

# The AS Finance System

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*Cover image: AS propaganda image purporting to show the redistributing of wealth to poor people in the form of Zakah collected from the public in Harardhere, Mudug region.*

## Summary

This paper discusses Al-Shabab's (AS) financial system and estimates the amount collected by the group, based on figures provided to *Hiraal* by former AS finance and *Zakawaat* officials. With the rise of Islamic State in Somalia, AS is not the only terrorist group currently involved in tax collection in Somalia; however, it is currently the largest, and this paper therefore focuses on the group.

AS has two main departments that collect taxes from the public: the *Zakawaat* Office and the Finance Office. The former is tasked with collecting non-monetary taxes such as livestock and farm produce, while the latter collects all monetary taxes.

The first head of the *Zakawaat* office was Sheikh Fuad, who notoriously paid all the collected *Zakah* to the poor, leading to his immediate dismissal after his first year in the job; Al-Shabab had a different interpretation on how the *Zakah* should be used, and afterwards only a small fraction was given to the poor. The Office is currently headed by Mohamed Mire, who is from Puntland.

The AS Finance Department was originally formed when the group conquered its first port city, Barawe, in 2008.<sup>1</sup> The first Head of Finance was the deceased 'Al-Maqdisi' who was from Bosaso. He built the department from a ragtag, informal, highly inefficient office to become the most ruthless collection entity in Somalia. It is currently headed by Hassan Afgoi.

AS is financially self-sufficient; however, its expenses are ballooned by recurring payments to hundreds of officials and local influencers, many nominally in charge of areas not controlled by the group. The group has however managed to raise emergency funds to keep itself afloat, and has never failed to pay its fighters and administrators.

## Zakawaat

*Zakawaat* is collected by troops mobilised from different AS departments, assisted by clan elders; they are put into action during the collection season, which is traditionally the month of Ramadan. The starting rate is one camel out of every 25 camels owned and one goat out of every 40 goats. Collection is done uniformly across all the regions in south and central Somalia, including in the districts that AS does not control. Collectors issue receipts to pastoralists; those who lose their receipts are made to pay the taxes again in the next year. This ensures that pastoralists who were away from AS territory during the preceding year do not escape payment of *Zakah*.<sup>2</sup>

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<sup>1</sup> Interview with a former Al-Shabab regional-level *Zakawaat* director, April 2018.

<sup>2</sup> Interview with a former Al-Shabab regional-level *Zakawaat* director, January 2017.

Amounts collected vary by district. For instance, in Bardale in 2017, AS managed to collect 2200 goats and 171 camels.<sup>3</sup> In the area around Mogadishu in the same period, 100 camels and 1500 goats were collected as *Zakah*.<sup>4</sup> This is a relatively small amount of livestock because the area is mainly inhabited by non-nomadic farmers as it is close to Mogadishu and surrounded by urban areas. Likewise, *Zakah* collection in Barawe in 2017 was 600 camels and 8000 goats; in Wanlaweyn it was 700 camels and several thousand goats.<sup>5</sup> The livestock is auctioned to AS-linked businessmen at an amount that is generally just below the market rate, at \$400-\$600 per camel according to the animals' age and \$30 per goat. The districts named above are not controlled by AS, yet the group managed to collect more than \$1mn in *Zakawaat* in those regions in 2017. This would translate, at a conservative estimate, to about \$8mn annually from livestock *Zakawaat* throughout South and Central Somalia.

Once all the money is collected at the district level, some is given to poor people<sup>6</sup>, but most of the monies are sent to regional level officials where they are handed over to the Finance Office's bank.

## Finance Office

The Finance Office collects all monetary taxes, including monetary *Zakah* which is set at 2.5% of the monetary value of a business as assessed by AS, before profit. This means a trader with \$1000 worth of goods at his shop is required to pay \$25 in *Zakah*. This is contrary to Islamic law, which requires that *Zakah* is paid as a percentage of what one has at the end of the financial year, after deducting all liabilities. This has led some of the more idealistic AS members to demand that their salaries be paid from the *Zakah* and not by taxes collected by the Finance Office.<sup>7</sup>

AS keeps a list of business owners and an estimate of their worth. At the end of the year, all businesses are required to pay the annual *Zakah* to the Finance Office in cash.<sup>8</sup> This practice is implemented in non-AS territory as well: in Bakara Market in Mogadishu, business owners are summoned by AS Finance officials to come to AS-controlled areas and pay the *Zakah* in cash.<sup>9</sup>

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<sup>3</sup> Interview with a former Al-Shabab district-level Zakawaat director, January 2018.

