REPUBLIC OF KENYA

NATIONAL TERRORISM FINANCING RISK ASSESSMENT REPORT 2023



PRINTED BY THE GOVERNMENT PRINTER, NAIROBI

NATIONAL TERRORISM FINANCING RISK ASSESSMENT REPORT

December, 2023

HARAMBEE

FOREWORD

I am pleased to present the Kenya National Counter-Financing of Terrorism Strategy 2023-2026, which updates the CFT measures contained in the National Strategy for AML/CFT/CPF 2021-2026 that was prepared following the 2021 National Risk Assessment (NRA).

This Strategy has been developed to implement the outcomes of the Terrorism Financing National Risk Assessment 2023, which also updated the NRA report in terms of understanding the terrorism financing (TF) landscape in the country as well as addressing the recommended actions contained in the 2022 Mutual Evaluation Report for Kenya, regarding TF understanding, and implementation of effective CFT measures.

In conducting the TF risk assessment, we adopted a whole of Government approach whereby Ministries, Departments and Agencies (MDAs) involved in the fight against TF participated. The private sector, and the general public also participated in the exercise, thus enabling the country to obtain and benefit from the widest possible range of information and views on the areas assessed.

The Strategy incorporates a multi-sectoral approach involving key stakeholders, including the international community, to address the complex nature of TF, especially the connections with other crimes and evolving trends on how terrorists raise, store, move as well as use funds. The aim is to inform the design of effective disruption mechanism through formulation and implementation of risk-based CFT measures to deny terrorists the funding muscle which is key to accessing attack materials, targets, surveillance and other logistical needs.

On behalf of the Counter Financing of Terrorism Inter-Ministerial Committee whose mandate is to, among others, formulate and supervise the implementation of the National Strategy on Counter Financing of Terrorism in the country, I take this opportunity to thank all the stakeholders who participated in this important national exercise. The Government of Kenya is committed to implementing this Strategy as per the attendant Action Plan, to fully benefit from the 2023 TF risk assessment.



KITHURE KINDIKI
Cabinet Secretary for Interior and National Administration and
Chair Counter-Financing of Terrorism Inter-Ministerial Committee

HARAMBEE

MESSAGE FROM THE NATIONAL CO-ORDINATOR

Terrorism financing (TF) pose serious concern for Kenya because it facilitates crime, hence a threat to both national security and integrity of the financial system. Kenya is particularly vulnerable to terrorism financing due to (i) geographic factors, like location in a region occupied by terrorist groups, (ii) relatively vibrant economy and sophisticated financial system capable of facilitating the raising, movement, storage and/or use of terrorist funds under the cover of legitimate transactions, (iii) demographic factors including large population of radicalized individuals who are generally sympathetic to the terrorists, and (iv) presence of large refugee camps which apparently act as fertile recruitment grounds by the terrorists.

Over and above posing a security threat, terrorist financing can also erode the integrity of non-financial institutions such as NPOs which are sometimes exploited for extortion, including payment of protection fees to operate in certain locations, often unwittingly, for the financing of terrorism.

The TF risk assessment has directly updated the NRA Report in terms of knowledge and understanding of terrorism financing landscape in the country. It has also identified the multiple mechanisms terrorist actors are exploiting to raise, move, store and/or use funds as well as the inherent vulnerabilities of specific sectors,' regulatory and law enforcement frameworks. The outcome has also informed the development of a corresponding national CFT strategy and action plan to address and implement an effective risk-based mitigation measures, especially those geared towards investigation and prosecution of TF. Based on the foregoing, the assessment has enabled the country to address recommended actions contained in the Mutual Evaluation Report for Kenya, regarding TF understanding, and implementing effective CFT and TFS measures.

I would like to express my gratitude to the Counter Financing of Terrorism Inter-Ministerial Committee for the Strategic Direction and guidance on TF. I would also like to thank the World Bank for availing the TF risk assessment tool and methodology for our use. Finally, I thank the TF risk assessment Working Group, participating institutions and personnel from both the public and private sectors for their, time, commitment, dedication and effort which has enabled us to successfully complete this exercise and update our TF understanding.

CAPT. (RTD.) SAITOTI K. MAIKA, M.B.S.
Director General/Chief Executive Officer, Financial Reporting Centre

HARAMBEE

CONTENTS

FOREWORD i
CONTENTS v
LIST OF TABLES vii
LIST OF FIGURES vii
ACRONYMS viii
EXECUTIVE SUMMARY ix
1.0 INTRODUCTION 1
1.1. Background Information 1
1.2. Objectives of the TF Risks Assessment 2
1.3. Assessment Methodology 2
1.4. The TF Risk Assessment Process 2
1.5. Identification of Threats, Vulnerabilities and High-Risk Sectors 3
1.6. Public Participation on TF NRA 4
1.7. Comparison with the 2021 NRA Report 5
2.0 NATIONAL TERRORISM FINANCING THREAT 6
2.1. Active Terrorism Threat 7
2.2. Terrorist Organizations 9
2.2.1. Al-Shabaab (AS) 9
2.2.2. Islamic State in Iraq and the Levant (IS) faction and its affiliates 10
2.2.3. Lone Wolf actors 10
2.3. Raising of Funds 11
2.3.1. Kidnapping for ransom 11
2.3.2. Illegal taxation and extortion 12
2.3.3. Self -funding 13
2.3.4. Crowd-funding through social media 14
2.3.5. Legitimate businesses 14
2.3.6. Individual funders 15
2.3.7. Virtual assets 15
2.4. Transfer of Funds/Value 16
2.4.1. Mobile money 16
2.4.2. Money remittance providers (MRPs) 16
2.4.3. *Hawala* 17
2.4.5. Smuggling of cash 19
2.5. Use of Funds 19
2.6. Storage of funds 19
2.7. Sympathizers 20

2.8. Neighbours 20
2.9. Finance and Trade Hub Function of the Jurisdiction 23
2.10. Strategic Goods and Services 23
3. TERRORIST FINANCING RISKS AT THE SECTORAL LEVEL 24
3.1. Money or Value Transfer Services (MVTS) 26
3.1.1. Introduction 26
3.1.2. Overview of MVTS industry 27
3.1.3. *Assessment of threat factors for MVTS* 29
3.1.4. Inherent vulnerability factors 30
3.2. Cross-Border Cash Movement 31
3.2.1. Introduction 31
3.2.2. Key Vulnerability 32
3.3. Banking Sector 33
3.3.1. Assessment of threat factors 33
3.4. Informal/Unregulated Financial Institutions 35
3.4.1. Hawala 35
3.4.2. Non-deposit taking financial institutions 35
3.4.3. Unlicensed foreign exchange dealers and/ online traders 36
3.5. Real Estate Agency Sector 36
3.6. Non-Profit Organisations (NPOs) Sector 37
3.7. Securities Sector 39
3.8. Precious Stones and Metals 40
3.9. Insurance and Retirement Benefits Sector 41
3.9.1. Assessment of threat factors for insurance and retirement benefits sectors 41
3.10. SACCOs 41
3.10.1. Overview of SACCO sector in Kenya 41
3.10.2. TF risk assessment for SACCOs 41
3.10.3. Assessment of inherent vulnerability 42
5.0. CONCLUSION 43

LIST OF TABLES

Table 1: Overall TF risk for Kenya....3

Table 2: Countries posing highest TF risk to Kenya 22

Table 3:Countries posing highest TF risk to Kenya 22

Table 4: Regulatory regimes for MVTS 27

Table 5: Mobile Money Subscription and transaction, 2007- 2022....29

Table 6: Case typologies on abuse of MVTS for TF 30

LIST OF FIGURES

Figure 1: Factors which influence Kenyan to be sympathetic to terrorists....4

Figure 2:Casualties from terror attacks from 2019 8

Figure 3: Number of ancillary activities by Al-Shabaab 8

Figure 5:Transfers by IS network in East Africa through Heeryo Enterprises....18

Figure 6: Movements of the Dusit attackers and planners of the Merti attack into and from Somalia 21

Figure 7: Sectoral TF Risks 26

Figure 8: MRPs outflows over US$ 10,000 28

Figure 9: NPOs funding by source....37

Figure 10:NPOs funding by type 38

ACRONYMS

ADF	Allied Democratic Forces (ADF)
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
AS	Al Shabaab
ATMIS	African Union Transition Mission in Somalia
ATPU	Anti - Terrorism Police Unit
BO	Beneficial Ownership
CAK	Communications Authority of Kenya
CBK	Central Bank of Kenya
CDD/EDD	Customer Due Diligence/ Enhanced Due Diligence
CMA	Capital Markets Authority
DNFBPs	Designated Non-Financial Businesses and Professions
DCI	Directorate of Criminal Investigations
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
EACC	Ethics and Anti-Corruption Commission
FRC	Financial Reporting Centre
FATF	Financial Action Task Force
FXB	Foreign Exchange Bureau
GDP	Gross Domestic Product
IS	Islamic State
IRA	Insurance Regulatory Authority
JKIA	Jomo Kenyatta International Airport
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
ML/TF	Money Laundering and Terrorist Financing
MNO	Mobile Network Operator
MRP	Money Remittance Provider
MVTS	Money Value Transfer Service
NIS	National Intelligence Service
NPS	National Police Service
NGO/NPO	Non-Governmental Organization/Non-Profit Organization
NRA	National Risk Assessment Report, 2021
PEP	Politically Exposed Person
POCAMLA	Proceeds of Crime and Anti-Money Laundering Act, 2009
PoE	Point/Port of Entry/Exit
POTA	Prevention of Terrorism Act, 2012
PSP	Payment Service Provider
SACCO	Savings and Credit Co-Operative Society
SASRA	Sacco Societies Regulatory Authority
STR	Suspicious Transaction Report
UNSCR	United Nations Security Council Resolution

HARAMBEE

EXECUTIVE SUMMARY

The UN Security Council in 2019 adopted an additional resolution (Resolution 2462), to address new avenues of terrorist financing, including targeting the nexus between terrorists and organized crime groups and tackling fundraising through kidnapping for ransom, among other sources. The obligations for countries to counter terrorist financing are set out in the existing international framework anchored on the overarching objective of suppressing all forms of terrorist financing. With the intensification of the terrorist threat over the recent years, the concurrent evolution of terrorist financing typologies, and the outcomes of the 2022 MER that recommended a comprehensive TF risk assessment that considers a wide range of factors, Kenya conducted the national TF risk assessment in October 2023.

The 2021 NRA assessed the TF threat for the country as *Medium* and the national TF vulnerability as *Medium Low*. The current assessment updates these understanding by rating both the TF threat for the country and the national vulnerability to TF as *Medium*. On the other hand, the corresponding national combating ability against TF was rated *Medium*. Accordingly, the overall TF risk for the country was assessed as *Medium*. For a more enriching exercise, the TF risk assessment involved the engagement and contribution of the general public, mainly to promote public awareness and sensitize the general public and media on TF for informed participation and even reporting.

This assessment corroborates the finding of the NRA that AS and the IS are the primary terrorist organisations which are posing serious threat to Kenya from their operational bases in Somalia. Al-Shabaab has however been more prominent in execution of terrorist acts within Kenya, with IS being more active in recruitment and fundraising activities. Whereas the assessment established the presence of radicalised individuals 'lone wolves' in the country, they do not manifest in pure form because individuals acting on themselves are local affiliates to the larger terror groups, either AS or IS, and generate income within their area of operation.

Both AS and IS are raising funds using both legal and illegal channels. The major legal channels include self-funding from legitimate sources of income, crowdfunding, mainly through social media, individual funders (i.e., supporters or members of terrorist groups who have roles to finance their group actions through legal and illegal self-financing), external sources (mainly foreign charity organisations), virtual assets, among others. The illegal channels include kidnapping for ransom, illegal taxation of households, business, and extortion of NPOs.

The raised funds are moved by exploiting the most effective means available, i.e cash, mobile money, banks and wire transfers, MRPs, PSPs, virtual assets, and licensed and unlicensed financial institutions. Most of the funds are then invested/stored in sectors like real estate sector, financial institutions like banks, virtual assets, among others. There is also an emerging trend where terrorists are alleged to store value (invest) in livestock, goods, precious stones and metals as well as exploitation of cash-intensive legal businesses like the filling stations (energy sector) and transportation sectors. The funds are mostly utilized to support terrorist operations like payment of salaries, recruitments, weapons acquisition, travel facilitation, logistical support, upkeep and spreading propaganda, especially through media. The funds are also used for training and acquisition of specialised skills and expertise, including the training of doctors, engineers, pilots.

The assessment of the TF risks borne by sectors established that MVTS (including MRPs, mobile money, PSPs and foreign exchange bureaus) is posing the highest TF risk in the country, and is rated *High*. This is followed closely by the banking and informal/unregulated financial institutions' sectors which are both rated *Medium High*. Cross-border cash movement, NPOs and real estate agency' sectors are assessed to pose *Medium* TF risks.

HARAMBEE

1.0 INTRODUCTION

1.1. Background Information

The Republic of Kenya, located in East Africa, is bordered by South Sudan to the Northwest, Ethiopia to the North, Somalia to the East, Uganda to the West, Tanzania to the South, and the Indian Ocean to the Southeast. It has an area of 582,646 sq. Km and a population of approximately 55 million people, making Kenya the world's 29th most populous country. It serves as a trade hub for East and Central Africa. Kenya has one national government and 47 county governments. Kenya is a presidential democracy, in which elected officials represent the people and the President is the head of State and Government.

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. Its borders are wide and the citizens of East Africa enjoy free movement as members of the East African Community. Besides being an economic hub, Kenya is also a major regional travel and transhipment hub and gateway to the neighbouring East African economies with well-developed trade links to the rest of the world. Further, Kenya has nine international airports that open Kenya to the rest of the world and is party to the Single African Air Transport Market (SAATM), a regional open skies treaty. Mombasa is the largest sea port in East and Central Africa, and serves a number of East African countries like Uganda, South Sudan, DRC, Rwanda and Burundi.

Kenya is a founding member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), which is a Financial Action Task Force (FATF) Style Regional Body (FSRB). Kenya is therefore, an indirect member of FATF through ESAAMLG. FATF is an inter-governmental body established in 1989 by the Ministers of its member countries, as the global standard setter on anti-money laundering (AML), countering the financing of terrorism (CFT) and the financing of proliferation of weapons of mass destruction. These standards are globally recognised and are referred to as "Recommendations".

FATF Recommendation 1 of the revised FATF 40 Standards requires countries to identify, assess, and understand the ML/TF risks they face to enable them apply a risk-based approach in mitigating the risks. One way of identifying, assessing, and understanding the TF risks is by conducting a national risk assessment (NRA) on terrorist financing (TF).

Kenya's AML/CFT preventative measures are largely contained in the Proceeds of Crime and Anti Money Laundering Act, 2009 (POCAMLA) which is supplemented with the Proceeds of Crime and Anti-Money Laundering Regulations, 2023. Terrorism and terrorism financing offences are provided for in the Prevention of Terrorism Act (POTA), 2012, supported by the Prevention of Terrorism (Implementation of the United Nations Security Council Resolutions on Suppression of Terrorism) Regulations, 2023.

Kenya's NRA report of 2021 assessed the TF threat as medium and TF vulnerability as medium low. The Global Terrorism Index (GTI) Report of 2023 ranked Kenya 20th with a score of 6.163, similar to the 2022 rating, indicating a high impact of terrorism in Kenya. The 2021 NRA report assessed Al-Shabaab and IS as a significant threat to Kenya from their operational bases in Somalia. This position remains unchanged in the current period on the threat posed by the two groups. Al-Shabaab has however been more prominent in execution of terrorist acts. IS on the other hand has been more active in recruitment and fundraising.

Al-Shabaab has conducted major attacks against security personnel, Kenyan critical infrastructure installations and the civilian population. These include the Westgate Mall attack

of September 2013, Garissa University attack of April 2015, 14-Riverside (Dusit) terrorist attack of January 2019, Manda Bay attack of January 2020, among others.

