

Paying the price: financing the Mozambican insurgency

By Amanda Lucey and Jaynisha Patel

Summary

In northern Mozambique, a group known as Ahlu-Sunna Wa-Jama'a (ASWJ) has spearheaded a debilitating insurgency that has caused mass displacement and loss of life. As the group consolidates its position in Cabo Delgado, questions arise about its position within the country's entrenched illicit trade economy. There is minimal available evidence that the insurgents are being funded directly by this illegal economy, but informal channels for illicit financial flows, like *hawala* networks, create grey areas through which the insurgents can send and receive money. Without progressive and responsible efforts to formalise money transfer systems, as well as to build trust with local communities, *hawala* networks will remain vulnerable to illicit use by the insurgent group.

Introduction

Mozambique's Cabo Delgado province remains beset by a growing insurgency, with 3 162 fatalities reported by July 2021.¹ The ASWJ, referred to locally as Al-Shabaab, has strengthened in size and operational capacity, and shows no signs of abating. While often portrayed as a foreign-driven and funded organisation, the actual evidence of the group's reliance on international terror groups is mixed. The Islamic State (ISIS) claims it is behind the insurrection, although a growing body of evidence suggests that the majority of its members are ordinary Mozambicans, driven to joining the insurgency as a result of marginalisation, disenfranchisement and limited prospects for change.² This gives rise to the question of how the insurgency is funded, and how to best address the question of financing in the future.

This policy brief examines Illicit financial flows (IFFs), which are particularly prevalent in Mozambique as a



result of its largely cash-based and informal economy, as well as corruption and illicit activities.³ IFFs, namely movements of money across borders which are illegal in source, transfer and use, pose significant challenges for the African continent. It is estimated that annually, USD88.6 billion (roughly 3.7% of Africa's GDP) leaves the continent in this way, damaging prospects for development and eroding trust in institutions.⁴ IFFs can be a vehicle used to finance terrorism and, given Mozambique's rising insurgency, there is increasing concern that insurgents are taking advantage of IFFs to fund their activities.

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In light of this, it is vital to consider the linkages between the insurgency in northern Mozambique and IFFs. This policy brief also focusses on informal banking systems as a means of transferring, depositing and concealing the money made from IFFs, which could potentially be used this to fund the insurgency, while also emphasising the importance of protecting the livelihoods of local communities. First, the brief outlines frameworks analysing IFFs, followed by an analysis of the specific types of IFFs found in Mozambique. From there, it examines the linkages between IFFs and the insurgency, and the extent to which opportunism facilitates this relationship. The policy brief then moves on to a discussion of the role of *hawalas* in supporting development as well as their illegitimate use in financing insurgent activities. Finally, it considers the regulatory frameworks used to address these issues and concludes by making policy recommendations on how to strengthen responses in the future.

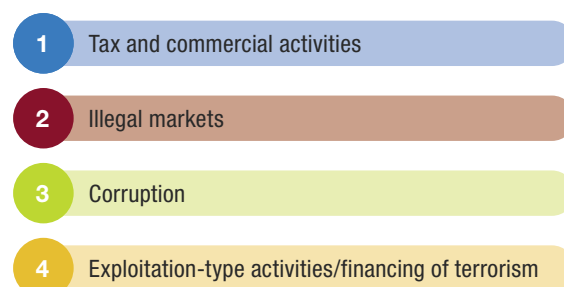
Are IFFs being used to finance the insurgency?

Types of IFFs in Mozambique

IFFs can have a destabilising effect on countries as they undermine the rule of law, fuel corruption and facilitate violence. They are often transnational, as proceeds of crime can also be channelled to safe havens abroad from where they can be used to fund terrorism activities. In addition, IFFs can also discourage private and public investment in sustainable development.⁵ The reduction of IFF's is a key element of the United Nations (UN) 2030 Agenda

for Sustainable Development. However, there are different understandings on what IFFs actually consist of, and how to measure them. As such, in 2020 UN developed a framework on different types of IFFs, as seen in Figure 1.

Figure 1: UN framework on different types of IFFs



Mozambique is prone to each of these four main types of IFFs, as is further explored below. The next section explores how the exact links are between the insurgency and different types of IFFs are being consolidated.