<sup>4</sup> Interview with a former Al-Shabab regional-level Zakawaat director, March 2018.

<sup>5</sup> Interview with a former Al-Shabab district-level Zakawaat director, January 2018.

<sup>6</sup> A poor person, according to AS interpretation, is someone with enough to eat for only a day or less.

<sup>7</sup> Interview with a former Al-Shabab regional-level Zakawaat director, March 2018.

<sup>8</sup> Interview with a former Al-Shabab regional-level Zakawaat director, March 2018.

<sup>9</sup> Interview with a Bakara-based businessman, November 2017.

Likewise, a businessman in Bur Salah in western Mudug in Puntland, far from AS strongholds, told *Hiraal* that AS extorted *Zakah* from him.<sup>10</sup> The story is the same in Bosaso, where the AS intelligence wing, *Amniyaat*, has a presence and regularly targets businesspeople who refuse to pay AS taxes.

Money is collected at checkpoints by AS collectors. Every day, an auditor calls them to ask for the serial numbers of the receipts they have issued. After ten days, an accountant collects the money from the checkpoints. Each town has a number of checkpoints surrounding it; all these are visited by the accountant, who takes the money to the auditor, who sits at the head office in the town.

The auditor makes sure the money collected and receipts match; he gives a stamped letter to the accountant, who takes the money to the bank. At the bank, the accountant is given a slip which he takes back to the auditor. After every two months, the collectors are replaced and sent on leave for a month. After that, they are reassigned.

### Tax collection

Goods belonging to traders in AS territory are assessed by accountants who go to every shop and warehouse, checking inventories, and demanding 2.5% of the total worth of the goods, which is the *Zakah* rate. Due to the squeezing out of AS from major population centres from 2011, tax collection in the small towns and villages it still controls are not substantial. As such, a major source of income is the taxation of cargo trucks using the roads controlled by AS. Each truck is taxed at \$555, while larger trucks are taxed \$1150 each time they use the road while carrying goods.<sup>11</sup>

Table 1 AS tax rates<sup>12</sup>

Item	Tax rate/amount
Farm produce	10%
Heavy duty tractors' operating license	\$750
Water well drilling rig registration	\$3000
Toyota minivan registration fee	\$200
Personal cars registration fee	\$200
Fee to bring a camel to the market	\$5
Fee to bring a cow to the market	\$3

<sup>10</sup> Interview with a Bur Salah-based businessman, May 2018.

<sup>11</sup> This is confirmed by three former Finance officials from October 2016 to March 2018.

<sup>12</sup> Interview with an AS official, July 2018.



Fee to bring a goat to the market	\$2
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Road tax collection varies by district and region, depending on the number of trucks using the roads. For instance, tax collection in the area around Kismayo was \$30,000 to \$50,000 per month in 2016 (half the amount collected when AS controlled Kismayo in 2011); Sakow was a little higher at \$30,000 to \$70,000 per month; Buale was \$30,000 to \$50,000; Kamsuma was \$10,000 to \$15,000; and Jamame was \$40,000 a month.<sup>13</sup> We assess that the amount collected has not gone down. Indeed, it may have grown with the economy. The Finance headquarters for the Jubba regions is in Jilib, where at least \$300,000 a month was deposited from the districts in the region in 2016.<sup>14</sup> This means that AS collects at least \$3.6mn from its checkpoints in the Jubba regions, translating at a very conservative estimate to an annual collection of \$15mn from all its checkpoints across the country.

Traders based in territory not controlled by AS are taxed in two ways: the first is by stopping their shipments passing through AS territory, and asking for the owner. The owner is then contacted by the Finance Department, which asks him about his annual revenue (not profit). If the answer is ridiculously low, his shipment is impounded; if the answer is reasonable, it is calculated that he owns up to three times the amount he specified, and is taxed 2.5% of that amount.<sup>15</sup> The second method is applied to traders in areas controlled by the government and whose goods do not go through or to AS territory. These are reported on by AS informants; finance officials then call them and order them to pay the *Zakah*. Those who refuse have their files handed over to the *Amniyaat* for enforcement.