Finances are very critical for terrorists' logistical operations. The funds are used for recruitment of new members, propagations of ideology, communication, including dissemination of propaganda and for planning and execution of attacks. In recognition of this, the Kenyan government has adopted a deliberate policy of ensuring that terrorists are denied opportunities and avenues of raising and moving money.

Increasingly, terrorist groups are embracing technology to raise and move funds in a bid to avoid the financial surveillance of the formal financial sector. For instance, crypto and other payments technologies are often used to conceal the source and destination of funds. The developments in communication technologies, including anonymity and encryption in applications are also used to facilitate crowdfunding. It is projected that terrorist will move from the conventional methods of raising and moving funds into these new technologies, a situation that could hamper the work of law enforcement agencies in combating terrorism financing. This calls for innovation to unravel adoption of new ways being used as well as international cooperation to deal with exploitation of new technologies to raise and move funds.

The Government of Kenya remains committed to prevent and eradicate criminal acts of terrorism, both national and transnational. One of them is through efforts to break the chain of terrorism financing through the follow-the-money approach with the Financial Reporting Centre acting as a focal point in generation and dissemination of financial intelligence information, for a more intelligence-led investigations and action by LEAs to prevent and eradicate TF, and ultimately terrorism. The follow-the-money approach involve various relevant stakeholders, including competent authorities, LEAs, supervisory and regulatory bodies as well as designated reporting institutions.

1.2. Objectives of the TF Risks Assessment

The objective of undertaking the Terrorism Financing National Risk Assessment for (TF-NRA) is for the country to identify, assess and understand its unique TF threats, vulnerabilities and consequences in order to adopt a commensurate risk-based counter financing of terrorism (CFT) measures. The assessment is also meant to assist the competent authorities to assign responsibilities for combating TF to the relevant entities on the basis of the identified risks, facilitate allocation of resources to areas of higher risk and formulate recommendations for strategies and policies related to existing, potential and emerging TF risks in the country.

1.3. Assessment Methodology

The TF risk assessment has been informed by the 2021 ML/TF National Risk Assessment (NRA) of Kenya and the subsequent findings of the Mutual Evaluation Report (MER) of Kenya which were released in September 2022. The understanding of TF Risks is critical in informing the country's counter terrorism financing (CTF) strategy and policy interventions, as well as, in developing risk-based approaches to mitigate the threats. The assessment relied on the FATF Guidance and employed the World Bank TF Risk Assessment Guidance and Tool. This assessment therefore, updates the outcome of NRA on TF risks facing the country.

1.4. The TF Risk Assessment Process

Following the 2022 MER, the country developed a high-level action plan to address the recommended actions (RAs) and to update the NRA. As part of this action plan, ML/TF sectoral risk assessment for legal structures and arrangements, virtual assets and virtual asset

providers as well as TF national risk assessment was conducted to entrench application of risk-based approach.

The Cabinet Secretary for National Treasury and Economic Planning sanctioned the process by approving the action plan and designating the Financial Reporting Centre as the lead agency. Consequently, the TF national risk assessment Working Group (TFWG) was constituted. TFWG comprised agencies that are relevant for TF, including the Central Bank of Kenya (CBK), Office of the Director of Public Prosecutions (ODPP), National Counter Terrorism Centre (NCTC), National Intelligence Service (NIS), NGO- Coordination Board and the Anti-Terror Police Unit (ATPU).

The TFWG held several consultative meetings to develop questionnaires that targeted specific sectors, including law enforcement agencies, reporting institutions (private sector), supervisory bodies/sector regulators, Ministries, Departments and Agencies (MDAs), the general public and other select private sector practitioners. The aim of targeting the public was to get information on the level of TF-understanding and also to gauge the public views regarding terrorism and TF in general. The TFWG run an advertisement on the national media (daily Newspaper) and on the FRC website on 29th August, 2023 inviting members of the public to submit comments online, for a more enriching TF-risk assessment.

1.5. Identification of Threats, Vulnerabilities and High-Risk Sectors

The identification of TF-vulnerabilities at the national level sought to establish effectiveness of laws, policies and strategies, capacity and integrity of investigative, prosecutorial and judicial processes designed to address the TF threat. The vulnerabilities that can be exploited stems from the country's circumstantial and structural elements directly related to the CFT system in the country, contextual factors, legislative and institutional frameworks, categories of reporting entities, and other relevant corporate/legal entities. This was achieved through in-depth analysis of 23 variables, to a picture of the overall national TF vulnerability. The assessment established that the overall sectoral vulnerability for TF, in relation to domestic operations as well as international operations is *Medium*. As shown in Table 1, both the incoming, internal and transit TF threats are assessed as *Medium*, while the outgoing TF threat is *Low*. On the other hand, both internal, outgoing and transit TF risks are *Medium*. Based on the foregoing, the national TF Risk for Kenya is ***Medium***.

Table 1: Overall TF risk for Kenya

Category	National TF Threat	National Vulnerability to TF	TF Risk Level
Internal TF Risk	0.5	0.43	M
Outgoing TF Risk	0.3	0.55	M
Incoming TF Risk	0.5	0.57	M
Transit TF Risk	0.5	0.53	M

Sectoral TF risk analysis was guided by global typologies and the overall reporting by law enforcement agencies including intelligence and suspicious transaction reports and activities by the FRC. All sectors were considered in the analysis, but only ten (10) were identified as posing significant TF risks and are discussed in the report. These include NPOs, cross border cash movement, Money Value Transfer Services (MVTS), real estate sector, banking sector, precious stones and metals, unregistered financial institutions, securities, insurance, SACCOs and precious stones and metals.

1.6. Public Participation on TF NRA

The terrorism financing national risk assessment working group (TFWG) developed a questionnaire for the public with the aim of getting information on the level of terrorism financing understanding and also gauging the public views regarding terrorism and TF in general.

About 95% of the participants confirmed that they are aware of the terrorism risk faced by Kenya and indicated that there are active terrorist actors/organizations in Kenya. Al-Shabaab and individual sympathizers were identified as the terrorist entities which presents the highest TF threat. The following were identified as the factors that predispose Kenya to TF—

(a) Porous land borders which allow unmonitored and uncontrolled movement of people and commodities through smuggling;

(b) The economic, political and security instability within the region which gives rise to both legal and illegal immigrants. Kenya hosts refugees from South Sudan, Ethiopia, Somalia and DRC;

(c) Geographical position of Kenya within terrorists-occupied neighbourhood;

(d) Relatively good financial infrastructure in the country, coupled with the innovative financial products;

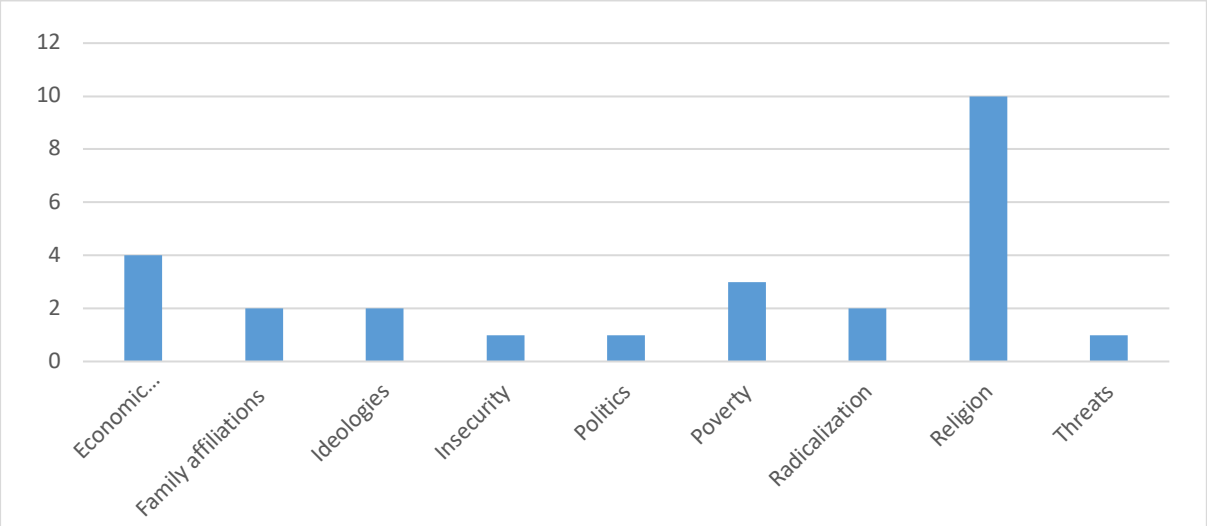
(e) Kenya hosts international bodies and institutions that are occupied by foreign nationals and diplomatic missions, some of which may become targets for terrorists;

(f) Exploitation of NPOs, religious institutions, and other charity organisation platforms for crowdfunding, fundraising and transferring funds to/from foreign countries may be abused for TF; and

(g) Extreme religious ideologies.

The influence of religious organizations was reported as one of the major factors which attract some Kenyans to terrorist acts, including as sympathizers, as shown in Figure 1. Other factors include economic benefits, family affiliation, among others.

Figure 1: Factors which influence Kenyans to be sympathetic to terrorists



Majority of the participants (74%) reported that they are aware of the formal channels which can be used to report TF-related suspicious activities/transactions to the LEAs, and urged the Government to put in place the following additional measures to fight financing of terrorism—

(a) Address the porous nature of the borders, including smuggling of TF-related commodities;

(b) Enhance freezing of suspicious assets related to TF;

(c) Effectively monitor activities conducted by religious institutions, charities and NPOs, especially those relating raising and use of funds;

(d) Conduct effective CFT training and sensitization of all stakeholders, including the general public;

(e) Ensure effective supervision and monitoring of reporting institutions and enforce compliance with CFT obligation; and

(f) Targeted information dissemination to the general public on financing of terrorism in the country.

1.7. Comparison with the 2021 NRA Report

(a) In the NRA 2021, the TF threat was assessed as *Medium* and the national vulnerability to TF as *Medium Low*. The current assessment considers both TF threat and vulnerability at the national level, to be *Medium*. The differences in the ratings of the two assessments can be explained by the scope of coverage where TF threat has been expanded to the global stage, and a deeper analysis of national threat factors and sectors of the economy. The current analysis has therefore, updated the findings of the NRA.

(b) The 2021 NRA established significant sectoral cases of TF threat only in the banking and mobile money sectors. The current assessment has analyzed in detail, the TF risks in all key sectors in the country.

(c) This TF risk assessment involved the engagement and contribution of the general public, mainly to promote public awareness and sensitize the general public and media on TF for a more informed participation and even reporting, an exercise which was lacking in NRA.

(d) This assessment heavily involves case studies/examples and typologies to demonstrate terrorist related actions.

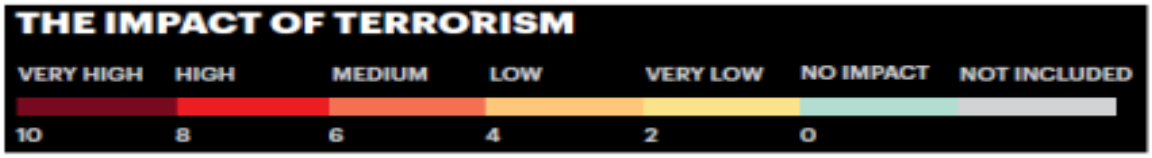
(e) The NRA mainly considered physical geography to contextualize the TF threat to the country. This TF risk assessment expands the consideration to include social geography, including the effect of the relatively large populations of immigrant community, especially in regard to borrowed ways of life (like the preference for Hawala), as well as the economic geography in terms of trade links, and the embedded TF threats.

HARAMBEE

2.0 NATIONAL TERRORISM FINANCING THREAT

2.1. Active Terrorism Threat

The 2020 and 2023 Global Terrorism Index (GTI) Report placed Kenya in the 20th position with a score of 6.163. These ratings were within the high category according to the GTI[1] scale.



The 2021 ML/TF National Risk Assessment (NRA) Report rated the terrorism threat level in the country as medium and vulnerability as medium low. The NRA also assessed Al-Shabaab and the Islamic State affiliates operating in Somalia, DRC and Mozambique as terrorist organisations posing high threat to Kenya. This position remains unchanged in the current period on the threat posed by the two groups. Al-Shabaab has however been more prominent in execution of terrorist acts within Kenya. IS on the other hand has been more active in recruitment and fundraising activities.

Al-Shabaab continues to raise majority of its funds from exploitation of *zakat*, illegal taxation and extortion activities in Somalia. Other sources of funds include kidnapping for ransom in Kenya and other areas, funding from front businesses run by proxies and donations. The group has found means of transferring such funds into Kenya through Hawala, cash smuggling across the borders and MVTS, especially mobile money and money remittances. These funds are then used to facilitate travel, provide logistical support, recruitment, execution of attacks and acquisition of weapons from other jurisdictions.

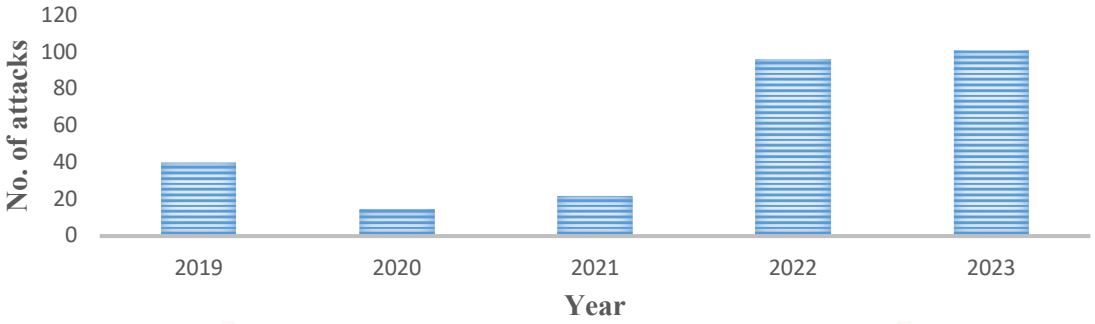
Al-Shabaab has conducted major attacks on security personnel, Kenyan critical infrastructure installations and against the civilian population. The expansive border (about 700 kilometres from Mandera to Lamu) between Kenya and Somalia and its porous nature has enabled their infiltration into Kenya. Improvised Explosive Devices (IEDs) and guns have become Al-Shabaab's preferred weapons in Kenya and Somalia due to their portability, ease of assembling, devastating impact on vehicles, and the fear they instil in road users. For instance, between June 2023 and July 2023 alone, over 30 security force officers were killed by improvised IEDs, allegedly by Al-Shabaab.[2]

Other public servants such as teachers and health workers stationed on Northern Frontiers of the country have also been attacked. The group has also previously attacked Western interests in the country as well as civilian populations. The rampant methods used in the attacks are IEDs, AK47 guns, grenades and armed attacks, random ambushes and destruction of critical communication infrastructure located along the Kenya-Somalia border. The active threat by the group has thus raised Kenya's alert system. A breakdown of the statistics related to the terrorist activities is provided in Figure 2

[1] The global terrorism index (GTI) is a comprehensive study that analyse the impact of terrorism for 163 countries covering 99.7% of the world's populace.