Linkages between IFFs and the insurgency

Corruption provides an enabling environment for IFFs. In northern Mozambique, illicit trade in wildlife, natural resources, narcotics and human trafficking are embedded in the local economy⁶ and protected by political elite in return for payments.⁷ Mozambique is plagued with pervasive corruption that spans the width and depth of its government. In 2020, the Global Corruption Index (GCI)⁸ ranked Mozambique 161 out of 198 countries. This chronic characteristic can be both a source and a driver of IFFs.

The illicit economy forms part of a larger regional concern, which the Global Initiative Against Transnational Organised Crime (GI-TOC) has called 'a triangle of vulnerability'.⁹ Rampant state corruption, which has linked former Presidents Chissano¹⁰ and Guebuza¹¹ with the internationally wanted trafficker Mohamed Bachir Suleman, has helped entrench these criminal trade routes through the north of the country.

Given the regional nature of the illicit economy, as well as its ties to state officials, the Southern African Development Community (SADC) is central to tackling IFFs related to this trade. Following the ratification of the 2001 Protocol Against Corruption, a task team was put together to oversee a five-year strategic plan that runs from 2018 to 2022.¹² Although a new strategy is in development, a SADC representative has noted that in order to counter IFFs, the region must meet its development goals.¹³

To date there is no clear evidence that illicit trade is being used to finance the insurgency. When the insurgency first started, research showed that the links between the ASWJ and criminal networks were ad-hoc and opportunistic.¹⁴ In addition, traffickers targeted banks and humanitarian supplies, suggesting theft was a means of financing their activities.¹⁵ It is therefore highly likely that the corrupt environment and poor governance systems facilitated the flow of illicit trade, but also provided a fertile recruitment ground for extremists.

Despite initial speculation that insurgents were taking hold of strategic locations that could be used to gain control over the illicit trade along the coast and inland,¹⁶ it now appears that illicit trafficking activities have shifted to different, safer routes that avoid hot-spot areas hit by violence. The shift reduces risks and costs for traffickers as it avoids routes with high levels of militarisation, damaged road infrastructure, the potential of violence between government forces and insurgents, and the costs of paying off both the government and the insurgents.¹⁷ There is also speculation over whether kidnappings have financed the insurgency since these are fairly common in Maputo,¹⁸ but the evidence here of direct linkages between the two is again minimal at best.¹⁹

Rather than the funding of the insurgency coming from illicit activities, there is evidence to suggest that support has come from local communities and the manipulation of existing informal economic systems. For example, research has suggested that the ASWJ initially recruited the youth into mosques and madrassas through the offer of business loans across any sector of interest.²⁰ It is also possible that the people who did not benefit from operational deals in oil and gas may have initially funded the insurgency.

Cross-border trade with Tanzania is also thought to be a major source of revenue for the insurgency, particularly instances where cash-based informal cross-border traders do not pay customs fees but continue to sell goods at inflated prices.²¹ It is believed that trade mis-invoicing (intentionally mis-stating the value, quantity or composition of goods on customs declarations and forms, often for the purpose of evading taxes or laundering money) cost Mozambique USD5.27 billion between 2002 and 2010.²² Current figures show that Mozambique, along with South Africa, remains the largest positive outlier as net exporters in Africa. This can be an indicator of export under-invoicing.²³ As noted by Transparency International, Mozambique's Attorney General, Beatriz Buchili, has acknowledged that Mozambique experiences 'fraudulent schemes

involving circulation of large sums of money outside the financial system'²⁴ and this could make the country more prone to terrorist financing.

Mozambique's commercial activities are also largely informal, encompassing street trading and roadside trading, home production of goods and services, informal workers, and informal and unregulated transport of goods and passengers (by road and artisanal shipping), providing opportunities for manipulation.²⁵ Informal cross-border trade is a catalyst for linking informal economies in southern Africa,²⁶ making it central to understanding IFFs within informal economies. Stakeholders in a closed-door consultation have raised the challenge of merchant transactions, namely goods from the Far East that were imported, sold and the money moved out of the country, as well as imports at the harbour and at the border with Tanzania.²⁷ As such, SADC should consider strategies to address these issues.