Tax collection from businesses in the aforementioned manner is believed to be the most important source of taxes for the group because of its resilience. While it is difficult to get exact figures, it is no less than \$3.5mn from Mogadishu alone. This figure is obtained by calculating AS taxes in Mogadishu being 30% effective (that is, 30% of businesses being taxed), and estimating the total worth of these businesses being at \$500mn. Using the same model for the commercial capital of Puntland, Bosaso -- the other major AS tax source because of the strength of the *Amniyaat* there -- tax collection there is at least \$500,000 per year. Other non-AS population centres are not considered very profitable for the group.

### Other sources of income

Any reduction in AS finances is first felt by the non-military and *Amniyaat* members, whose salaries may be delayed. To make ends meet, when the Finance department feels money is in

<sup>13</sup> Interview with a former Al-Shabab district-level Finance director, October 2016.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

short supply, traders and clans in AS territory are ordered to pay '*Infaaq*'. This is an arbitrary amount that can range from thousands of dollars to tens of thousands per clan; and hundreds to thousands for each trader. This is one of the most disliked AS practices. Unlike the *Zakah*, which has some religious basis, the *Infaaq* is an outright predatory form of behaviour which is universally resented by those living in areas under AS control and influence. It is raised at the regional level by regions facing budgetary shortfalls or across the regions in support of a major military campaign. Similar to the *Zakah*, it is collected by a special force assisted by local administrators including clan elders.

Very small businesses, such as tuktuk drivers, are also taxed by the group.<sup>16</sup> This partly explains the targeting of tuktuk drivers and other small business owners by AS assassins. Also, livestock owned by people who are not very pro-AS or suspected of having ties to government are confiscated by the AS Finance office.<sup>17</sup>

While AS individuals used to receive personal donations from abroad, the group has arrested many members under suspicion of espionage; consequently, remittances, being natural sources of suspicion, are not as used as before the crackdowns.

Large-scale overseas support is reportedly in the form of goods bought in the name of AS-linked businessmen by Al-Qaeda donors, shipped into the country, and the revenues handed back to AS.<sup>18</sup> While these kinds of transactions are widely known, proving them is difficult due to the nature of the money laundering system they employ.

Finally, individual AS members and the organisation itself have businesses across the country.<sup>19</sup> Some of these date back to the creation of the group and remain profitable.

### **Accountability**

The financial system is tight, with only one known case of a collector who defected with \$2800. The auditors in the districts, who receive the monies from the checkpoints, are rigorously vetted before being employed. They declare all their assets, including land, cars, and cash in the bank. They declare their wealth again after being relieved of their duties; any unaccountable wealth is repossessed.<sup>20</sup>

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<sup>16</sup>Interview with a tuktuk driver in Baidoa, October 2017.

<sup>17</sup> Interview with a former Al-Shabab regional-level military commander, March 2018.

<sup>18</sup> Interview with a former Al-Shabab regional-level Finance director, July 2018.

<sup>19</sup> Ibid.

<sup>20</sup> Interview with a former Al-Shabab district-level Finance director, January 2017.

Auditors, some of whom receive up to \$50,000 a month, are unable to defect with the money for a number of reasons. First, they are on 24-hour watch by the *Amniyaat*: in their offices, there are four known members of the *Amniyaat*. Additionally, other hidden *Amniyaat* operatives keep watch of their movements. Moreover, they are relieved of their duties every few months and sent on leave.

Similar to the Finance Office, the *Zakawaat* is collected and verified by different parties, which ensures that the deposits at the bank are what are actually collected. However, this has not stopped collectors from not recording some of the animals they collect; this theft of *Zakah* happens mostly in contested districts where the local officials are loosely monitored.<sup>21</sup> AS officials holding positions of power and with discretionary budgets live a relatively comfortable life in the bush. While little money is stolen during the collection process, AS officials seek out a position in the *Zakawaat* in order to get some of the crumbs.<sup>22</sup>

## The AS Bank

AS moves around monies from the regions to its de facto capital, Jilib town, by using local money transfer agencies or by direct bank deposits where there is a bank; bank accounts are maintained in the names of AS finance officials.<sup>23</sup> From there, the monies are withdrawn or transferred to other regions as required.

## How the monies are spent

The Finance Office divides monies into three parts: logistics, for food, fuel, etc; for emergencies, which is saved and sent to the AS leadership; and the last part is given to the Offices (ministries' offices) in the region where the collection was made.<sup>24</sup> Wealthier regions use what they need and send most to AS headquarters; poorer regions such as Mudug and Galgaduud can barely cover their expenses, and receive support from headquarters.

