly assessed for terrorist financing risk or assessed to identify the subset of NPOs who may be vulnerable to terrorist financing abuse.

1.4. Government of Kenya

The Financial Action Task Force (FATF) assessed Kenya's measures to combat money laundering and terrorist financing in 2022. It found that Kenya has made strides in strengthening its system. It has registered good results in the confiscation of proceeds of crime, access and use of financial intelligence as well as in the designation of persons or entities suspected to be involved in terrorism. However, fundamental improvements are needed in relation to understanding of terrorist financing risks, risk-based supervision and implementation of preventive measures, investigations and prosecution and preventing proliferation financing. Therefore, the Financial Action Task Force has placed Kenya on its grey list.

Kenya has not investigated, or prosecuted, legal or natural persons for terrorist financing offences in line with its risk profile. Terrorist financing is not integrated as a component of the wide-ranging efforts to tackle the severe and fatal terrorist risk suffered by Kenya. There are no strategic policies or strategies to counter the terrorist financing threat. In addition, corruption remains a major challenge for the country.

2. Terrorist financing threats

Kenya's geographical proximity to jurisdictions with political instability and which host known terrorist organisations exposes Kenya to an increased vulnerability to terrorist financing.

The Kenyan Terrorist Financing Risk Assessment 2023 assesses that Al-Shabaab and the Islamic State raise funds from legal and illegal channels.

Legal channels include:

- a. Self-funding;
- b. Legitimate/front businesses in different jurisdictions;
- c. External funding and crowdfunding using social media;
- d. Individual funders; and
- e. Virtual assets; among others.

Illegal channels include:

- a. Kidnapping for ransom;

- b. Illegal taxation from the general public, checkpoint, among others i.e., households, businesses and transport services (mostly in form of protection fees);
- c. Proceeds of money laundering, especially trade-based money laundering; and
- d. Extortion of NPOs, among others.

NPOs should be aware that terrorist groups are known to set up shell companies, particularly in border regions. Terrorist groups use these shell companies to transfer funds.

Terrorist groups are known to infiltrate some religious schools, especially in the border regions and occasionally in urban centres. Terrorist groups use infiltrated schools for recruitment and the transfer of money. NPOs should be aware that terrorist groups might try to infiltrate schools in refugee camps for such purposes.

The Kenyan Terrorism Financing Risk Assessment 2023 reports the following cases involving NPOs:

- Based on intelligence reports, NPOs with offices in Kenya (registered in Kenya) but operating in Gedo and Jubaland regions in Somalia, where Al-Shabaab has control, are coerced into paying illegal taxes and protection fees to be allowed to operate. Consequently, the collected fees are used to finance Al-Shabaab activities in general.
- Terrorists posing as legitimate natural or legal persons or arrangements (other than NPOs) to benefit from NPO programmes or supplying the NPO with goods and services (e.g. security or supplies). In the 14 Riverside Drive attack/Nairobi DusitD2 complex attack (2019), an international NPO was used to facilitate purchase of communication/IT equipment which aided the attack.
- Terrorists or their facilitators infiltrating an NPO, for example appearing to work as an ordinary NPO representative/partner, then abuse the NPO's resources through diversion of funds to terrorists, or providing support to their recruitment efforts. The case of the 14 Riverside Drive attack/Nairobi DusitD2 complex attack (2019), where the staff of an NPO was used as conduit to facilitate the purchase of the telecommunication equipment, is an example. Other cases involving aid/relief food diversion from the intended beneficiaries to Al-Shabaab camps/operatives have been reported.
- The assessment also revealed that some NPOs operating in Kenya accept donations through virtual currency, indicating that NPOs are already embracing virtual assets, with little control measures on the inherent terrorist financing risks. Virtual assets are yet to be recognised as currency in Kenya, hence not regulated. Virtual assets are therefore highly vulnerable to exploitation for terrorist financing

since they can be preferred by terrorists because of lack of traceability, non-face to face transactions, anonymity/pseudonymity and speed of transfer, among others.

3. Sanctions designations²

- The Al-Haramayn Foundation is sanctioned by the UN and the EU under the ISIL/Daesh & Al-Qaida sanctions regime.

Sources: National Terrorism Financing Risk Assessment 2023, Money Laundering and Terrorism Financing Risks Assessment Report Kenya, FATF Mutual Evaluation Report, The Sentry Illicit Finance Report, Global Terrorism Threat Assessment 2024, Kenyans (additional article), Nation (additional article), Bundesanstalt für Finanzdienstleistungsaufsicht

² The reference to sanctions designations serves as a terrorism financing risk indicator. It does not affect any potentially applicable humanitarian exceptions under EU law.