IFFs can have a destabilising effect on countries as they undermine the rule of law, fuel corruption and facilitate violence

A source in the anti-money laundering (AML) sector²⁸ notes that, alongside the movement of licit, illicit goods and other commodities is a considerable amount of physical cash passing between middlemen, making it hard to trace. These physical cash transfers are especially thought to be facilitated by the porous border with Tanzania. Supporting this are high levels of interdependence and cross-border movements between people living in communities on either side of this border, as observed by a local researcher in Tanzania.²⁹ In addition, this research suggested that small- to medium-sized businesses, mainly concentrated in Nampula and Cabo Delgado, may fund the insurgency by paying donations to an unknown group.³⁰

Given the above, it is not so much that there is a strong link between organised crime and terrorism in Mozambique, but rather that organised crime and corruption have spread resentment among the local population, leading to a lack of trust in the government, and providing incentives for the local population to join the ASWJ as an alternative means of income generation. The next section examines how informal banking as well as mistrust in formalised banking channels may facilitate terrorist financing, such as through *hawala* systems.

Opportunities for financing through informal banking

Low levels of formal banking in Mozambique provide opportunities for the financing of the insurgency through existing informal channels. 2018 Afrobarometer data in Figure 2 highlights the low levels of formal banking penetration in the north of Mozambique, as well as the extent that people depend on remittances.

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In addition, only about a third of the population in Mozambique has a bank account at a formal institution, while the growth of mobile money accounts is growing twice as fast as its formal banking counterpart, having near doubled in SSA between 2014 and 2017.³¹ As such, there is huge potential for insurgents to access funds through informal channels.

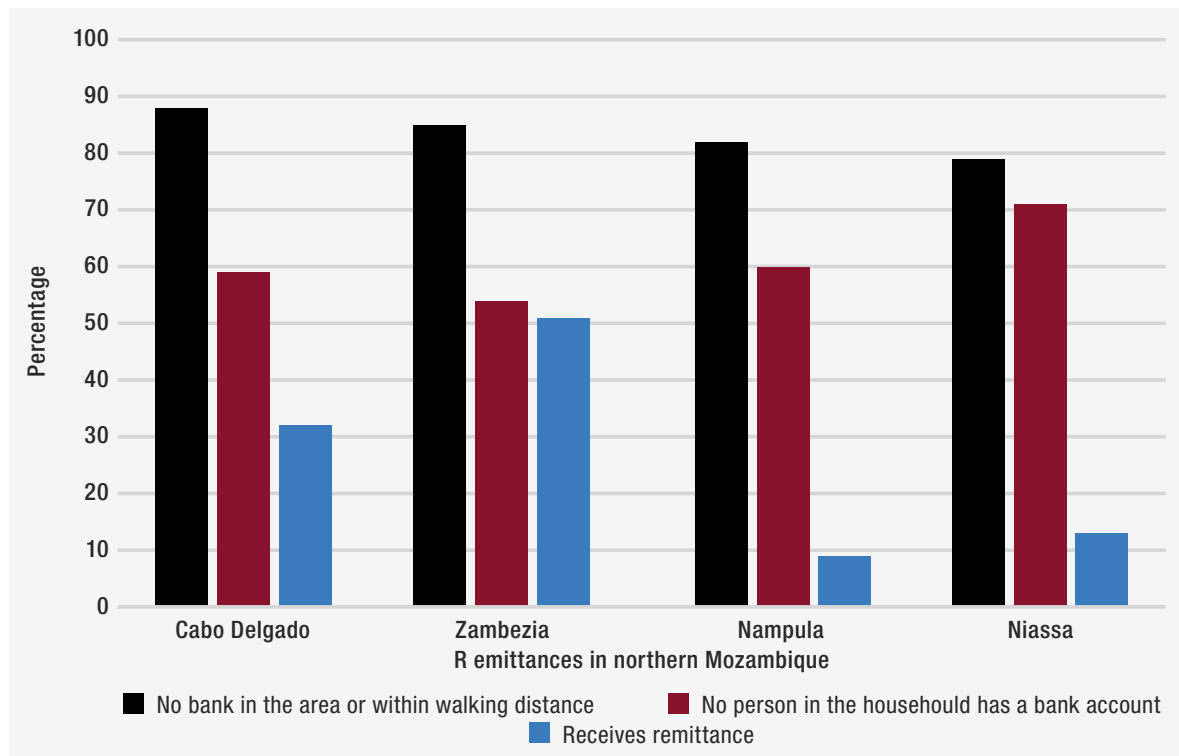
One informal money-transfer system that doesn't require any physical transfer of cash is known as