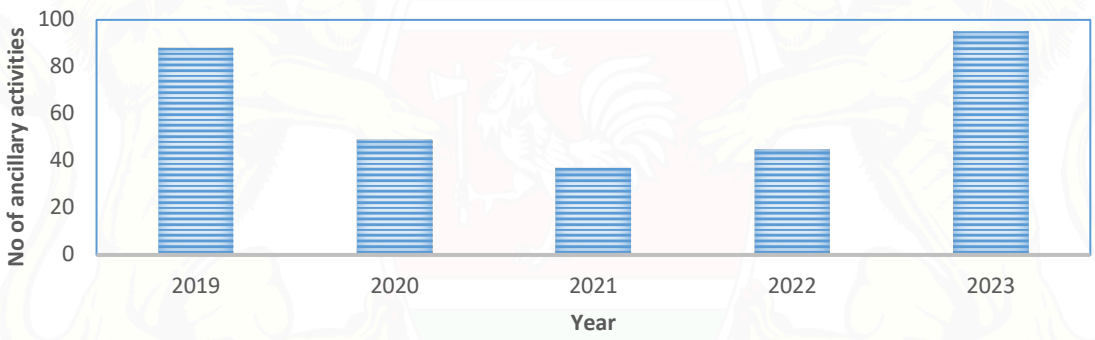
[2] https://issafrica.org/iss-today/kenyas-rise-in-al-shabaab-attacks-calls-for-localised-solutions

Figure 2:Casualties from terror attacks from 2019



Al-Shabaab also pose threats occasioned by the continuous recruitment and radicalization activities within the country, and in instances facilitation of travel for recruits as reported in Figure 3. Trends of recruitment for the past few years have revealed the adaptability of Al-Shabaab from increased recruitment activity within non-traditional target areas like Isiolo, Nyeri, Marsabit, Rift Valley and Western Kenya. Widespread poverty, family breakdowns and unemployment are some of the factors that Al-Shabaab take advantage to tempt recruits by offering ideas, cash, gifts or promises of work.

Figure 3: Number of ancillary activities[3] by Al-Shabaab



For instance, a USAID-funded study in 2018 estimated that Al-Shabaab had recruited about 200 young men in Isiolo county since 2013. Isiolo has also been identified as a transit point for recruits going into Somalia as well as returnees, including those of neighboring countries. Ali Salim Gichunge, the lead attacker of the Dusit attack, was born and raised in Isiolo and was recruited while working in a cybercafé there. Cholo Abdi Abdullahi, also linked to the attack, was born and raised in Isiolo.

In Mumias[4], an Al-Shabaab recruitment ring allegedly emerged, led by Musa Mabwege, who became the Amir (leader) of the cell. Idris Wesonga and Juma Odhiambo who hail from Mumias, were arrested between Bula Hawa and Baidoa in 2019 travelling to Somalia, and were associated with Musa Mabwege. The two were charged with terrorism related offences including travelling to a terrorist designated country, prosecuted and convicted in September 2020 and handed a total of 25 years' custodial sentence.

Islamic State (IS) continues to pose a unique threat as it encourages individuals to act by themselves thereby encouraging self-radicalization. The group is more appealing to young vulnerable minds in Kenya as it encourages the use of technology and recruitment through use

[3] These include recruitment, travel, and ancillary offenses.

[4] https://www.reinvent-kenya.com/wp-content/uploads/2021/09/Kenyas-New-Violent-Extremism-Hotspots.pdf

of social media platforms, for example Facebook, WhatsApp and Instagram. The group also uses the same platforms for crowd-funding, eventually facilitating travel of foreign terrorists' fighters (FTFs). A case in point is that of two young doctors, Farah Dagane and Hiish Ahmed, who travelled to Libya to join ISIS through Kampala and Khartoum, and started recruiting individuals from Kenya.

Investigations revealed that IS relied on a human trafficking ring called the Magafe network with agents in Kenya to facilitate the transport of recruits from Kenya to Libya. Ali Hussein Ali, arrested in 2016, was the link for the network in Kenya, and also facilitated the movement of money through various countries before reaching Libya to conceal transaction trails. On arrival in Libya, the recruits and illegal immigrants were detained by the Magafe network and would be released on payment of between KES 250,000 and KES 700,000 which was later transferred through Hawalas in Kenya to Mogadishu and later to IS[5].

The level of active terrorism threat is assessed to pose *Medium* domestic TF threat which is expected to remain constant. The variable also poses *Medium* incoming cross-border TF threat, which is expected to remain constant.

2.2. Terrorist Organizations

Terrorism manifestation in Kenya emanates from Al Shabaab (AS), an Al Qaeda (AQ) affiliate group domiciled and operating in Somalia, and Islamic State in Iraq and the Levant (IS) faction affiliate group in Somalia operating in Puntland. Lone Wolf actors have also been identified. In this risk assessment, the major terrorist organizations that were identified based on intelligence and law enforcement data about the activities of the groups in the country, are Al-Shabab and IS. The domestic TF threat posed by terrorist organizations is assessed as ***Medium*** and expected to remain constant. The incoming cross-border TF threat posed by the groups is however *High* and is expected to remain constant.

2.2.1. Al-Shabaab (AS)

The Al-Shabaab group is domiciled in Somalia and active along the Kenya-Somali borderline with specialized brigades, a centralized command structure comprising of the AMIR, a SHURA Council and regional coordinators. Al-Shabaab is motivated to attack Kenya as a way of maintaining pressure for the withdrawal of Kenyan troops from Somalia, who are part of ATMIS forces as well as to pursue ideological aims of creating a caliphate that spans well within Kenya's territory.

The high level of organisation and command as demonstrated by the military grade attacks launched by the group against the Somali Federal Government (SFG), ATMIS partners, East African states (Kenya, Uganda and Tanzania) and other troop contributing countries (TCCs) i.e. Burundi, Ethiopia and Djibouti, added to the highly sophisticated weaponry combining both the rudimentary and modern warfare capabilities including the use of bombs, IEDs and other grenade launchers translates to a high level of funding needs of the group.

[5] https://www.standardmedia.co.ke/article/2001234538/wanted-terror-suspects-linked-to-isis-recruitment-arrested-in-malindi

Annual expenditures were estimated at $21 million in 2019[6] and increased year on year. The group also approximately collects at least US$100 million annually[7] largely through zakat, 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.

2.2.2. Islamic State in Iraq and the Levant (IS) faction and its affiliates

The IS threat in Kenya emanates from Islamic State in Somalia operating in Puntland. The group's base in Somalia supports operations of affiliate groups in South Africa, DR Congo (ADF, referred to *Islamic State Central Africa Province, ISCAP*) and Mozambique (IS-MQ).

In Kenya, IS activities were noted from 2016, through radicalization 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[8], 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 remains various self-funding operations conducted by individual affiliates.

In July 2019, at which point Islamic State Somalia (ISS) was making at least $70,000 a month, the United Nations noted that ISS had been tasked with overseeing financing of Islamic State affiliates and had directed funds to support operations in the DRC, where ISCAP's pledge of allegiance became public in April 2019. By late 2019, this role had expanded, with Islamic State central designating the ISS as the "command centre" coordinating affiliates operating in the DRC and Mozambique, and for loose networks and sympathizers of these affiliates.

2.2.3. Lone Wolf actors

Self-radicalised individuals also known as 'lone wolf' attackers are not common in Kenya due to the dominance of other terrorist groups particularly the Al-Shabaab. Lone wolves manifest in Kenya but not in pure form because individuals acting on themselves are local affiliates to the larger terror groups, either AS or IS, and generate income within their area of operation.

[6] Letter dated 28 September 2020 from the Chair of the Security Council Committee pursuant to resolution 751 (1992) concerning Somalia addressed to the President of the Security Council

[7] Somalia conflict: Al-Shabaab 'collects more revenue than government' - BBC News report by Mary Harper on 26 October 2020

[8] https://extremism.gwu.edu/sites/g/files/zaxdzs5746/files/2023-06/fatal-transaction-final_0.pdf

They majorly raise funds through own income, donations, crowdfunding and other criminal activities. However, the fact that there is limited information concerning lone wolf attacks does not discount the possibility for future attacks by lone wolves.

An example is that of Trevor who was discovered through an online platform in 2019.From the assessment it appeared that he was operating as a lone wolf and expressed desire to commit a terror attack at a church in Nairobi and thereafter travelled to DRC to join IS. From the conversations, it appeared that though he was a lone wolf, he was affiliated to ISIS. He wanted to procure an AK 47 for the attack. Investigations revealed that Trevor was not able to accomplish his mission due to lack of facilitation. He asked the undercover investigator to help him secure a gun which he agreed. The conversation continued until November 2019 when the suspect was arrested and charged for offence of attempting to commit a terrorist act.

Within Kenya, the terror groups were assessed to engage in fundraising, storage, transfer and use of funds. By virtue of this, they posed **High domestic TF threat and cross-border threat**, with the trends of the threats expected to remain constant.

2.3. Raising of Funds

The collection of funds by the terrorist groups is carried out using 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 ML, especially trade-based ML; and
(d) Extortion of NPOs, among others.

2.3.1. Kidnapping for ransom

Kidnappings benefit Al-Shabaab in not only raising ransom funds and gaining media attention to increase prominence, but also in acquiring trained professionals who provide essential services in the poor communities in Somalia. A number of cases have been noted in Kenya. They include that of an Italian aid worker kidnapped in 2018 in North Eastern, Kenya by the group and was released in 2020.

The AS militia also kidnapped two Cuban doctors in 2019 in Mandera. The government driver who had been assigned to the two doctors working in a county hospital aided the kidnapping and was convicted to life imprisonment. Due to the volatile nature of security in Mandera, the

two doctors were assigned two bodyguards and one was killed during the incident. Reports[9] indicate that the group demanded KES 150 million ransom to release the two doctors. They alleged that the kidnaped doctors were forced by AS to treat people and offer medical care in an undisclosed location in Somalia. In 2022, the AS also kidnapped four people in North Eastern, Kenya, among them two clinical officers who were later released. The group has also been reported to kidnap locals and coerce them to join the militant group and kill those who refuse.

2.3.2. Illegal taxation and extortion

Al-Shabaab also raises funds through illegal taxation and extortion of goods, and vehicles in transit within Somalia. The expansive porous border with Somalia is an avenue for smuggling contraband goods which are taxed by the AS before entry into Kenya. For instance, although the assessment did not establish that AS directly engages in human trafficking, it does tax the traffickers. Intelligence has established that NPOs with offices in Kenya but operating in Jubaland and Somalia are also coerced to pay illegal taxes and protection fees to be allowed to operate. Sometimes, items are either seized and used by AS or distributed under the AS banner. Consequently, the collected funds are used to finance AS terrorist activities.

Case example 1: Contraband smuggling

Reports have described sugar as 'the most smuggled good' into Kenya, accounting for almost half of all recorded smuggling instances. The sugar that finds its way across the Kenyan border is typically smuggled from Kismayo. Smuggling into Kenya is facilitated by the refugee complexes in North Eastern Kenya, that is the vast Dadaab, Dagahaley, Hagardera and Ifo refugee camps in Dadaab sub-county of Garissa County. Refugees in the camps have established links with their relatives back in Somalia, who bring in imported goods such as sugar from Kismayu Port in Southern Somalia. Investigations reveal that illegal immigrants smuggle the goods through the porous border with Somalia, all of which are taxed by AS in transit from the Somalia side.

The same reports have also established taxation of goods and trucks from the Hagardera refugee camps to Kismayo, totaling $325 for the goods and $920 for the trucks.

9 https://www.theeastafrican.co.ke/tea/news/east-africa/al-shabaab-demand-1-5-million-ransom-for-kidnapped-cuban-doctors-1418114

Case example 2: Illegal taxation of Livestock

Communities residing in the NE region of Kenya depend on pastoralism as an economic activity, and consequently take part in livestock trade. During the dry seasons the communities migrate into Somalia in search of water and pastures, and usually end up paying zakat and protection fees to the Al Shabaab. The communities also trade their livestock, and one of the largest livestock trading markets is in Garissa. Livestock brokers facilitate cross-border trading of the livestock along the Somalia-Kenya trade corridor and as such livestock from Somalia also find their way into the market. The Garissa livestock market also provides an opportunity for brokers who might be sourcing livestock to sell to the Somalia side. All the livestock from and into the Somalia side are taxed. UN reports indicate that throughout the Somalia routes, illicit taxation rates range between $16 per head for camels, $8 per head of cattle, and $2 per head of goat. This thus providing funds to AS.

2.3.3. Self -funding

Terror groups encourage self-funding, for example, selling of personal possession such as household items, clothes among other assets to facilitate operations and attacks. This is risky especially due to the fact that some items used in attacks like components of IEDs do not require substantial amounts of money to buy and assemble. Other than selling personal belonging, it is also possible to fundraise for the purposes of an attack using legitimate sources such as accessing credit facilities from financial institutions, among others. These sources can enable these terrorist actors to raise small to moderate amounts of money relatively unnoticed, because of the difficulties posed to the financial institutions to deconstruct transactions intended to fund terrorism from other 'clean' transactions.

A case in point is that of the lead attacker of the Dusit attack in Nairobi, who was alleged to have auctioned his fridge and other household goods, on the Facebook platform to raise funds which could have been used to support part of his activities including airtime purchase and travel facilitation of his spouse to Somalia.

Self-funding is also common for lone wolf attackers. Individuals affiliated to terror groups may sell their own property in order to raise funds to support activities of the groups. The individuals may also sell properties belonging to their families for the same purpose[10]

Case example 3: Mwok Anwar, the Kulbiyow lead attacker

Mwok Anwar ventured into business, selling imported second-hand wares including mobile phones in Eastleigh, where he was believed to have been radicalized. He grew his business and ventured into the transport business. Reports indicate that the capital was from family inheritance. He eventually developed residential property from his investments. With his new-found wealth, he was also becoming heavily influential and even set up a make-shift mosque where he led a break-away faction of the Muslim community in Umoja. It is believed that Mwok helped radicalize dozens of young men from poor households, who envied his business acumen. He then left for Somalia, leaving his business and properties under his mother's care. Reports suggest that the mother sent money from the businesses to Mwok in Somalia, on several occasions, to support his activities. Mwok was onboard a VBIED used in the Kulbiyow attack against a KDF camp in 2017, where he also died.

In another instance, Abdul Karim Roheja Athumani aka *Muaheed Ghurabaa* was discovered through an online platforms investigation. He was using Facebook to communicate with persons believed to be members of AS and IS, but was more affiliated to IS. He expressed desire to travel to DRC to join his IS-affiliated 'brothers' there to 'fight for their democracy'. Abdul however, lacked funds to facilitate travel to DRC. At one point, he told his conspirators that he was looking for KES 8,000 to facilitate the same. He indicated that if he was unable to travel, then he would head to Boni Forest where some AS militants operate from. This is a demonstration of self-funding to join terrorist groups.

2.3.4. Crowd-funding through social media

Reports have highlighted the ease of use and anonymity (ability to create fake accounts or for individuals to make anonymous donations) offered by crowdfunding platforms as a valuable channel for terrorists and terrorist organizations to generate funds. Public crowdfunding campaigns facilitated by these platforms can be disguised as raising funds for humanitarian causes but the funds are used to finance the travel of recruits to a conflict zone or to send money to support terrorist activities in other jurisdictions.

Further, intelligence sources established that the use of online platforms and social media, for example, Facebook, WhatsApp and Instagram for crowd-funding is also prominent with terror groups. Thus, even recruitment and facilitation of travel of Foreign Terrorists Fighters (FTFs) can easily be financed by sympathisers in close monitored private groups online. The groups were also reported to crowd-fund to raise monies meant for bails and legal fees when members were arrested though very discreetly. These groups solicit financial support, in form of donations, through social media or from an online support base and use digital payment systems to transfer the realised funds to affiliates or other groups.

Case example 4: IS cells in Kenya

Around 2016, IS group recruiters used social media platforms like Facebook, Whatsapp and Instagram, for recruiting and crowd-funding, eventually facilitating travel of recruits from Kenya to Libya through different routes in Africa. The cells mostly targeted bright university students. Case in point is that of two young medical doctors Farah Dagane and Hiish Ahmed, who travelled to Libya to join IS through Kampala and Khartoum, and started recruiting individuals from Kenya, using the same platforms and crowdfunding. Investigations revealed that IS relied on a human trafficking ring called the Magafe network with agents in Kenya to facilitate the transport of recruits from Kenya to Libya. Ali Hussein Ali, arrested in 2016, was the link for the network in Kenya, and also facilitated the movement of money through various countries before reaching Libya to conceal transaction trails. On arrival in Libya, the recruits and illegal immigrants were detained by the Magafe network and would be released on payment of between Sh250,000 and Sh700,000 which is later transferred through Hawala in Kenya to Mogadishu and later to IS.

