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## **DIRECTIVE 03 OF 2024**

### **CALL FOR ENHANCED DUE DILIGENCE BASED ON SOUTH AFRICA'S ESCALATED TERRORISM FINANCING RISK**

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## 1. INTRODUCTION

The Republic of South Africa (RSA) conducted a Terrorism Financing (TF) National Risk Assessment (NRA) in 2022. Such assessment concluded that the TF risk was Moderate. Risk assessments are an ongoing activity and are naturally updated over time. On 24 June 2024, South Africa published her 2024 NRA TF risk assessment update. Such update revised the TF risk rating from Moderate to High. This suggests an escalated risk of TF which may impact TF risk management in other countries, especially Namibia, given her socio-economic ties to RSA. The RSA 2024 NRA TF risk assessment report can be accessed via the following link: [National-risk-assessment---Terrorist-financing-national-risk-assessment-2024.pdf \(fic.gov.za\)](https://www.fic.gov.za/national-risk-assessment---Terrorist-financing-national-risk-assessment-2024.pdf)

## 2. WHAT DOES THIS MEAN FOR NAMIBIA?

RSA remains one of Namibia's biggest trading partner and the two countries share significant socio-economic ties. The significant trade, transactions and cross border movement of persons between the two countries renders Namibia inherently vulnerable to TF risks that may emanate from RSA and vice-versa.

### 2.1 Preventative Measures: Accountable and Reporting Institutions

In simple terms, the escalated TF risk rating in RSA calls for Namibian Accountable and Reporting Institutions to enhance their TF prevention measures for transactions, delivery channels and clients associated with RSA. Though Targeted Financial Sanctions as explained in various FIC Guidance Notes issued in 2023 and Directive 01 of 2023. The directive can be accessed via this link: [Directive 01 of 2023 - Mandatory Implementation of Targeted Financial.pdf \(fic.na\)](https://www.fic.na/directive-01-of-2023-mandatory-implementation-of-targeted-financial.pdf)

The FIC's 2023 study<sup>1</sup> to determine ties to high risk jurisdictions in the banking and Authorized Dealers with Limited Authority (ADLA) sectors shows that South African citizens and entities represent the highest number of non-Namibians with footprints in these sectors. This further

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<sup>1</sup> As part of the 2023 NRAupdate.

demonstrates the close ties between the two jurisdictions and places banks and ADLAs amongst the sectors which need to enhance their TF risk management measures in view of the escalated TF risk in RSA.

The FIC will continue sharing findings of the 2023 NRA Update which, amongst others, explains threats and vulnerabilities that escalate TF risks emanating from RSA. See Chapter I of the said 2023 NRA update via the following link: [Final 2023 NRA Report Update - Dec 2023.pdf \(fic.na\)](#)

## **2.2 Combatting Measures: Law Enforcement Authorities**

Combatting authorities such as the Financial Intelligence Centre (FIC), Namibian Police and Namibia Central Intelligence Services (NCIS) are the primary stakeholders charged with leading the investigative function of TF activities. Their outputs are naturally escalated to Office of the Prosecutor General (OPG). The FIC, Namibian Police and NCIS are encouraged to duly enhance their combative measures by deliberately mitigating threats that may be associated with, or originate from RSA. A separate Strategic Analysis report speaking to this matter has been shared with them.

## **3. HOW IS TERRORIST FINANCING RISK DIFFERENT FROM TERRORISM RISK?**

TF risk and terrorism risk are often, but not always, interlinked. For example, an assessment of TF risk will require a consideration of the domestic and foreign terrorist threats. If a jurisdiction has active terrorist organisations operating domestically or regionally, this will likely increase the probability of TF. Nevertheless, in light of the cross-border nature of TF, a jurisdiction that faces a low terrorism risk may still face significant TF risks. A low terrorism risk may imply that terrorist individuals and groups are not using funds domestically for terrorist attacks. However, actors may still exploit vulnerabilities to raise or store funds or other assets domestically, or to move funds or other assets through the jurisdiction.

Crucially, the factors associated with TF risk are also distinct from those associated with ML risk. While laundered funds come from the proceeds of illegal activities, funds used to finance

terrorism may come from both legitimate and illegitimate sources. Similarly, for Money Laundering (ML), it is often the case that the generation of funds may be an end in itself with the purpose of laundering being to transmit the funds to a legitimate enterprise. In the case of TF, the end is to support acts of terrorism, terrorist individuals and organisations, and for that reason the funds or other assets must, for the most part, ultimately be transferred to persons connected with terrorism. Another important distinction is that while identification of ML risk is often enforcement-led, TF risk by the nature of the threat will need to be more intelligence-led.

Although there may be some overlap in the potential vulnerabilities that criminals and terrorists misuse, the motive, and therefore the threat and risk indicators, differs. While transfer of a low volume of funds may be lower risk for ML, this type of activity may pose a higher risk indicator for TF when considered along with other factors (e.g. reporting thresholds or limited amount of funds necessary to carry out terrorist acts). For example, terrorist financiers have been known to use low-limit prepaid cards for TF purposes despite being considered lower risk for ML.