hawala. The relationships between the *hawaladars* and clients is underpinned by trust and honour, while the money that is transferred is password protected and conveyed using codes that change often. *Hawaladars* are integrated into local communities, building social bonds with families that often become intergenerational.³² Given their informal and fluid nature, the true size of a *hawala* network in any given country is usually unknown.³³

Hawalas often operate in remote outposts where formal banking is either absent, expensive or hard to access. The system is also favoured because of its efficient transfer windows (no longer than 72 hours), competitive exchange rates (particularly where formal banking is sparsely available),³⁴ low transaction fees³⁵, accessibility for illiterate people and availability all year round. Moreover, it is acceptable under Shari'a Law while also offering anonymity.³⁶ In addition to usefulness for locals and diaspora, humanitarian aid and NGOs are also known to use *hawala* systems to reach communities.³⁷ All this works to place *hawalas* at the centre of a large share of remittance flows.³⁸

Sometimes *hawaladars* offer money transfer services as an offshoot of their existing business (such as a retail store) and will sometimes settle payments with

Figure 2: Access to formal banks and reliance on remittances in northern Mozambique



Source: Created from Afrobarometer data, 2018

each other through legitimate business accounts.³⁹ This not only obscures capital within the financial markets (also identified as a type of IFFs in Figure 1), but also facilitates the assurance of anonymity from both the sender and receiver of the money whose payment is settled between bank accounts used by *hawaladars* for their formal businesses. The nature of the settlement process makes the transactions particularly hard to regulate, and ultimately law enforcement cannot ‘follow the money’.⁴⁰

The illegitimate use of *hawala* has been widely documented by the United States of America (USA), the UN, the Financial Action Task Force (FATF) and scholars of terror financing. In a survey done by the FATF, 81% of surveyed countries indicated that, in their country, *hawala* networks are vulnerable to terror financing risks.⁴¹ The abuse of *hawala* by extremist networks is most significant across the Middle East and Africa, particularly by the Taliban,⁴² ISIS⁴³ and Al-Shabaab.⁴⁴ The adoption of *hawalas* by ISIS was primarily to collect taxes, profits and fund operations,⁴⁵ while Al-Shabaab initially used *hawala* to raise remittance money from the Somali diaspora and later to collect taxes.⁴⁶ It may therefore be the case that the ASWJ are using similar methods.

In a closed-door IJR briefing with various stakeholders in November 2020, the issue of *hawala* networks and money remittance such as M-PESA was raised as a possible means of terrorist financing in Mozambique. Moreover, the report of SADC’s technical mission in April 2020 affirmed the use of mobile money transfers such as M-Pesa, mKesh and e-Mola to fund the insurgency.⁴⁷ The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) has also cited that ‘the main conduits for laundering the proceeds of crime appear to be through banks, bureau de changes, cash couriers and *hawala* systems.’⁴⁸

Nevertheless, approaches to addressing these informal systems have sometimes backfired. In places such as the USA, where there are strict AML objectives, formal banking institutions have come under pressure to de-risk. This has had the effect of decreasing the availability of formal banking, as stricter regulations and higher penalties have seen financial institutions pull out of regions deemed risky, including Africa.⁴⁹ In 2014, the FATF denounced the practice of de-risking.⁵⁰ The FATF has noted that making *hawalas* illegal has done little to stop their operation, while doing the opposite leads to an expansion of the regulated remittance market. In fact, 80% of FATF countries surveyed showed that the

legislation of *hawala* and other similar service providers had helped to formalise this sector.⁵¹ As such, the FATF advocates for licensing and/or registration requirements for these service providers to be improved, depending on what is most likely to ease or control market access and enhance oversight. The next section looks at Mozambique’s frameworks for combatting IFFs.