2.3.5. Legitimate businesses

The assessment is also alive to the fact that terror groups may run otherwise legitimate business enterprises as fronts for raising, laundering, and transferring large sums of money. The businesses may be involved in strategic economic activities within which funds can be comingled and activities integrated. Mwok case (*in example 3*), where funds from rental income, which was clean business, is a good demonstration.

10 https://www.standardmedia.co.ke/article/2001229453/embakasi-west-mp-recounts-life-of-kenyan-terrorist-who-attacked-kdf-s-kulbiyow-camp

2.3.6. Individual funders

Funding for terrorism can come from individual perpetrators. An individual perpetrator is a supporter or member of terrorist groups who has a role to finance their group actions through legal and illegal financing. In the recent past, cases have been reported involving students, traders, religious leaders or leaders of religious group organizations and business persons[11].

Case example 5: Supply of Weapons to Al Shabaab by Mombasa businessman ZK

ZK was arrested and charged in Mombasa in connection with two illegal shipments of military equipment and explosives seized at Mogadishu port in May 2023. He is being investigated for the procurement of military equipment on behalf of the Al Shabaab in China and shipping them in three containers to Mogadishu.It is alleged that the accused was in collaboration with Al Shabaab associates in Somalia. He allegedly used third party online payment platforms such as WeChat and Alipay to pay for the equipment.

2.3.7. Virtual assets

The assessment also noted the emerging TF threat posed by virtual assets as a mode of transfer and storage of funds. Virtual assets are non-sovereign-administered digital assets (such as convertible virtual currencies, like Bitcoin and Stable coins) but do not cover central bank-issued digital currencies (CBDCs), which are representations of fiat currency and treated in similar manner as fiat currency by the FATF.

Virtual assets may be attractive to terror groups due to anonymity of transactions, ease of cross-border movements, evasion of sanctions, links to dark net marketplaces and lack of regulation and supervision. Although this new threat is still at an early stage of its development in East Africa, the technical capabilities and capacities of terrorist groups close to the Islamic State of Iraq and the Levant (IS) or Hamas, for example, are progressing rapidly.

There have been several reported cases of terrorist groups using automatic address-generating software for virtual currency wallets to call for donations[12]. This could also be exploited to raise, move and store funds in Kenya. It is assessed that AS has also begun to move funds via cryptocurrency, especially Bitcoin. As recently as August 2020, the US Government announced that it had seized Bitcoin and other types of cryptocurrency worth US$ 2 million from accounts that had sent or received funds in alleged financing schemes for three foreign terrorist organizations: al-Qaeda, IS and Hamas' paramilitary arm, the Al-Qassam Brigades[13].

In addition, various technical means are available for virtual currency users to conceal financial flows and protect themselves against forensic analysis of block chain, such as the use of anonymizing services called 'mixers' or 'tumblers'. Furthermore, virtual currencies known as 'privacy coins' allow increased technical protection and encryption of the identity of the sender and the recipient of funds.

---

11 https://www.citizen.digital/news/mystery-of-kenyan-man-accused-of-importing-weapons-on-behalf-of-al-shabaab-n322523

12 https://www.acamstoday.org/virtual-currencies-regulation-and-terrorist-financing-risks/

13 Charlie Savage, "U.S. Seizes Bitcoin Said to Be Used to Finance Terrorist Groups," The New York Times, 13 August 2020, https://www.nytimes.com/2020/08/13/us/politics/bitcoin-terrorism.html

2.4. Transfer of Funds/Value

Terror groups are pragmatic in how they move/smuggle funds and exploit the most effective means available, namely cash, mobile money wallet, banks, MRPs, cash couriers, other licensed and unlicensed financial institutions, especially Hawala. The groups have extended their systems in Kenya relying on Hawala system where local sympathisers are able to bypass official detection to fund logistics for their operations making it very challenging to detect. It is also possible to comingle legitimate funds with illicit proceeds which are mainly raised from smuggling and counterfeiting of goods. The 2021 NRA identified the main TF-funds originating jurisdictions as Somalia, Europe, USA, South Africa and Middle East.

2.4.1. Mobile money

The use of mobile money in Kenya has been embraced widely for purposes of financial inclusion, with usage estimates of 85% of the Kenyan population. Mobile money allows customers to receive and send money through registered and licensed MRPs. Funds from different jurisdictions and within the country are efficiently, timely and securely received and accessed through mobile wallets. Due to this, terrorists have taken advantage of mobile money transfers to send small amounts of money using falsified identities. Evidence on the use of mobile money by terror groups is indicated in the Dusit attack (*case example six*) and the botched Merti attack.

Case example 6: Dusit attack financing

*Evidence showed how MAA on diverse dates between 14th October 2018 and 12th January 2019 while using his mobile phone numbers 0****** and 07******* as well as telephone number 07******* (belonging to his deceased brother, IAA) sent KES 836, 900 to Ali Salim Gichunge alias Farouk (the main attacker/terrorist) to facilitate the terrorist attack at Dusit Hotel while utilizing telephone number 07****** registered to EKM using a stolen ID.*

2.4.2. Money remittance providers (MRPs)

Diaspora remittances currently amounts to 3% of the Gross Domestic Product (GDP) and is the main source of foreign exchange for Kenya. The diaspora remittances are mainly from Kenyans working abroad, families of immigrants living in Kenya, and profit repatriations. MRPs continue to play a significant role in facilitating the transfer of roughly between 25 to 30% of the total of Kenya's diaspora inflows.

Terror groups financiers have been reported to misuse the registered MRPs to transfer funds from other jurisdictions to and through Kenya for terrorist activities. In the case of XYZ who was an IS facilitator in Kenya, Western Union was used to transfer diaspora remittances between Kenya and other jurisdictions as explained in the case example seven below. In the case example eight (*Heeryo enterprises*) a mixture of Hawala and money remittances were established. Money remittance continue to pose significant TF threat in Kenya due to the fact that a number of MRPs operating in Kenya have branches in Somalia. The possibility of infiltration by terrorist actors, especially in foreign jurisdictions like Somalia, pose a direct TF threat to Kenya.

Case example 7: The case of XYZ and ABC illicit transfer networks

The first confirmed transfer from the Islamic State to ISCAP (DRC) came via Kenyan Islamic State facilitator XYZ in late 2017. Together with ABC – a woman who had planned to travel with XYZ's father to Syria as his fiancée but was arrested before she left and later released – XYZ directed money being moved through a financial network that spanned Europe, America, the Middle East, and Africa. They were initially able to avoid detection by transferring the money through a personal account connected to a family business and through the Hawala system, but both XYZ and ABC were eventually arrested in July 2018. In total, the pair moved over $150,000 to Islamic State affiliates in Central Africa, Syria, and Libya.

Further investigations revealed that at least $11,000 of the total funds, were sent to known ISCAP operatives in Uganda. For instance, between October 2017 and January 2018, the facilitator received 8 Western Union (WU) transactions in Mombasa, Kenya, totalling to $9,222, from 8 senders in Western Europe, Southern Europe, Africa, and the Middle East. The facilitator sent one $825 transaction in November 2017 from Kenya to South Kivu province in Eastern DRC. South Kivu is the primary base of operations for the Islamic State's affiliate in the DRC, the Allied Democratic Forces (ADF).

The facilitator 's extended Western Union network also included WU activity in Turkey, Afghanistan, Senegal, Belgium, Denmark, Germany, France, Finland, Kosovo, Russia, and Kazakhstan. Nationalities of individuals in the financier's network included Syria, Kenya, Mauritania, Uganda, and other nationalities from Europe, Central Asia, and South Asia.

2.4.3. *Hawala*

Hawala is used as an alternative remittance channel that exists outside of traditional banking systems and is based on trust between the parties involved. The clandestine nature has made it hard for authorities to easily identify operators. Terror groups can use sympathizers and other actors to facilitate Hawala transfers as demonstrated in the case studies.

2.4.4. Withdrawals and wire transfers by banks

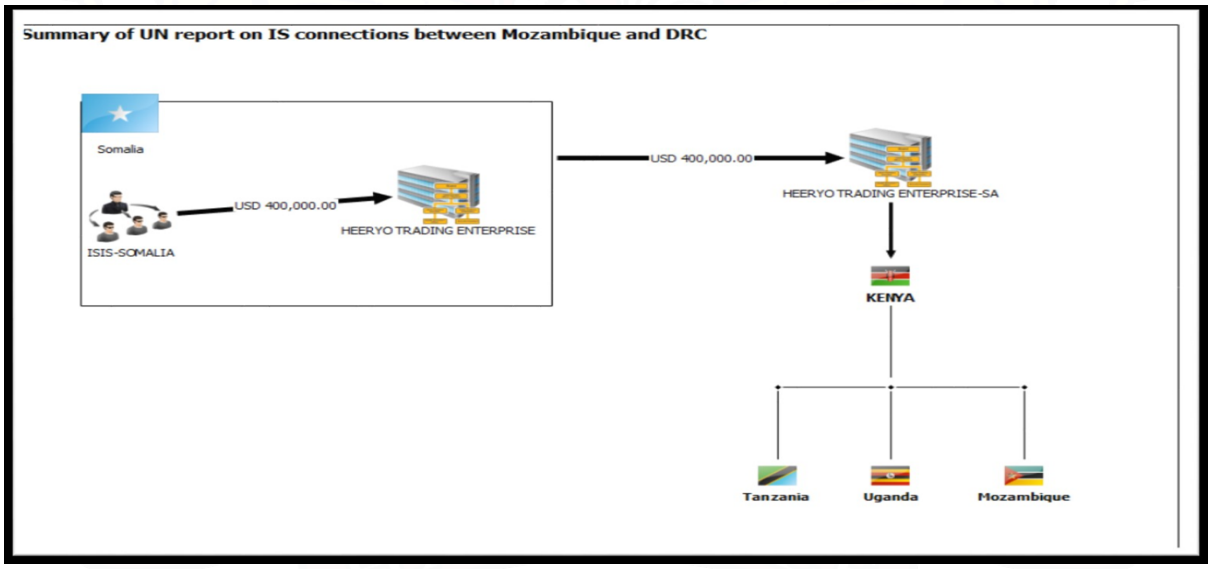
Money transfer products offered by banks are effective for cross-border money remittance, and can be abused by terror groups and their proxies. In case example eight regarding *Heeryo Enterprises (case example eight)*, an individual would deposit money with Heeryo in Mogadishu, while the recipient withdrew money from Heeryo in Johannesburg. Heeryo could then cover this balance by simply transferring money between its own accounts in legitimate bank transactions, given that Heeryo maintained both Somali and South Africa accounts.

Case example 8: Transfers by IS network in East Africa through Heeryo Enterprises

In the case of this network, which operated from 2019 to late 2020, much of the money was sent through Hawala networks under the auspices of Heeryo Trading Enterprise, a Somalia- and South Africa-based company. Registered in Johannesburg and with operations in Mogadishu, Heeryo facilitated the movement of hundreds of thousands of dollars from Somalia to South Africa, as well as transfers from South Africa to Kenya for further distribution. Facilitators in Kenya either directly disbursed the funds or, on instructions from Heeryo's manager in Johannesburg, sent them to other money transfer offices where recipients withdrew them. Funds were also sent through a variety of regional Hawala and remittance networks, some of which have branches throughout East Africa, the Middle East, and various Western countries.

Between 2019 and 2020, the network transferred over $400,000 to two Da'esh operatives based in Johannesburg, South Africa, then part of the funds, almost $134,000 to Kenya, from where they were redirected to Uganda, the United Republic of Tanzania and Mozambique. At least $60,000 of the $400,000 originally transferred from Da'esh in Somalia was received by known ADF collaborators in Uganda.

Figure 4:Transfers by IS network in East Africa through Heeryo Enterprises



The institutions involved would not know that the transfers were actually on behalf of Islamic State agents, and Heeryo also utilized several banks to cover its balance through official transfers, most consistently through a bank in Somalia. The money remittance companies used have branches in Kenya, and as such have accounts in Kenyan banks. Undetected cash withdrawals were also done in select nodes.

Banks continue to face heightened TF threat due to their international cross-border services. The threat in Kenya is further exacerbated by the emergence of local banks domiciled in countries where active terrorists are having significant shareholding in financial institutions, including banks and their subsidiaries. There is also presence of Kenyan bank subsidiaries and

branches in DRC, Uganda, South Sudan, Somalia and Tanzania and as such are prone to misuse for TF. The assessment also recognized the threat posed by money "mules" or third parties that can be used to open and manage bank accounts to receive or move money on behalf of terror groups.

2.4.5. Smuggling of cash

Terrorists use cash because it can offer a degree of anonymity, portability, and liquidity, and it can also lack an audit trail. These features have made cross-border cash conveyance, both below and above applicable reporting thresholds, an important means for terrorists and their supporters to move funds from and into Kenya to support terrorist operations.

The assessment is thus cognizant to the possibility of the groups misusing cross-border cash couriers to smuggle cash. Along the porous Kenya-Somalia border, cash for use in AS activities in Kenya could be smuggled by the attackers, though in small amounts sufficient enough to support logistics. For instance, in the foiled VBIED AS attack in Merti, investigations revealed that one of the operatives came in from Somalia with $3,000 while another smuggled $1,000 in cash to facilitate activities in Kenya.

2.5. Use of Funds

Funds collected by terror groups are mostly utilized to support terrorist operations, pay salaries, recruitments, weapons acquisition, travel facilitation, logistical support, upkeep, spreading propaganda, especially through social media and acquisition of property for sustainable investments. The funds raised within and outside Kenya have been used in different terrorist activities in Kenya from recruitment to execution of attacks.

Case example 9: Utilization of funds in the botched Merti VBIED plot

In the foiled 2018 plot, a vehicle had been converted into a vehicle-borne improvised explosive device (VBIED) with assorted weapons and Al Shabaab paraphernalia.Funds were received via two MVTS funds transfers, totalling $15,000 from Kismayo. The funds were used to purchase two vehicles worth about KES 2,100,000. $9,500 was used to pay an arms smuggler for the acquisition and smuggling of the weapons. The funds also catered for costs of hiring a driver, rent expenses of KES 16,000 per month, procurement of fake IDs, purchase of air tickets worth KES 12,000 and other logistical expenses. The operation cost Al-Shabaab less than $50,000 up to the point that it was disrupted by the National Police Service.

AS is also alleged to be expending funds on training and acquisition of specialised skills and expertise, including the training of doctors, engineers, pilots, and information technology experts in Somalia and other jurisdictions. For instance, *Case example* 11 regarding Cholo Abdi, who was indicted by a US Court in December 2020 on suspicion that he was sponsored by the AS to attend pilot training in the Philippines with the aim of conducting a 9/11-style attack at the direction of AS.

2.6. Storage of funds

The funds collected and raised by Al-Shabaab are projected to have surpluses even after accounting for expenses, as discussed in section 2.2.1. Most of the funds are invested in Somalia. This include storage in cash or commodities, notably gold, agricultural produce and

livestock, in both movable and fixed assets, in the financial system, and in both tangible and non-tangible assets (ranging, for example, from stores and property to share holdings in private companies) within Somalia.

However, due to the proximity to Somalia in terms of geographic and demographic factors, cash intensive enterprises operating in Kenya, such as the real estate sector, filling stations (fuel sector) and transportation sectors may be exploited by terrorist actors to store and launder surplus revenue. There are also allegations on storage of TF funds through E-wallets, crypto currency with a notable observation of minimal use, although there is emerging trend of using crypto in purchase of weapons as well as to move funds to support other terror groups like Al Qaida.

Another emerging threat related to storage of TF-funds in banks is through proxies and sympathizers. On the other hand, local banks are having significant shareholding stakes in financial institutions in areas with active terrorist threat heightens the threat of terror funds being invested in Kenya. This is primarily because the CDD/KYC measures in the regions inhabited by terrorist may not be strong enough to prevent infiltration of terror funds into the financial system.