#### **4. RSA IDENTIFIED TF THREATS**

This entire section below is taken from RSA's June 2024 TF NRA Risk Assessment Update. It highlights potential threats which may exploit vulnerabilities in controls aimed at preventing TF.

##### **4.1 International threats**

The RSA 2024 TF Risk Assessment Update states that **South Africa's current TF threat emanates predominantly from the IS, its affiliates, its supporters, and its ideology. Following the demise of the IS Caliphate in Syria and Iraq, there has been a decentralisation of activities and solicitation of support, including fund-raising, to regions that were not previously affected, including Central and Southern Africa.** IS-linked terrorism theatres in the Democratic Republic of Congo (DRC) and northern Mozambique are key areas of concern for South Africa's national security, particularly as there are links to IS supporters in South Africa. Similar security concerns exist regarding the activities and impact of

al-Shabaab in East Africa, which thrives on illicit economic activities, including the leveraging of taxes to fund its activities.

The presence of active terror groups that exploit socio-economic challenges, the prevalence of natural resources, a nexus between organised crime and terror financing, as well as ongoing security and economic vulnerabilities, impedes the effectiveness with which countries in the region, including South Africa, regulate financial flows with a view to prevent terror financing. South Africa is a destination for refugee and asylum seekers from other African countries and has large émigré and diaspora communities from countries associated with terrorism including the DRC, Mozambique and Somalia. The émigré and diaspora community footprint in South Africa includes elements committed to radicalisation, as well as the facilitation, recruitment and funding of terrorist activities. **Given South Africa's large émigré and diaspora communities from geographic areas associated with conflict and terrorism, the South African authorities consider that organisations, not necessarily identified in resolutions of the United Nations Security Council (UNSC) and thus not universally considered to be terrorist organisations and operate in contested geographical areas, pose a threat of raising and/or moving funds for terror related purposes in and through South Africa.**

#### **4.2 RSA's domestic TF threats**

South Africa's constitutional democracy faces challenges from political actors who claim that there are illegitimate barriers to political change, which they claim justifies the use of violence. Such violence takes many forms, most of which does not meet the legal definition of a terrorist activity. There are a number of channels used by violent political actors to finance their activities in South Africa. Predominantly, self-funding and diversion of legitimate political funding to illegitimate ends. There are also instances, however, where it appears that violent political actors have engaged in predicate crimes such as robberies and truck hijackings to generate financial resources to support their activities. **As a consequence of its history of racial domination and violence, South Africa also faces a right-wing extremist threat and can be regarded as a fertile breeding ground for white supremacist hate groups. In South Africa violent extremism, which includes the extreme right-wing groups remains a national security**

**concern. The level to which global developments within right-wing terrorism have an impact on domestic extremist groups is unclear.**

There are, however, indications of possible ideological and financial links between domestic extremist groups and far right-wing groups abroad. Domestic right-wing supporters continue to engage with like-minded foreign actors to raise funds, share best practices, conduct quasi-military training and recruit members for their organisations. **Crowdfunding, self-funding and the transfer of virtual assets are used for financing the day-to-day activities of the leaders of these groups and the propaganda effort directed against the South African government.** In addition, given indications that right-wing extremists are generally self-radicalised, the possibility of lone actor attacks is a national security concern.

## **5. CALL FOR ENHANCED CUSTOMER DUE DILLIGENCE**

### **5.1 EDD beyond TFS**

The most essential and reliable mechanism to help prevent TF is effective implementation of Targeted Financial Sanctions (TFS) at institutional level. The RSA authorities rightly observed that there are persons and organisations not necessarily identified in resolutions of the United Nations Security Council (UNSC) as supporting terrorism, but operate discreetly and pose a threat of raising and/or moving funds for terror related purposes in and through South Africa. These persons present a higher risk as they operate under the radar and may be unknown to authorities. This is an important observation which naturally requires of entities to look beyond TFS as the sole or primary method of preventing TF.

As mentioned herein above, the FIC issued Directives and Guidance Notes in 2023 (FIC website) which particularly speak to combatting TF risks.

## **5.2 Revisit TF risk assessment**

Accountable and Reporting Institutions are advised to review TF risk assessment, particularly factors previously considered which relate to RSA clients, services, associations, delivery channels, crowd funding and self-funding activities with any RSA links etc. The following can be looked at:

- a. Effectiveness of TF prevention measures of counterparts, sources of transactions emanating from RSA;
- b. Review client profiles of RSA nationals and entities (including those with links to RSA) in view of threat related information stated herein, such as extremist religious or political ideology etc; and
- c. Review profiles of Non-Profit Organisations (NPOs) with any links to RSA, especially those within the charitable and faith based space. If risks arise or appear escalated, consider taking mitigation measures. The FIC issued a report on TF awareness and another on TF risks in the NPO sector. Such reports can be accessed via the following link: [FIC Trends and Typology reports - Financial Intelligence Centre](#).

## **6. CONCLUSION**

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