Mozambique’s frameworks for combatting IFFs

Mozambique passed an anti-money laundering law and combatting the financing of terrorism law in 2013. This provided a framework for strengthening its responses to terrorist financing, which was further refined in 2019.⁵² In 2015, Mozambique also introduced guidelines for financial institutions on the prevention and combatting of money laundering and financing of terrorism. Financial institutions include banks, credit unions, electronic money services amongst others.⁵³ Mozambique has also set up the Mozambique Financial Intelligence Office (GiFIM) as its Financial Intelligence Unit (FIU) and is looking to become a member of the Egmont Group to promote its cooperation with other FIUs. The FATF is also in the process of evaluating Mozambique.

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Nevertheless, Mozambique ranks 5 out of 141 countries in the Basel AML index, meaning that it is at extremely high risk of terrorist financing and money laundering. Neighbouring South Africa fares better, ranking 87.⁵⁴ The ESAAMLG notes that there are several technical compliance gaps, which require further actions from authorities, but that preparations are underway for its first National Risk Assessment (NRA), which would include an examination of countering terrorist financing (CTF).

In addition, despite the financial intelligence produced by the FIU, there is no evidence that law enforcement is using this effectively. There is an ongoing lack of capacity to identify and investigate terrorist financing and a lack of coordination among stakeholders. AML/CFT measures are limited to commercial banks and only one large mobile money service provider. There is a need for supervisory authorities to therefore take

a risk-based approach to AML/CFT and to develop their risk-based supervisory tools. Mozambique has also recently adopted a legal framework to facilitate legal cooperation, but still lacks the human and structural capacity to implement and enforce it.⁵⁵

Mozambique therefore faces enormous challenges in implementing a top-down, law enforcement approach to reducing terrorist financing, which will require large amounts of resourcing and capacity building. As such, it is clear that this approach alone is unlikely to address the challenges faced in the country, and that what is more important is winning the hearts and minds of the local population.

Key policy recommendations

This policy brief has shown that shown that Mozambique is prone to a variety of IFFs, including tax and commercial activities, illegal markets, exploitation-type activities and the financing of terrorism. Corruption has facilitated these activities, further entrenching elite greed, disenfranchising the local population, and providing ample opportunities for the ASWJ to recruit new members on the basis of economic opportunity. It is unlikely that the insurgency is purely foreign-financed, but rather supported by communities within and across its borders who make use of informal systems to finance ASWJ's activities. As such, a top-down approach that focusses on law enforcement will not be sufficient. Rather, any strategy to address the group's funding must find its roots in community engagement. This will help ensure a proactive and rather than a reactive approach.

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From the outset, stakeholders must first prioritise trust-building with communities. Communities should be engaged on terrorist financing and can provide intelligence on how money is being transferred for such activities, including through illicit activities and informal trading across borders. They can also provide information on the hindrances in formal banking and explain their main developmental challenges. This helps to get to the root causes of the insurgency, which must remain at the core of adopted approaches.

Practical steps need to be considered in both the formal and informal banking arenas, including strategies to bring more of the population into the mobile money sector, which can be better regulated than *hawala* systems. It is also important to consider how the measures will be applied and enforced practically, and what the impact on development will be. A first step would be for Mozambique to carry out its first ever risk assessment, that could examine opportunities for terrorist financing across different sectors, but it is vital that this assessment also considers the impact of various regulations on wider societal vulnerabilities.

As previously noted, de-risking in some parts of the world has had a detrimental effect on the local economy. Care must be taken to ensure that financial controls do not backfire by reducing the positive impact of labour remittances and criminalising legitimate actors, resulting in high human costs and the alienation of large elements of the population.⁵⁶ It would therefore be important to develop multi-stakeholder platforms, involving communities, formal and informal financing institutions and businesses, as well as government stakeholders and regional economic communities, such as SADC.

Furthermore, supporting inclusive economic development in Mozambique is vital. Remittances are key to strengthening development, but have often faced the challenges of adhering to 'know-your customer' documentation requirements when many migrants are themselves undocumented. To address this, licencing and registration regimes that can facilitate access should be considered, along with competitive market conditions.⁵⁷ For example, Pakistan has launched the Pakistan Remittance Initiative whose objective is to facilitate the efficient flow of remittances and promote investment opportunities for overseas Pakistanis.⁵⁸ It may also be prudent to consider other means of strengthening development, such as through regulated micro-lending for promoting small business. Some mobile money platforms are registered credit providers, making them not only an accessible and regulated platform for transfers, but also a source of liquidity (or micro-lending) that can ultimately facilitate development.