2.7. Sympathizers

This variable takes into account the threat posed by persons that may be sympathetic to terrorist organizations, persons, or ideologies. Kenya has large populations residing along the expansive porous border with Somalia, some of whom may be supportive to terrorist ideology. Specifically, populations in Mandera, Garissa and Lamu counties are reported to easily travel across the borders and interact with neighboring Somalia populations. Some extreme elements in these populations engage in trade of contraband goods and smuggling, posing TF threat. Some of them also harbour terrorists and work with them to bypass official detection and fund logistics for their operations.

In the case example six regarding the Dusit attack, one of the attackers was harboured in Eastleigh, Nairobi, most likely by a sympathizer, until 12th January 2019, when he got in contact with the other attackers. Intelligence reports have revealed existence of sleeper cells in refugee complexes for recruitment and radicalization, and facilitation of travel to and from Somalia. Two of the attackers in the Dusit attack were harboured in the Dagahaley refugee camp until their date of travel to Nairobi. Of the two, one attacker had a fake school ID to hide his true identity.

Reports have identified Kenyans who have travelled to terrorist designated jurisdictions like Somalia and Syria and other emerging Jihadi theatres for terrorist purposes. For instance, the cases of two young employed Kenyan doctors, who travelled to Libya to join IS and later started to recruit others points to sympathy with terrorist ideology.

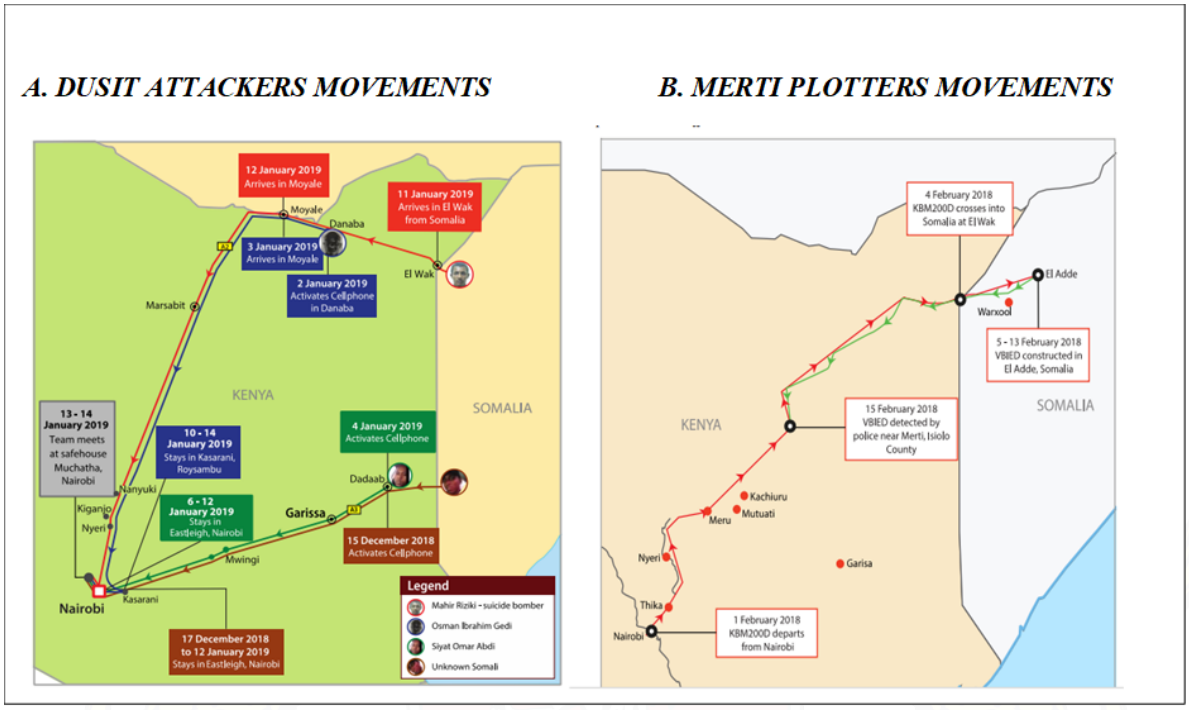
Sympathizers also facilitate funds transfers through Hawala and registered money remittance transfers. For instance, case example seven regarding XYZ, where he facilitated remittances via Hawala and an MRP. The domestic TF threat posed by sympathizers is assessed as *Medium* and is expected to remain constant. The outgoing cross-border TF threat posed by sympathizers is considered *Low* and is expected to remain constant.

2.8. Neighbours

Kenya shares borders with Somalia which hosts Al-Shabaab and IS affiliates. The border between Kenya and Somalia is expansive and remains porous. The sustained activities of Al-

Shabaab and IS in Somalia pose significant TF threat to Kenya since funds can flow into and out of the country to support their activities.

Figure 5: Movements of the Dusit attackers and planners of the Merti attack into and from Somalia



Source: UN Panel of Experts Report on Somalia, 2018

Political instability in some of the neighbouring countries has also contributed to the influx of refugees and other undocumented immigrants into Kenya. Kenya hosts refugees at Dadaab and Kakuma camps, which are the largest refugee camps in Africa. Al-Shabaab continue to infiltrate the camps to recruit more members and facilitate their activities.

Despite the closure of Kenya-Somalia border, movements of people, livestock, and the illicit trade in consumables, like sugar and other contraband goods have continued apace because of the porous and expansive nature of the border. This continues to pose TF threat as the AS continues generating revenue through taxation of cross-border goods and commodities.

IS activities in Somalia, DRC, Uganda and Mozambique also have had a spill over effect to Kenya. DRC is not neighbouring Kenya directly, but is within the Eastern Africa region and is accessible via Uganda. There are also direct trade relationships between Kenya and DRC and a strong presence of Kenya-linked financial institutions in DRC, which creates economic geography between the two countries. Mozambique is also accessible in the south through Tanzania. The regions continue to pose TF threat because IS has in the past used Kenya as a transit point for diaspora remittances that end up in the hands of the IS networks/branches. The case examples seven and eight showing how *XYZ* and Heeryo Enterprises facilitated remittances from South Africa to Uganda, Tanzania, Mozambique and Dubai through Kenya, among others, are an attestation to this threat.

Kenya's economic neighbours in the wider diaspora also pose significant TF threats due to the financial flows and remittances emanating from such countries, some of which might be illicit.

IS sympathizers are spread globally in Africa, Europe, Asia and America and thus constitute this threat. In the case of XYZ, it is noted that the facilitator's extended Western Union network also included WU activity in Turkey, Afghanistan, Senegal, Belgium, Denmark, Germany, France, Finland, Kosovo, Russia, and Kazakhstan. Nationalities of individuals in the facilitator's network included Syria, Mauritania, Uganda, and other nationalities from Europe, Central Asia, and South Asia. The Heeryo case (case example eight) also involved illicit financial flows from Somalia, South Africa and Dubai.

As such, some countries may pose relatively higher inward TF threat to Kenya. On the same note, Kenya may also pose outward TF threat to other countries. Table 2 and 3 outline the foreign inward risk posed by key selected countries and the foreign outward risk posed by Kenya to other countries.

Table 2: Countries posing highest TF risk to Kenya

Country	Foreign Inward TF threat
Somalia	High
South Africa	High
UAE	Medium
North America	Medium
Uganda	Medium
DRC	Medium

The country with the highest risk of being a source of terrorism financing entering Kenya through legal and illegal means is Somalia due to the large collection of funds within the country. South Africa is also rated high due to the typologies exhibited by IS regarding funds transfer. UAE is rated medium as terror funds can pass through its international financial centre to Kenya. North America is rated medium due to the fact it accounts for a large portion (about 50%) of diaspora remittances into or through Kenya, with some destined to Somalia. TF funds can be obscured within such remittances.

Table 3:Countries exposed to highest TF risk from Kenya

Country	Foreign Outward TF threat
DRC	High
Mozambique	High
Somalia	High
Uganda	Medium
Rwanda	Medium

Somalia, DRC and Mozambique are the jurisdictions at the highest risk of being the destination for terrorist funds originating from Kenya, due to the presence of AS and IS operatives. A large portion of remittances destined for Somalia, ordinarily pass through Kenya, due to the limitations of international funds transfer experienced by Somalia i.e., absence of SWIFT. The funds are then transferred to Somalia either through MRPs, mobile money, Hawala, among others. Uganda and Rwanda are rated medium due to the presence of ADF sympathizers who may facilitate transfer of funds to DRC as well as the economic geography due to trade. The other East African countries may also fall within this category as shown in case example 9.1.

Case example 9.1 – TF funds transiting Kenya

D.F.G, a Kenyan national was reported to be facilitating money transfer from Kenya to Uganda, Tanzania, and Mozambique to individuals linked to ADF and possibly IS. D.F.G was reported to be managing entities that were linked to IS-DRC financial institution. The facilitation is said to be conducted through his employees. Additionally, he was also linked to a logistics and freight company that deals in transportation of oil related products in Kenya, Sudan, Uganda, Rwanda, Burundi, and the rest of East Africa.

2.9. Finance and Trade Hub Function of the Jurisdiction

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. Kenya is a financial hub and is very attractive both to regional and international investors, business entities and other stakeholders. The country hosts international banks from the rest of Africa, Asia, Europe and America. Kenya is also ahead of her EAC partners in terms of financial inclusion.

Besides being a finance hub, Kenya is also a major regional travel and transhipment hub and gateway to the neighbouring East African economies with well-developed trade links to the rest of the world. Mombasa is the largest sea port in East and Central Africa, and serves a number of East African countries like Uganda, South Sudan, DRC, Rwanda and Burundi. Kenya also has nine international airports that open the country to the rest of the world and is party to the Single African Air Transport Market (SAATM), a regional open skies treaty.

Kenya also serves as a trade hub for East and Central Africa. It is a preferred entry point for investors into East Africa. Kenya's borders are wide and the citizens of East Africa enjoy free movement as members of East African Community.

These diverse economic strengths inadvertently provide opportunities for terrorist groups to collect, transfer and use funds through obscured methods as evidenced by the presented case examples. In contrast, Kenya's financial, trade and transport system has controls in place for the detection and deterrence of the activities posing TF threats.

2.10. Strategic Goods and Services

In Kenya, strategic goods and services or dual use goods are not yet legally defined since the *Dual Use Goods Bill* is still under consideration in Parliament. However, trade in strategic goods still require special approval as provided for under various legislations. Some goods have been considered strategic due to their possible use to make weapons from past cases for example, certain fertilizers that can be used to make bombs. As it stands currently, there are no business entities or NPOs that provide strategic goods and services in areas with an active terrorist threat in Kenya. Restrictions have been put in place by the Government to control the supply of strategic goods in such regions. As such, the cross-border TF threat posed by strategic goods and services is negligible.

HARAMBEE

3.0 TERRORIST FINANCING RISKS AT THE SECTORAL LEVEL

The TF threats and vulnerabilities borne by financial and DNFBP sectors contribute immensely to the national TF risks. FATF recommends consideration and understanding of TF risks posed to specific sectors in the jurisdiction, based on materiality, TF awareness and geographic reach. The 2022 Mutual Evaluation Report (MER) indicated that the vulnerabilities associated with Hawala activities, cross border currency movements, and relatively weak NPOs regulation framework heighten the TF risks for the country. Additionally, the 2021 NRA indicated that significant sectoral cases of terrorism financing threats were reported in the banking and mobile money sectors.

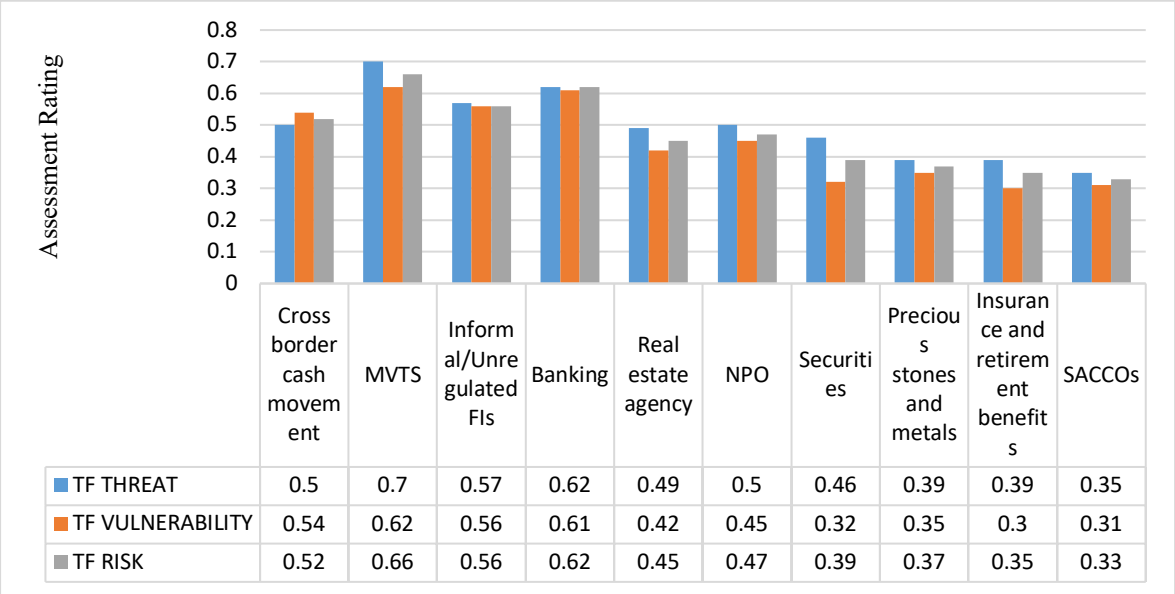
The current assessment has revealed that terrorist actors in Kenya mostly transfer funds through cash, mobile money, banks and wire transfers, bank withdrawals and unlicensed financial institutions, especially Hawala. These sectors are therefore, considered as posing relatively high TF risks in the country, thus warranting detailed assessment.

In this report, TF risks borne by ten sectors have been analysed in detail. The other sectors which are not included in Figure 7 are assessed to pose relatively low risk for TF in the country. MVTS is assessed as the sector posing the highest TF risk in the country, and is rated *High*. This is followed closely by the banking and informal/unregulated financial institutions' sector which are both rated *Medium High*. Cross-border cash movement, NPOs and real estate agency' sectors are assessed to pose *Medium* TF risks.

MVTS sector is exposed to the highest TF threat followed by banking and unregulated financial institutions' sectors. The most vulnerable sectors for TF abuse in the country are MVTs, banking, unregulated financial institutions and cross-border cash movement.

On control measures, the MER noted that Kenya has made improvements to its CFT legal and institutional framework. However, the implementation of TF preventative measures and targeted financial sanctions had deficiencies. Kenya therefore enacted the Anti-Money Laundering and Combating of Terrorism Financing Laws (Amendment) Act, 2023 to provide for preventative measures for TF. Additionally, the Proceeds of Crime and Anti-Money Laundering Regulations, 2023 was enacted and the Prevention of Terrorism Act, 2012 together with the attendant Regulations were amended to address the identified deficiencies.

Figure 6: Sectoral TF Risks



	Cross border cash movement	MVTS	Informal/Unregulated FIs	Banking	Real estate agency	NPO	Securities	Precious stones and metals	Insurance and retirement benefits	SACCOs
TF THREAT	0.5	0.7	0.57	0.62	0.49	0.5	0.46	0.39	0.39	0.35
TF VULNERABILITY	0.54	0.62	0.56	0.61	0.42	0.45	0.32	0.35	0.3	0.31
TF RISK	0.52	0.66	0.56	0.62	0.45	0.47	0.39	0.37	0.35	0.33

Kenya also developed an elaborate action plan to address the recommendations contained in the MER. For instance, conducted ML/TF sectoral risk assessment for legal persons and legal arrangements, for TF as well as Virtual Assets, to entrench application of risk-based approach, including risk-based CFT supervision and regulation. Additionally, a monitoring and evaluation mechanism has been established to track the implementation of the AML/CFT Action Plan to ensure accountability by all implementing agencies.