Each head of an Office receives his monies for ongoing operations from the head of Finance at the regional level. However, contingencies are taken from the governor of the region, known as the the Head of the *Wilaya*. Interestingly, the contingency fund is topped up every month and handed over to the *Wali* no matter whether the contingency fund was used or not.<sup>25</sup> The contingency fund, ranging from \$3,000 to \$10,000 monthly, is therefore used as a form of patrimonial subsidy to heads of Offices at the regional levels. Assuming an average contingency

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<sup>21</sup> Interview with a former Al-Shabab regional-level Zakawaat director, April 2018.

<sup>22</sup> Ibid.

<sup>23</sup> Interview with a former Al-Shabab district-level Zakawaat director, January 2018.

<sup>24</sup> Interview with a former Al-Shabab regional-level Education director, February 2018.

<sup>25</sup> Ibid.



expenditure of \$7,000 per Office, the total would be \$502,000 per administrative region per year; and \$4.5mn for its nine administrative regions.

The group has a large expenditure in recurrent payments in the form of salaries to soldiers, policemen, administrators, orphans and the maintenance of loyalties among more than 100 'unemployed' officials of the group. Foot soldiers are relatively cheap, receiving starting salaries of \$30 per month with those having wives receiving an extra \$30 per wife and \$20 per child.<sup>26</sup> With about 5000 active fighters, this would make their total salaries less than \$3mn per year, and \$3.6mn in food (at \$2 per fighter per day).

The *Amniyaat* receive the highest base salary in the AS armed forces, with their salaries starting at \$200 per month and financial benefits to assist with their cover if working in enemy territory.<sup>27</sup> Their expenditure is considered to be \$1.5mn, based on *Hiraal's* knowledge of their activities.

Likewise, commanders and administrative officials are paid \$200 per month as a starting salary and up to \$400 depending on rank, which would total another \$11mn per year.

Total AS annual expenditure is therefore in the region of \$23.6mn without including its expenditures on ammunition and explosives. Arms acquisition by AS is a very complex business which would require its own research paper. However, for the sake of this paper, we assess it to be no more than \$2mn per year.

## Conclusion

Al-Shabab has built a resilient and far-reaching financial network that has been able to withstand regular army and Special Forces attacks. With its roots dug deep into the local communities, the group has managed to replace and reposition tax collectors as necessary. On some major roads, the group conducts its tax collection even without having a permanent presence.

The AS tax revenues are estimated in this paper at \$27mn while its expenditures are at around \$25.6mn. While our estimates are conservative, the group breaks even on its balance sheet every year. This is shown by the fact that the emergency tax collection is not done on a regular basis, and not in every region. On the other hand, the fact that emergency collection is sometimes needed shows that AS profits are not significant and its income is just enough to cover its expenses.

The group has banned charcoal and accordingly hunts down charcoal traders, impounds their cargo and cars, and charges them hefty fines. Members who are involved in facilitating the

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<sup>26</sup>Interview with a former Al-Shabab regional-level Head of Da'wa, January 2018.

<sup>27</sup> Interview with a former Al-Shabab *Amniyaat* commander, September 2017

charcoal trade have been arrested and some killed by the group.<sup>28</sup> While financially it would make sense for the group to engage in the charcoal trade, they banned it because they considered it more profitable for the authorities in Kismayo than for themselves.

Its tax collection in the areas it does not control has spawned a subset of criminals and former AS members collecting their own extortion monies from businessmen. The group actively seeks out these AS impostors and listens to businessmen's grievances.<sup>29</sup>

While the loss of territory would normally mean fewer administrators to keep on the payroll, the nature and strategy of AS - keeping everybody on the payroll and naming officials as shadow administrators in areas held by the government - means that the group would continue having sizeable financial commitments even if it loses territory. However, no amount of financial loss would ever be sufficient to derail its terrorist activities, although its conventional military capability may be affected.

Government efforts to combat AS finances have resulted in the passing of the anti money laundering and countering terrorism finances bill in 2016 and the consequent formation of the Financial Reporting Centre (FRC). The FRC and the occasional Special Forces attacks on the group's money collection checkpoints are the main tools to financially undermine AS. However, the group uses legitimate financial systems to move around its wealth, exploiting the weakness of the nascent FRC, which currently lacks the capability to fully do its job.

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<sup>28</sup> Interview with a former Al-Shabab checkpoint soldier near Kismayo, June 2017.

<sup>29</sup> Interview with a Bakara-based businessman, November 2017.