Initiatives like the Integrated Northern Development Agency (ADIN) are also being developed to support inclusive development. The initiative, which seeks to raise USD764 million, will channel these resources to four main ends: humanitarian assistance, economic development, community resilience, and communication.⁵⁹ This success of ADIN will depend

on both its ability to mobilise funds (which will require rigorous anti-corruption measures) as well as buy-in from civil society which includes local communities, religious networks and the private sector.

The IFFs also have a cross-border dimension in terms of the utilisation of financial transfer processes, and therefore the SADC region needs consider how to address the issue of IFFs in its strategy to combat organised crime which is currently being finalised.⁶⁰ At a regional level, the African Continental Free Trade Area (AfCFTA), which came into effect in January 2021, offers opportunities for strengthening inter-African trade by promising a single market for African goods and services and by promises of tariff elimination. This may reduce the potential to capitalise on different tariffs through tax avoidance (such as cash-based informal cross-border trade), but regional strategies should also be encouraged that promote inclusion and consider the root causes of terrorism.

Recommendations

In light of the analysis above, this policy brief makes policy recommendations to the following stakeholders:

To the Mozambican Government

- Carry out trust-building exercises with communities to strengthen government and citizen engagement.
- Make use of community-driven intelligence and develop community-led strategies to reduce terrorist financing.
- Create multi-stakeholder platforms to promote dialogue on the barriers to formal banking and strategies to address this.
- Develop strategies to make credit-providing mobile money platforms more accessible than more informal systems, while also ensuring strengthened regulation.
- Consider a means of encouraging remittances through regulated channels.
- Address the underlying causes of the insurgency linked to marginalisation and development.
- Ensure that the design and implementation of ADIN is preceded by a consultative process to facilitate buy-in from local communities and businesses.
- Develop strategies in line with anti-corruption laws to prevent the loss on income for the State from IFFs.

To SADC, the African Union and the international community

- Emphasise the need to strengthen community engagement and build trust in addressing the insurgency.
- Support Mozambique to conduct its first NRA on AML/CFT, with a focus on the impact of legislation/regulation on societal vulnerabilities.
- Share strategies and lessons learned on regulating informal/formal banking sectors.
- Build Mozambique's capacity to regulate formal and informal banking through a 'whole of society' approach, involving communities and the business sector.
- Consider support to the local population through micro-lending facilities, with a focus on the most vulnerable, namely women and youth.
- Support ADIN to promote entrepreneurship for youths with a zero-tolerance policy on corruption.
- Develop regional and sub-regional strategies for addressing IFFs, including through SADC's forthcoming strategy to address organised crime.
- Strengthen regional strategies to enhance economic development, such as through the AfCFTA.

Acronyms and abbreviations

ADIN	Integrated Northern Development Agency
AfCFTA	African Continental Free Trade Area
AML	Anti-money laundering
ASWJ	Ahlu-Sunna Wa-Jama'a
CTF	Countering terrorist financing
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
GDP	gross domestic product
GiFIM	Mozambique Financial Intelligence Office
GI-TOC	The Global Initiative Against Transnational Organised Crime
IFFs	Illicit financial flows
ISIS	Islamic State
NRA	National Risk Assessment
SADC	Southern African Development Community
UN	United Nations
USA	United States of America
USD	United States dollars

About the authors

Amanda Lucey is Senior Project Leader for Preventing Violent Extremism at the Institute for Justice and Reconciliation

Jaynisha Patel is Project Leader for Inclusive Economies at the Institute for Justice and Reconciliation.

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Government of the Netherlands



CONTACT US

Tel: +27 21 202 4071
Email: info@ijr.org.za

Physical and Postal Address

105 Hatfield Street
Gardens
8001
Cape Town
South Africa



www.ijr.org.za

The opinions expressed in this paper do not necessarily reflect those of the Institute for Justice and Reconciliation (IJR). Authors contribute to the IJR Policy Brief series in their personal capacity.

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