To further strengthen the country's beneficial ownership (BO) framework, the Government developed a centralized electronic register for BO information in October 2020, which provides for timely access to the information by competent authorities. Further, legal amendments are underway to also grant access to the e-register by financial institutions for AML/CFT purposes, especially to facilitate the CDD/EDD procedures like verification of BO information of customers, especially of high risk clients like PEPs. These steps have been taken to improve the effectiveness of implementation of AML/CFT control measures in the country.

The following section provides a detailed analysis of the terrorist financing threats and vulnerabilities at the sectoral level.

3.1. Money or Value Transfer Services (MVTS)

3.1.1. Introduction

According to the FATF, "money or value transfer services (MVTS) refer to financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs. Transactions performed by such services can involve one or more intermediaries and a final payment to a third party, and may include any new payment methods.

For the current TF risk assessment, MVTS providers considered include foreign exchange bureaus, payment service providers (PSPs), and money remittance service providers (MRPs). Mobile network operators (MNOs) that offer mobile money are part of the payment service

providers (PSPs) in the country and also hold money remittance service providers (MRPs) license.

Table 4: Regulatory regimes for MVTS

Type of Financial Institution	Regulator	Regulator Designated in POCAMLA as CFT Supervisor	Total Number of Licensees
Foreign Exchange Bureaus	CBK	✓	67
Money Remittance Service Providers (MRPs)	CBK	✓	18
Payment Service Providers	CBK	✓	7

3.1.2. Overview of MVTS industry

I. Foreign Exchange Bureaus (FXBs)

FXBs in Kenya mainly comprise of small, family-oriented businesses employing anywhere between three to ten employees and offering financial products and services such as spot sales and purchases of foreign exchange; money remittance services as sub-agents of banks that are affiliated to international money remittance companies such as MoneyGram, Western Union and Express, among others; M-pesa agents; mainly cash in cash out services to customers. In terms of asset size, the volume and value of transactions through foreign exchange bureaus in Kenya is considered low when compared to other financial sectors.

FXBs are licensed and regulated under the Central Bank of Kenya (CBK) Act, POCAMLA, the Foreign Exchange Bureau Guidelines, the Guidelines on Forex Exchange and Forex Bureau Penalty Regulations. At the time of this assessment, 74 licensed FXBs (about 110 outlets) operated in Kenya with majority conducting business within Nairobi.

The 2017 survey to assess the existence, causes and impact of de-risking within the ESAAMLG region indicated that a number of FXBs faced some challenges in obtaining banking services. Additionally, the 2021 follow up survey identified foreign exchange bureaus as one of the categories of customers most impacted by de-risking in Kenya. It further indicated that commercial banks are opting to either terminate business relationships with foreign exchange bureaus or restrict the range of financial services and product to be offered. This is of particular relevance to foreign exchange bureaus when offering money remittances as an agent of a commercial bank, where they are required to open a bank account, prior to offering money remittance services.

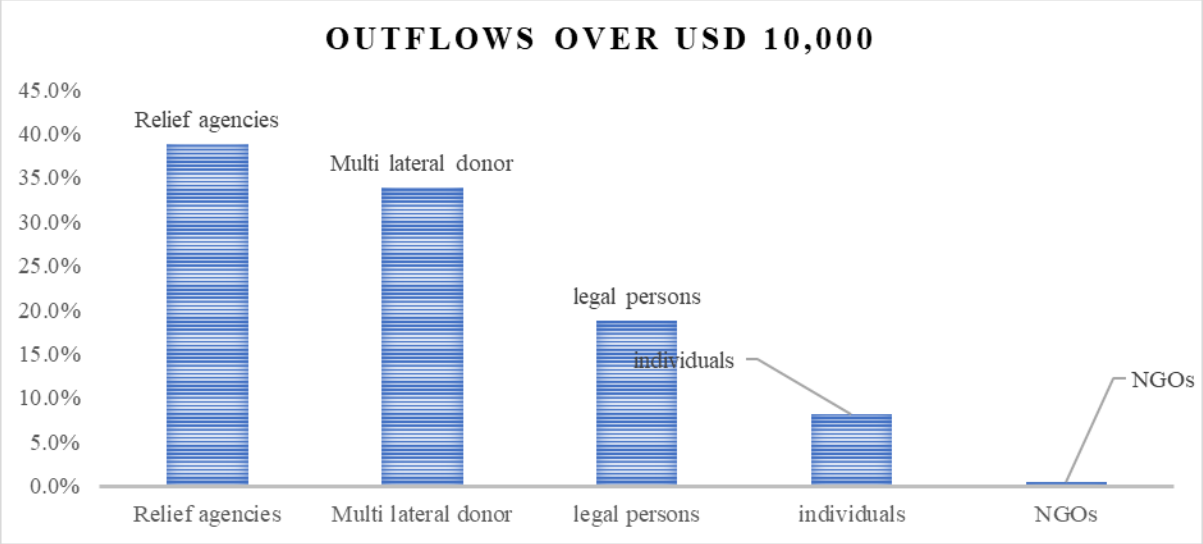
II. Money Remittance Providers (MRPs)

CBK created a legal framework in 2013 for licensing stand-alone money remittance providers (MRPs) in the country to promote adoption of best practices and enable the achievement of internationally accepted pillars of sound, safe, transparent and competitive remittance services. The licensing of MRPs is governed by Section 4 of CBK Act, while their operations are governed by the Money Remittance Regulations, 2013. The Regulations also provide for the establishment of outlets and appointment of agents across the country. MRPs are permitted to offer financial services and products such as inbound and outbound remittances through partnering with authorized international money remittance providers across the globe, spot sales/purchases of foreign currencies and money value transfer services acting as agents of MNOs.

Diaspora remittances is currently accounting to more than 3% of the total Gross Domestic Product (GDP) and is the main source of foreign exchange for Kenya, surpassing tourism, agriculture and horticulture. MRPs continue to play a significant role in facilitating the transfer of roughly 25 percent of Kenya's total diaspora inflows. The remaining 75 percent of money remittances are mainly channeled through commercial banks. North America accounts for approximately 50 percent of all inward remittances into Kenya, Europe accounts for approximately 23 percent of inward remittances with the rest of the world accounting for 27 percent.

As shown in Figure 8, most of the outflows through MRPs are accounted for by multilateral donor organizations and agencies involved in relief operations. By nature, relief operations are mostly in high risk jurisdictions like Somalia.

Figure 7: MRPs outflows over US$ 10,000 [14]



III. Mobile Network Operators (MNOs)

In Kenya, mobile network operators (MNOs) are licensed by the Communication Authority of Kenya (CAK). Licensed MNOs intending to provide payments and other financial services are required to apply for licensing from Central Bank of Kenya (CBK) where they are issued with a payment service provider (PSP) license. Currently, two MNOs are authorized to transact domestically and internationally while one is only authorized to transact domestically.

Innovations on mobile money has seen Kenya emerge as a world leader in mobile money technologies. Since 2007 when the first innovation was done, the sector has seen tremendous growth and diversification both in products and services. More capabilities have been enhanced on the mobile platforms to offer one stop solutions thus making the sector a major player in the economy. These include inter alia; sending and receiving of money, settlement of business transactions, international money transfers, remote access of banking services, investments, payment for government services, among others. A subscriber is considered to be a properly registered mobile money customer if they have been formally registered by both Global System for Mobile Communications (GSM) and Mobile Money Services.

[14] Source: CBK Licensees Sectorial Risk Assessment, 2023

Table 5 represents number of mobile money subscribers and the value of transactions in the country. The sector is therefore, relatively large in terms of volume and value.

Table 5: Mobile Money Subscription and transaction, 2007- 2022

Digital Financial Inclusion 2007 - 2022	2007	2008	2012	2017	2018	2019	2020	2021	2022
Mobile Subscribers (millions)	11	16	31	43	50	55	61	65	66
Mobile Penetration (Percent)	31	44	78	94	106	115	129	134	133
Mobile Money Subscriptions (millions)	1	5	21	30	32	29	32	35	39
Number of Transactions (monthly)	1	10	56	140	156	155	181	190	207
Value of Transactions (monthly) (billion)	4	27	150	333	368	383	606	622	708
Avg. Value of Transactions (Daily) (million)	126	900	5,005	11,087	12,259	12,764	20,190	20,738	23,602
Active Mobile Money Agents	1,582	6,104	76,912	182,472	223,931	205,328	292,301	275,907	318,607

Source: CBK

3.1.3. *Assessment of threat factors for MVTS*

The inherent TF risk MVTS sector is assessed as *High* (0.71), and the inherent vulnerability of the sector to TF is also *High* (0.72). MRPs and PSPs are assessed to bare relatively higher TF threat within the MVTS sector. Forex bureaus, on the other hand, are faced with an additional inherent vulnerability in terms of large number of walk-in clients whose transactions history are unknown, hence hindering close/continuous monitoring. The cash based nature of forex bureaus can be abused by terrorists to change foreign currency, especially in small amounts. The quality of CFT controls for the MVTS is *Medium Low* (0.39), indicating that MVTS generally have inadequate CFT measures.

The major TF threat factors facing the MVTS sector in Kenya include—

(a) MVTS branches operating in high risk jurisdictions:

(b) Aggregation through the agency channel of remittances from high risk or jurisdictions prone to terror financing activities;

(c) Reliance on third parties such as agents and international money transfer (IMT) partners who may fail to adhere to the CFT measures thus present opportunities for illicit actors to raise/ move funds for TF;

(d) Online payments/global payments done through untraceable IP addresses;

(e) Heightened border transactions due to trading activities of Kenya and its neighbouring states which face political instability;

(f) Transactions are rapid hence inadequate due diligence procedures can be exploited by persons to facilitate TF; and

(g) Identity theft i.e., use of borrowed/stolen identification cards to perpetuate TF activities.

There are several typologies in the country involving abuse of MVTS sector for TF purposes reported in the country within the last five years as tabulated in Table 6.

Table 6: Case typologies on abuse of MVTS for TF

Year	2023	2022	2021	2020	2019
Number of TF Typologies reported	0	0	6	7	10

Case examples six, seven and eight clearly demonstrate the use of MVTS, especially mobile money and MRPs, as channels for moving terrorism financing funds. The level of existence of cases/typologies in the jurisdiction involving the abuse of the sector for TF purposes was rated *Significant*. On the same breath, the existence of cases globally relating to the abuse of the sector for TF was also rated *Significant*.

The geographic factors which may expose the financial sector in Kenya to TF threats include the neighbouring high-risk terrorist and terror financing jurisdictions in which emanating transactions hardly undergo any due diligence or control measure. There are also refugee camps that are located near the neighbouring high-risk jurisdictions which increases the threat of TF.

The significant portion of youthful population, ingenuity and innovativeness of Kenyans, make the country one of the most attractive investment destinations in the region. Other demographic factors which expose MVTS sector to TF threats include:

(a) Youths are technologically savvy and dominate the usage of MVTS platforms and new technologies, especially mobile money, with sophisticated transactions patterns that may obscure source and purpose of transactions;

(b) Existence of MVTS agents in Refugee Camps may be used to move terrorism financing funds where CDD and EDD measures are not adhered to; and

(c) Presence of immigrants from high risk countries may be vulnerable to sending or receiving funds for TF where CFT measures are not effectively implemented.

The Other TF threat factors which may face MVTS sector include:

(a) The emergence of new technologies such as use of virtual assets that provide anonymity/pseudonymity that makes it harder to trace funds that can be used to fund terror activities;

(b) Cyberattacks- the use of ransom ware to generate income supporting the infrastructure or activities of terrorist groups and individuals; and

(c) Interconnectedness of the financial ecosystem resulting to complexity of transaction flows in identifying organized crime through the use of online scams, like ponzi schemes that could be exploited by terrorist who funnel funds to terror groups.

3.1.4. Inherent vulnerability factors

The overall size/turnover of the MVTS sector is considered relatively *High*, especially for mobile money operators and MRPs. The outward international transactions/operations are assessed to be at *Moderate* level both in general and high risk jurisdictions. On the other hand, the inward international transactions/operations are assessed to be at *Significant* level, both in general and in high risk jurisdictions.

The use of agents, vendors and other intermediaries was assessed to pose a *High TF risk*. Additionally, the suitability/utility of the sector for TF abuse was also considered *High*. This is mainly informed by the opportunity provided by MVTS platforms to move funds conveniently, efficiently, rapidly and across the borders. For instance, pay bills and other savings options offered by PSPs can be used to store/hold raised/donated funds or transfer funds across other pay bills and parties. The extensive and elaborate MVTS networks are conducive for moving/transferring funds to various parts of the world, including in the high TF-risk jurisdiction while FXBs can be used to exchange foreign currency for facilitating travel expenses for foreign terrorists and/or sympathisers.

While the sector is significantly susceptible for TF abuse, the mitigations and control measures in place are equally significant because the sector can monitor and report cases bordering suspicion on TF related activities. However, the geographical risks given the strong presence of terrorists and their sympathisers in the region and the need to rely on third parties for CDD/KYC may negatively impact on the initiated control measures.

3.2. Cross-Border Cash Movement

3.2.1. Introduction

Cash has retained its significance as the primary mode of financial settlement in the region, despite the growing prevalence of digital payment methods, especially mobile money. Evidence suggest that cash is still playing a prominent role in financial activities and serves as the primary medium for facilitating movement of money. The physical transportation of cash and bearer negotiable instruments (BNIs) across international borders can be termed cross border cash movement and is normally achieved through both legal and illegal channels.

Illicit cross-border transportation of cash and BNIs primarily encompasses three scenarios. First, is the physical carriage of cash by individuals, in their luggage, or within vehicles. The other scenario is the shipping of currency or BNIs through containerized cargo. Finally, the dispatch of currency or BNIs via postal services, whether by natural or legal persons. Unlike other transactions within the financial system, cash transactions do not leave audit trail in the form of digital footprint.

In Kenya, illicit cross-border movement of cash continues to pose a challenge, with bulk cash smuggling and the use of cash couriers identified as the primary methods employed by transnational organized criminal enterprises to facilitate the movement of the proceeds of crime. These illicit cross-border movement of cash activities facilitate the financing of transnational criminal organizations from predicate crimes such as drug trafficking, arms trafficking, human trafficking, the illegal trade and the smuggling of high-value goods including precious stones and metals.

It is alleged that AS is moving cash across the border to Kenya for integration into the financial sector primarily via mobile money, by exploiting the willingness of the naive (poor) Kenyans holding legitimate mobile money accounts, to act as ‘mules’. The implication is that the AS first smuggles the TF-related cash across the border, then engages the poor Kenyans holding legitimate mobile money accounts, simply for integration purposes. There is also allegation that AS is involved in trade-based money laundering (TBML) across the border with Kenya, specifically involving sugar, rice, cooking oil, powder milk and medicine, smuggling the resultant cash for integration in Kenya through mobile money.

3.2.2. Key Vulnerability

The movement of cash across the Kenyan borders is perpetuated through cash-intensive local and neighbouring economies, porous borders and loose maritime boundaries. LEAs have made several interception of smuggled cash and BNIs, involving both air, sea and land ports. These interceptions strongly indicate presence of cross-border smuggling of cash that can increase Kenya's vulnerability as a potential location for collection and transit of terrorist financing funds, as shown in case example ten.

Case example 10

TF/PF/ML Financial investigation on the seizure of foreign currency and gold ornaments at JKIA

In October 2022, Customs and Border Control officials within Jomo Kenyatta International Airport (JKIA) seized smuggled cash totalling to US$ 857,300 and gold ornaments, including bangles, neckless, chains and rings, from six (6) alleged Kenyans arriving from Mumbai, India via Addis Ababa, Ethiopia aboard Ethiopian Airways Flight. It is reported the suspicious cash was concealed in hand-carry luggage containing shoes and clothes and were discovered after secondary verification after the x-ray scanners showed images resembling currency. Some of the gold ornaments were worn by the six suspects. The six women had not filled the requisite monetary declaration Forms

Other cases of cash and BNIs being smuggled in/out of the country through land borders for TF-related activities have been reported as well. For instance, investigations into the foiled VBIED AS attack in Merti, revealed that one of the operatives came into the country from Somalia with $3,000 while the other one smuggled $1,000, in cash, to facilitate terrorist activities in Kenya.

Additionally, cross border cash movement falling below the reporting threshold of US$ 10,000 are not reported/monitored. The magnitude, value, trend and purpose of such transportation of cash is therefore not known by LEAs. This presents another major TF risk in the country, given that TF related typologies point towards usage of small amount of monies, sometimes simply to send coded messages. The non-monitoring of cash falling below the reporting threshold grants anonymity to funds associated with TF (normally in small amounts) if they are legally conveyed through the borders.

The law enforcement agencies have also detected and identified, on numerous occasions, radicalised individuals who are either intending to travel out to foreign jurisdictions that are considered high risk for TF or returning to the country from those jurisdictions. These cross border movements which normally take place through smuggling routes, increases the risk of smuggling cash to fund terrorist activities locally and in foreign jurisdictions.

To mitigate these risks, the use of targeted intelligence and close inter-agency cooperation have been enhanced. Custom officers have also intensified their authority to request and obtain further information from travellers and cash couriers with regard to the origin of the monies or BNIs, and their intended use. When there is an incident of contravention of the law, a multi-agency team handles the matter and the competent authority takes the lead in investigation to the conclusion of the matter. In a case where there is violation, for instance, wilful mis-declaration, failure to declare or suspected to be a tainted property, the customs officer normally seizes the monetary instruments for up to five statutory days, while the matter is being investigated.

Additionally, Customs has adopted the use of cargo scanners at the ports, land borders and CT baggage scanners at the airports as well as the use of sniffer dogs (K9). However, these elaborate measures are less effective in thwarting movement of terrorists related financing across the borders because they are usually in small amounts (way below the reporting threshold), hence no requirement for declaration. Although Immigration have a (PISCES) system for checking, it only applies to watch individuals who have been listed.

3.3. Banking Sector

The banking sector is regulated by the Central Bank of Kenya (CBK) which is charged with the twin responsibilities of licensing and regulating/supervising commercial banks and microfinance banks. The sector is comprised of 39 commercial banks and 14 microfinance banks. Products and services offered include; retail banking, corporate and investment banking, trade financing, home and motor vehicle financing, wealth and investment services, business and commercial banking services.

The inherent TF risk the banking sector is exposed to is assessed as *High* (0.67), and the inherent vulnerability of the sector to TF is also *High* (0.71). On the other hand, the quality of CFT controls for the banking sector is *Medium Low* (0.4). The implication is that the TF mitigation measures within the banking sector need to be enhanced, guided by the detailed assessment for the sector in the following section.

3.3.1. Assessment of threat factors

Commercial banks which have higher cross border transfer products and services are facing significantly higher TF threat in the country. For micro-finance banks that rely on commercial banks for their international money transfer services, the level of exposure to TF threat is relatively low. The other category of banks that are exposed to relatively high TF threat are those that are domiciled in countries with active terrorist threat, but have significant shareholding in local banks, and vice versa. These include Kenyan banks which have subsidiaries across the region and beyond. For instance, subsidiaries and branches of Kenyan banks in Somalia, DRC, Uganda, South Sudan, and Tanzania, among others. There is therefore, possibility of terrorist groups in the region, for instance, the ADF group in DRC Congo, Al Shabaab, among others and their sympathizers to penetrate Kenya's financial systems.

The assessment also identified the threat posed by money "mules" or third parties that can be used to open and manage bank accounts to receive or move money on behalf of terror groups. Accordingly, banks whose CDD measures are not strong enough against these mules are more exposed to TF. Commercial banks that have branches within or in close proximity to refugee camps are also exposed to TF threat. Additionally, most banks have partnerships with international MRPs, where they integrate systems to allow seamless movement of remitted funds to beneficiary bank accounts or to mobile money wallets. These arrangements exacerbate TF exposure of the respective banks to third-party TF risks, especially where the MRP company does not adhere to CFT compliance obligations, a common phenomenon in high TF risk jurisdictions.

Kenya is a cash intensive country with most transactions being made in cash, hence difficult for reporting institutions, like banks, to monitor transactions for TF activities. Transactions made in cash are outside the purview of financial institutions, thus not monitored or documented as demonstrated by the case example three, eight and 11.

On economic geography, there are strong trade ties between Kenya and other countries. Where transactions involve cross border wire transfer of funds, and if CFT controls are not effectively adhered to, TF threats are increased. Partnerships with foreign banks in form of branches and

Case example 11: Cholo Abdi

Cholo Abdi, was indicted by a US court in December 2020 on suspicion that he was sponsored by the AS to attend pilot training in the Philippines with the aim of conducting a 9/11-Style Attack at the Direction of Al Shabaab. Cholo Abdi operated 3 bank accounts all funded through cash deposits in Kenya Between 2017 and 2019 he received a total of USD 30,000.00. All deposits conducted in amounts between USD 2,000 and 5,000 deposits were all conducted after traveling to Kenya. Funds were used to pay for his pilot training fees and upkeep in the Philippines. The funds were utilized through ATM cash withdraws in the Philippines.

subsidiaries in high risk countries also increases third-party risks. Regarding social geographic factors, presence of illegal immigrants from foreign countries without proper documentation- where CFT controls are not adhered to when opening and maintaining accounts, banks may end up facilitating the raising and moving of terrorism financing funds.

3.3.2. Assessment of vulnerability factors

Clients who may potentially present higher TF vulnerability to the sector include those domiciled in high risk jurisdictions, those on-boarded through digital channels, and corporate clients with complex structures and clients whose transactions involve cross border movement of funds. For clients who engage in crypto currency, it is difficult to know whether the sources of funds are legitimate or otherwise.

For cross border transactions, banks are able to obtain and maintain both originator and beneficiary information, hence less favorable to terrorist financiers. However, given the wide global reach of the banking network and partnership, the innovative technology, products and services offered, some of which promote anonymity through non-face to face and enhance rapidity of transactions, large volume of transactions which may enable comingling or concealment of funds, among others, make the banking sector suitable for TF related activities.

Regarding other Inherent Vulnerability factors, virtual assets are not regulated in Kenya, and can be used for TF. In August 2023, CBK raised a concern that unregulated crypto space could affect monetary policy and control, compromise cybersecurity of critical national infrastructure and enhance cybercrime fraud and scams and warned of possible TF risks from trading in cryptocurrencies owing to the anonymity of transactions. On the global front for instance, investigators in the 2019 Sri Lankan bombings that killed more than 250 people, alleged that the number of transactions in Bitcoin wallets used by ISIL to raise funds increased notably before the bombings, leading to the belief that Bitcoin played a role in financing the attacks.[15]

[15] Roy Katsiri. (2 May, 2019). Bitcoin donations to ISIS soared day before Sri Lanka bombings. Globes. Accessible at https://en.globes.co.il/en/article-exclusive-isis-funded-sri-lanka-bombings-with-bitcoin-donations 1001284276

3.4. Informal/Unregulated Financial Institutions

The informal and unregulated financial institutions in Kenya include the informal value transfer services (Hawala), unlicensed foreign exchange dealers and persons undertaking credit only businesses through non-digital channels.

3.4.1. Hawala

The Hawala is a form of informal money or value transfer service (IVTS). An IVTS can be described as a system or network of people facilitating, on a full-time or part-time basis, the transfer of value domestically or internationally outside the formal (regulated) financial institutional systems. Hawala involves the transfer of money from one person to another, without physical transfer of the funds taking place. IVTS operate as underground system in Kenya so it is difficult to obtain information and statistics that may lead to understanding the extent and size of the business.

Hawala businesses are not licensed in Kenya. For the period under review, Kenya registered several typologies on the use of Hawala to facilitate terrorism financing. For instance, case example four on use of social media platforms for recruitment and crowdfunding by terrorist groups before facilitating travel of recruits to Libya, where they are detained for ransom which is transferred back to Kenya through different channels, including Hawala; case example seven on XYZ and ABC illicit transfer network, where TF-funds are transferred from IS to DRC via Kenya, using an MRP (Western Union) and Hawala; case example eight where TF-related funds are sent under the disguised of Heeryo Trading Enterprise, a Somali-South African company, through several MRPs and Hawala.

The cases above demonstrate how Hawala can facilitate cross-border transfer of value and the suitability of this business to TF financiers. Geographic factors including close proximity and existence of cross-border trade relations enhances the TF threat posed by Hawala. Close cultural ties among same communities who are staying along the border of the neighboring countries also expounds the relevance of Hawala.

3.4.2. Non-deposit taking financial institutions

A non-deposit taking financial institution, also known as a credit only financial institution, is an institution that does not take any form of deposit or cash collaterals from members of the public. Following the Gazettement of the Digital Credit Providers (DCP), Regulation, 2022, Kenya has put in place a regulatory regime for credit only entities that undertake business through the use of internet, mobile devices, computer devices, applications and any other digital system.

In this regard, this assessment considers the credit only financial institutions which undertake lending business without using the above digital processes, since they are not covered by the DCP Regulations. These institutions are undertaking the lending business manually including dispersing the facility in cash and collecting it through cash. These manual-cash based credit only institutions are not licensed to offer financial services, and are therefore, not supervised or regulated for TF. They have little knowledge on TF and have inadequate CFT measures. In this regard, credit only financial institutions can easily be abused for TF related purposes.

These institutions normally conduct due diligence on prospective clients mainly for prudential purposes, that is, to enhance recovery of loans. As such, credit only institutions are not suitable for terrorist financiers who prefer anonymity. However, given that these institutions are not properly licensed to offer financial services, they are not supervised or regulated for TF. They also have little knowledge on TF with inadequate CFT measures. Additionally, terrorist actors

can also abuse these institutions through identity theft. In this regard, credit only financial institutions can easily be abused for TF related purposes.

3.4.3. Unlicensed foreign exchange dealers and/ online traders

Unlicensed foreign exchange dealers refer to persons or entities that undertake spot foreign currency transactions without a CBK license. The dealers are normally found in certain locations, especially around border crossing. Unlicensed money changers/dealers potentially can pose TF risk because they do not conduct any KYC/CDD and do not keep any records of the transactions. For instance, local TF related typologies suggest the abuse of unlicensed money changers by terrorist actors crossing over from jurisdictions with active terrorist groups to change currency to Kenya shillings to conduct attacks within Kenya. As a control measure, formal financial institutions such as banks have been trained to conduct transaction monitoring to detect person conducting suspicious transactions.

3.5. Real Estate Agency Sector

Real estate agencies play a vital role in the real estate sector due to their direct contact with sellers and buyers within the sector. They act as advisors, negotiators, facilitators, brokers of legal and natural persons looking to purchase, rent, sell or lease property. Their unique positioning in the real estate sector is fundamental in the detection of TF.

With increased CFT regulations and controls in the financial sector, criminals tend to look for alternative ways. DNFBPs, such as real estate agencies, with relatively weak AML/CFT legal framework are attractive. In fact, the real estate sector was identified as a medium-risk sector in NRA due to the weak legal frameworks.

Some of the notable TF threat factors in the sector include:

(a) Low enforcement level of criminal sanctions, for instance, a fine of KES 20,000 or a term of imprisonment not exceeding two years for unregistered individuals found practicing is not proportionate and dissuasive; and

(b) Low CFT awareness and understanding in the sector due to inadequate training and sensitization.

There are typologies involving abuse of real estate agencies for TF purposes reported domestically and globally. For instance, a woman was charged for managing property belonging to a suspected AS suicide bomber Anwar Yogan Mwok in Nairobi. She was charged for collecting rent and wiring the money to Kismayu, Somalia. Mwok case has been described in *example three*, while the woman, Rose Awinja Ondumbu, was convicted for dealing in terrorist property, under Section 8(1)(c) of POTA.

The real estate and construction sectors receives a significant share of diaspora remittance investments. The client base profile in terms of the level of exposure to TF risks was considered *Moderate*, mainly because limited KYC is conducted during on-boarding and there is hardly any screening of clients against the UN sanctioned lists. CDD measures undertaken for high-risk customers such as foreigners and politically exposed persons are inadequate. The participation, in the sector, of unregistered and unlicensed players also is a factor that increases the sector's vulnerability.

The sector is significantly susceptible for TF because it provides avenues to terrorist financiers to store, hold or invest terrorist related funds. There are also limited mitigations and control measures in place to monitor and report cases bordering suspicion on TF-related activities.

3.6. Non-Profit Organisations (NPOs) Sector

Notably, not all NPOs fall under the FATF definition, and not all NPOs that fall under the FATF definition should be classified to be high risk for terrorist financing abuse. FATF defines an NPO as a legal entity or organization that primarily engages in raising or disbursing funds for charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works."

Based on the foregoing, the NGO's Coordination Board conducted a detailed TF Risk Assessment for the NPO Sector in Kenya in 2023, and identified 508 NPOs which meets the FATF definition and also high risk for TF. All these risky NPOs have operation bases in regions that are close to the Kenya-Somalia border.

The NPO sector has been shown globally to be vulnerable for TF abuse. The major TF threat facing the NPO sector is proximity to areas with communities sympathetic to terror/radicalised groups or provide material/relief/food, among others. For instance, there are allegations that majority of NPOs operating along the Kenya-Somalia boarder are, (i) coerced into paying illegal taxes and fees to operate in those regions; (ii) abused to purchase equipment for aiding the terror groups' attacks; (iii) and sometimes divert funds supposedly for "good works" to terrorist related acts. Further, inadequate laws and regulations in the sector coupled with limited capacity (human and financial) by the NGOs Co-ordination Board to effectively supervise and oversight the sector for CFT, continue to predispose the sector to TF.

A survey conducted by the NGO Co-ordination Board, on the sources and types of funding showed that most of the funding came from other NGOs, followed by private individuals and government as shown in Figures 9 and 10. For all types, it was split fairly evenly between domestic and foreign sources. Donations from private individuals in Kenya were disproportionately likely to be in cash or through alternative remittance systems. The survey also revealed that NPOs have inadequate due diligence procedures (for individual donors), can be exploited by persons to facilitate TF.

Figure 8: NPOs funding by source

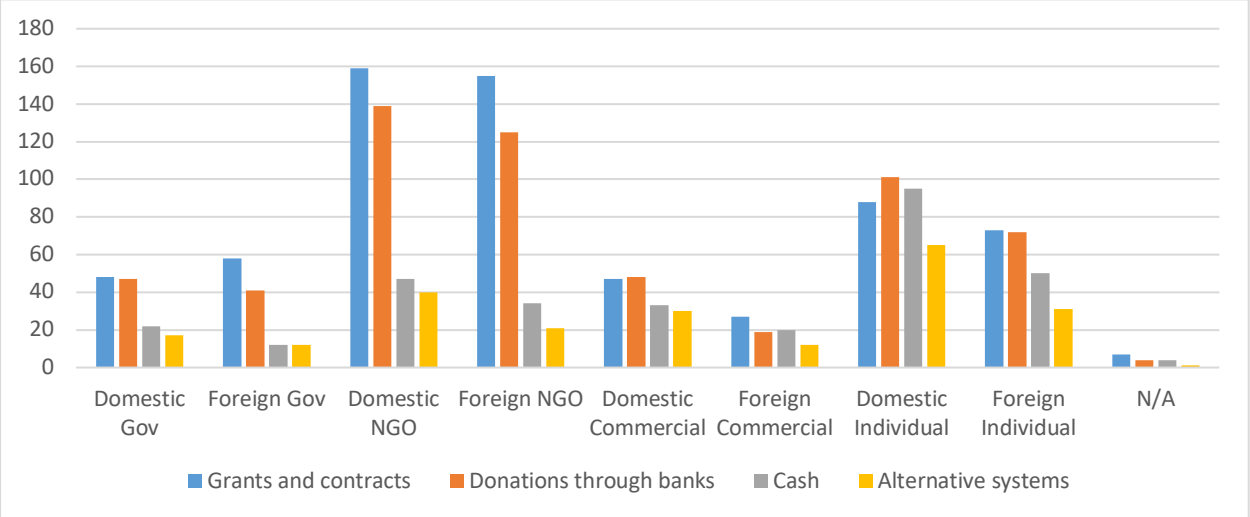
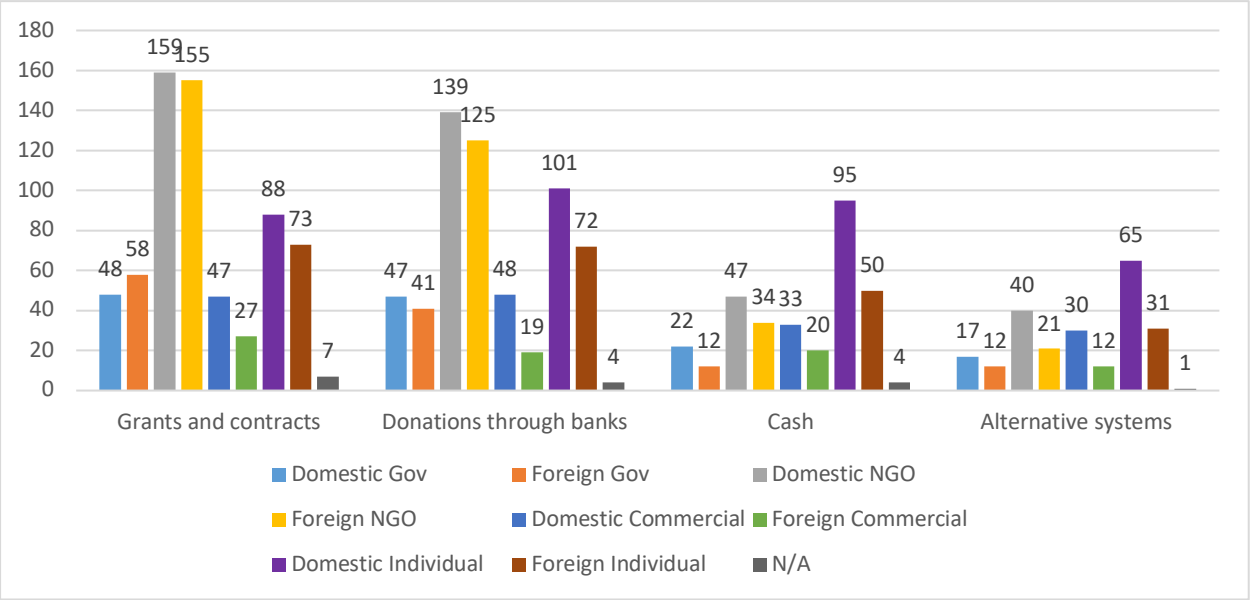


Figure 9:NPOs funding by type



The channels for receiving funds by NPOs include, banks, cash and alternative systems (e.g., mobile money). Alternative systems of receiving cash are highly preferred among domestic individuals which could present vulnerability for TF in the sector. It is alleged that terrorists have set up some NPOs to facilitate their logistics and recruitment agenda, and to act as front for moving funds through the financial system, including banking.

The geographic risks due to strong presence of terrorists and their sympathisers - NPOs may be compelled by the terror groups to pay some fee in order to carryout intended activities. Also, the workforce drawn from such local communities could be sympathetic to the terrorists, and may propagate the agenda of the terror group. In this regard, NPOs can be exploited and used as vehicles to raise, store and divert funds towards TF-related activities.

Regarding the demographic factors which may expose the sector to TF, sources indicate that vulnerability of certain NPOs may stem from the nature and characteristics of their activities. i.e., NPOs that are involved in countering radicalization and violent extremism are predisposed to interaction with terrorist sympathizers who may lure their staff into facilitating their operations, including TF.

Case example 12:

- *Based on intelligence report, NPOs with offices in Kenya (registered in Kenya) but operating in Gedo and Jubaland regions in Somalia, where AS has control, are coerced into paying illegal taxes and protection fees to be allowed to operate. Consequently, the collected fees are used to finance AS 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). The case of Dusit attack where 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 Dusit attack 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 AS camps/operatives have been reported.*

Most of the international NPOs remitting cash are big international relief organizations headquartered in Kenya but operate in Somalia and other neighbouring countries. These NPOs enable cross border transfer of funds from Western countries (mostly Europe and North America) through Kenya to Somalia. The outflow of NPOs funds to foreign countries as shown in Figure 8 clearly demonstrate that about 40% are channelled to relief operations, which is demonstrated under case example 12 to be prone for TF-related abuse. There is possibility that the relief operations can be used to disguise funding to foreign conflict zones and terrorist groups.

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 TF risks. Virtual assets are yet to be recognised as currency in Kenya, hence not regulated. Virtual assets are therefore highly vulnerable to exploitation for TF since they can be preferred by terrorist because of lack of traceability, non-face to face transactions, anonymity/pseudonymity, speed of transfer, among others.

3.7. Securities Sector

The major TF threat factors facing the securities sector in Kenya include possible investments by front companies that may be set up by terrorist actors to pass out as legal entities. This is likely to be exacerbated by the difficulties in accessing BO information during the registration of investment companies. Another threat in the sector could present itself in form of the use of cooperate vehicles for investment by individuals who want to store/hold TF-related funds. Such investments may originate from high risk jurisdictions which are prone to terrorism as well as civil unrest.

Geographic factors predispose the securities sector in the country due to close proximity to terrorists-occupied neighbors like Somalia (Al-Shabaab), Democratic Republic of Congo (ADF) and Mozambique (IS- Moz). Further, economic geography, due to Kenya's economic positioning as a hub in the region may also increase the vulnerability in the sector. As discussed

under section 2.2.1 of this report for instance, funds raised by Al-Shabaab is alleged to be approximately US$ 100 million, against an annual budget of about US$ 21 million. The large portion of the difference (unused funds) have to be moved and/or stored/invested elsewhere. This increases the TF threat in the securities sector as a result of geographic factors because a portion of the unused terrorist funds can find its way into the country, as alleged by several international sources.

Another good example of international company's connection to Kenya (through economic geography) is demonstrated by case example 13:

Case example 13: Lafarge case

Lafarge and LCS executives intentionally structured their agreements with ISIS to compensate the terrorist organization based on the amount of cement that LCS was able to sell – effectively, a revenue-sharing agreement – to incentivize the terrorist group to act in LCS's economic interest. The two terrorist organisations received nearly six million dollars. Larfage and its subsidiary pleaded guilty to providing material support and resources in Northern Syria from 2013 to 2014 to the Islamic State of Iraq and al-Sham (ISIS) and the al-Nusrah Front (ANF), both U.S.-designated foreign terrorist organizations. It was later established that Larfage owns Bamburi cement Company which is listed in the Nairobi Stock Exchange. Fincem Holding Limited and Kencem Holding Limited are subsidiaries of Lafarge Holcim. This gives Lafarge Holcim 58.6% control of Bamburi Cement.

The sector is heavily non-cash based and is highly regulated. The nature of TF would involve to raise and move money, while the securities provide investment products. Therefore, not considered suitable for TF in terms of transfer of funds, but can be suitable for raising and storing TF related funds. Kenya also revised its BO laws in September 2023, enabling LEAs to have express access to BO information and for reporting entities to have restricted access through request. This enhancement of access to BO information is envisaged to further mitigate inherent vulnerabilities for TF abuse in the securities sector.

3.8. Precious Stones and Metals

The precious stones and metal dealership in Kenya is not common to all, only an estimated less than 1% of Kenyans have knowledge on precious stones and metal dealings. Globally, there are scanty typologies linking the sector with TF abuse, however, the value of the products involved in this sector (mostly gold, diamonds and other colloidal precious stones) is normally very high, tend to maintain value or appreciate over time, hence a good store of value and accepted as an alternative to cash. Precious stones and metals are also easily transported and concealable (sometime as ornaments) and easily converted to cash, but with an alleged prevailing black market. Criminals may purchase precious stones and metals to hide the illicit sources or purposes of their funds. This exposes dealers to TF risks.

Kenya is exposed to TF risks in this sector given that the country is a trade/transit route for precious stones and metals from the neighbouring countries, including Uganda, Rwanda and Democratic Republic of Congo. Porous borders and political instability within the region exacerbate TF threat resulting from precious stones and metals. Additionally, identification of customers is not performed and source of income is not established. Lack of effective and comprehensive regulation also increases the sectors' vulnerability. There is also extensive use of cash transactions in the sector and trading with unlicensed traders is very high, hence the alleged black market.

The funds generated from precious stones and metals smuggling can be used to fund terrorism acts. Additionally, the mining operations in areas of close proximity to the Kenya-Somalia border, especially in the North Eastern region pose a significant TF threat. For instance, there is mining of gold and gemstones in Marsabit as well as gemstone and gypsum in Kilifi counties, places that have significant presence of Al Shabaab sympathizers.

The dealers and brokers of precious stones and metals in Kenya have little TF understanding and do not apply CFT preventive measures when conducting businesses. There is also no proper regulation of the sector for TF.

Close proximity with countries that have rich deposit of precious stones and metals like Uganda, Tanzania and DRC, have given rise to the formation of 'black market' that can generate TF-related funds. The country is a trade route for precious stones and metals from the neighbouring countries, including Uganda, Rwanda and Democratic Republic of Congo for export through Kenya's ports. As such, the county is exposed to TF risks through the sector.

3.9. Insurance and Retirement Benefits Sector

3.9.1. Assessment of threat factors for insurance and retirement benefits sectors

The major TF threat factors facing the insurance and retirement benefit sectors include, funding terrorism using proceeds from life and investment related insurance policies; offering insurance cover to assets that belong to terrorists. Other threat factors include purchase of insurance products by clients residing in high risk jurisdictions, investment in life insurance products by terrorists and their associates, as well as exploitation of retirement benefit schemes to store funds by terrorists and respective organisations.

3.10. SACCOs

3.10.1. Overview of SACCO sector in Kenya

SACCOs have no direct access to the national payment infrastructure, that may help in the mobilization of deposits, as well as conducting electronic transactional payments. In order to increase their operational efficiency, regulated SACCOs have been forced to enter into partnerships and agreements with commercial banks, payment service providers and other third-party fin-techs, so as to access the national payment and settlement infrastructures.[16]

3.10.2. TF risk assessment for SACCOs

The TF risk assessment of deposit taking SACCOs which are licensed and regulated by the SACCOs Societies Regulatory Authority (SASRA) is assessed as *Low*. The TF threat to the sector is *Medium Low* while TF vulnerability of the sector is *Low*. The detailed analysis of the threat factors, inherent vulnerability variables and general CFT control variables assessment in the sector is presented in the following sections.

Regarding TF threat factors, SACCOs rely on partnerships and agreements with commercial banks, payment service providers and other third-party fin-techs, so as to access the national payment and settlement infrastructure.[17] SACCOs are therefore not directly exposed Where

[16] https://www.sasra.go.ke/download/sacco-supervision-annual-report-2022/ accessed 7th Oct 2023

[17]SASRA, Sacco Supervision Report Annual Report, 2022 https://www.sasra.go.ke/download/sacco-supervision-annual-report-2022/ accessed 7th Oct 2023

effective CFT compliance is not adhered to by respective third parties, SACCO services may be compromised and used to aid raising and storage of terrorism financing funds without detection.

3.10.3. Assessment of inherent vulnerability

The size of SACCOs in terms of value is relatively large, and the level of cash activity in SACCOs is high. Conducting transactions in cash raises the vulnerability of TF because it is difficult to monitor and detect cash transactions meant for TF. It is also difficult to distinguish legitimate and illegitimate sources of funds without proper CFT controls.

SACCOs rely on agents, partnerships and agreements with commercial banks, MVTS and other third-parties, including fin-techs, so as to access the national payment and settlement infrastructure. [18] The key transactional services offered by SACCO-agents are cash withdrawals, cash deposits for loan repayments, share and deposits contributions, utility payments as well as clients' inquiries related to status of loans, balances and mini-statements. Additionally, SACCOs that offer products like credit and loans on digital facilities for their members also rely on third parties. Where effective CFT measures are not adhered to by these other partners, services may be compromised and used to aid raising and storage of TF funds without detection.

[18]SASRA, Sacco Supervision Report Annual Report, 2022 https://www.sasra.go.ke/download/sacco-supervision-annual-report-2022/ accessed 7th Oct 2023

4.0. CONCLUSION

This TF risk assessment was conducted to update the NRA by conducting a detailed stand-alone analysis for TF. The assessment has established the major terrorist organisations in Kenya are AS, IS and lone rangers, who normally act to propagate ideologies that either relate to AS or IS, hence not purely independent. The assessment also identified how the terrorist raise, move, store and use TF funds.

The TF threat for the country at the national level was identified as *Medium*. On the same note, the national vulnerability to TF was also assessed as *Medium*, with a corresponding combating ability against TF of *Medium*. Consequently, the TF risk for the country was assessed as *Medium*. These results therefore update the findings of the NRA that rated TF threat for the country as *Medium* and vulnerability as *Medium Low*.

Sectoral TF risk assessment indicated that MVTS and banks were identified as the primary channels of movement of terrorist funds, due to (i), the large amounts of funds transacted/transferred daily, (ii) the global reach of banking and MVTS networks, including the high risk jurisdictions/areas, (iii) adoption of technology that promotes rapidity of transactions, among others, making it easier for transactions to blend in. The unregulated financial sector, especially the Hawala business, the cross-border movement of cash, the NPOs and real estate sectors are also significantly vulnerable to terrorist financiers.

As the first line of defence against TF through detection and reporting, reporting institutions should follow the money trail and understand how terrorist actors operate, their motives and beliefs, and how they manage their finances. The first step is to enhance CFT training that incorporate the identified TF risks together with the relevant institutional red flags and typologies, particularly for the front-line officers (like bank tellers) who are responsible for KYC, CDD, among others, to enable effective identification and escalation of TF-reporting.

Regarding the emerging trends in TF, typologies are indicating that terrorist groups have opened front (legal) businesses in other jurisdictions to enable sustainable support of TF-related acts, including Real Estate sector (*building houses for rent and sale*), Energy sector (*petroleum depots/filling/fuel stations*), Transportation sector, Aviation industry (*purchase and management of airlines*), Hospitality industry (*hotels and restaurants*), Agriculture (*commercial farming and export*), and Government tenders (*formation of cartel-like network/gang that is alleged to be controlling the award of some Government tenders*). There are allegations that some of these typologies also exist in Kenya, especially along the border with Somalia.

The recruitment and facilitation platforms are also shifting from the traditional forms to online encrypted platforms, especially through social media, such as Facebook, Telegram, WhatsApp, WeChat, Instagram, X, among others. Additionally, terrorists are also exploiting crypto assets to (i) store of funds (notable via minimal use), (ii) use funds for purchase of weapons, as well as (iii) move funds, including to other terrorist groups like Al Qaida.

These new trends and typologies indicate the evolving nature of TF risk emanating from new technologies like virtual currencies, and the abuse of legal frontline businesses. This assessment should facilitate development of relevant indicators/red-flags and typologies to enable reporting entities and regulators to update their CFT programs accordingly, for enhanced CFT mitigation. Reporting institutions are also encouraged to enhance TF risk understanding by assessing their risk in relation to their products, services, customer base, and geographic factors. Based on the outcomes of these assessment, CFT programs, including KYC/CDD/EDD, transaction monitoring measures and trends as well as expertise and

resources, including human capital and technology, should be risk-based (i.e., aligned to the identified risks).

The outcomes of this assessment are envisaged to update the National AML/CFT strategy and Action Plan by informing formulation of relevant CFT measures aimed at denying terrorists the funding which is key to accessing attack materials, targets, surveillance and other logistical needs, a necessary condition for disruption mechanism. Due to the complex nature of TF as well as connections with other crimes (especially ML and related predicate offences), a multi-sectoral approach that involves both key stakeholders in the public and private sectors as well as the international community is encouraged.