

Enhancing Effectiveness in Countering Terrorism Financing: Strategies, Challenges, and Future Directions

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How to cite this paper: Uwihoreye, A., & Adekunle, M. (2025). Enhancing Effectiveness in Countering Terrorism Financing: Strategies, Challenges, and Future Directions. *Open Journal of Social Sciences*, 13, 480-504.

<https://doi.org/10.4236/jss.2025.1310028>

Received: August 5, 2025

Accepted: October 20, 2025

Published: October 23, 2025

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Abstract

Terrorism financing remains a critical global security threat, enabling terrorist organizations to mobilize resources, recruit operatives, and orchestrate violence worldwide. This study investigates the evolving mechanisms of terrorist financing, evaluates the effectiveness and limitations of current countermeasures, and proposes strategic innovations for an enhanced global response. Terrorism financing constitutes a persistent and dynamic global threat, facilitating the execution of violent acts, recruitment, propaganda dissemination, and operational sustainability of terrorist organizations. Despite concerted global efforts to combat terrorism financing, the evolving nature of financial technologies, the complexity of transnational financial systems, and the adaptability of terrorist networks present substantial challenges. This study seeks to enhance the effectiveness of counter-terrorism financing (CTF) strategies by critically analyzing current approaches, identifying systemic vulnerabilities, and proposing data-driven, innovative, and context-sensitive solutions. Utilizing a mixed-methods research design, the study integrates quantitative analyses of financial transaction data and mutual evaluation reports from institutions such as the Financial Action Task Force (FATF), FINTRAC, the IMF, and the World Bank, with qualitative insights derived from expert webinars, conferences, and policy documents. Analytical tools, including Power BI, ArcGIS, and i2 Analyst's Notebook, were employed to examine trends, visualize financial flows, and map social networks within terrorism financing ecosystems. The research focused on several hypotheses concerning the diversity of financing methods, effectiveness and gaps in existing regulations, and the potential for strategic innovations in CTF. Findings indicate that significant vulnerabilities persist in global CTF frameworks, particularly in relation to non-profit organizations (NPOs), targeted financial sanctions, and cross-border money transfers. Coun-

tries such as Iraq, Lebanon, and Pakistan are frequently associated with complex financing networks, while money service businesses (MSBs) and crowdfunding platforms have emerged as high-risk vectors for illicit transactions. Moreover, inadequate intelligence sharing, deficiencies in regulatory harmonization, and technological exploitation through cryptocurrencies and cyber-resources further compromise global efforts. The study underscores the urgent need to strengthen regulatory compliance with FATF recommendations, enhance risk-based supervision, and foster international cooperation through data sharing and joint enforcement mechanisms. It advocates for capacity building, especially in high-risk jurisdictions, and recommends integrating counter-violent extremism (CVE) strategies with financial intelligence to proactively disrupt radicalization pipelines. The research also highlights the importance of leveraging public-private partnerships and emerging technologies to improve detection, analysis, and response mechanisms. Ultimately, this study contributes a nuanced understanding of the terrorism financing landscape and provides actionable, evidence-based recommendations to inform policy, enforcement, and academic discourse. It affirms that a comprehensive, adaptive, and multi-stakeholder approach grounded in empirical data and global collaboration is essential to mitigating the threat of terrorism financing and promoting sustainable international security.

Keywords

Terrorism Financing, Counter-Terrorism Financing (CTF), Anti-Money Laundering (AML), FATF Mutual Evaluations, Financial Intelligence Units (FIUs), Cryptocurrency and Illicit Finance, Non-Profit Organization (NPO) Oversight, Public-Private Partnerships, Risk-Based Supervision, Global Terrorism Index (GTI), Cross-Border Fund Transfers, Network Analysis, Intelligence Sharing, Financial Regulation, Violent Extremism Financing

1. Introduction

The act of providing financial resources to sustain terrorist activities, commonly known as terrorism financing, continues to pose an enduring and evolving menace despite concerted international endeavors to counteract it (Shillito, 2015). The primary objective of this study was to examine various strategies, identify the challenges involved, and explore potential avenues for improving the efficacy of countering terrorism financing.

The task of defining terrorism presents a considerable obstacle owing to its inherently subjective character. One of the primary obstacles researchers encounter in this domain is establishing an objective and universally applicable definition of terrorism. The term “terrorism” is characterized by subjectivity, resulting in various interpretations. This subjectivity is evident in the fact that what one individual perceives as a terrorist, another may view as a freedom fighter (Ganor, 2002). Nevertheless, the establishment of an objective definition is crucial in order to address

and counteract acts of terrorism effectively. The present study recognizes the significance of establishing a definition of terrorism that aligns with internationally recognized laws and principles governing permissible conduct in traditional interstate conflicts (Ganor, 2002).

The repercussions of terrorism on human life and injury result in substantial economic upheaval, impacting both individuals and nations. The immediate costs encompass the monetary worth of lives lost, disability resulting from injuries, and the destruction of property (Bardwell & Iqbal, 2020). Nevertheless, terrorism's wider economic repercussions are typically seen gradually, influencing factors such as economic growth, investment, consumer spending, and tourism. Terrorist incidents, when they occur frequently and on a large scale, present a significant risk to a country's economic development and progress. Terrorism alters economic behavior by redirecting resources from productive endeavors to defensive measures, thus diminishing a nation's economic potential (Bardwell & Iqbal, 2020).

Since 2001, the Financial Action Task Force (FATF) has acknowledged the imperative nature of addressing the issue of terrorist financing. The emergence of organizations such as ISIL/Da'esh and Al-Qaeda in 2015 significantly heightened the risks associated with global terrorism (FATF, 2023b). Despite the concerted efforts of the Financial Action Task Force (FATF), numerous countries encounter challenges in effectively implementing standards, primarily due to a lack of comprehensive comprehension regarding the risks associated with terrorist financing and the requisite measures to address them. In order to tackle these challenges, the Financial Action Task Force (FATF) has formulated an all-encompassing Strategy for the Prevention of Terrorist Financing, working in conjunction with regional entities and the United Nations (UN) to provide assistance to nations globally (FATF, 2023b). The mitigation of terrorist financing on a global scale necessitates the collaborative endeavors of all relevant parties involved.

The primary objective of this study was to comprehensively comprehend and enhance the efficacy of countermeasures employed to obstruct the financial resources of terrorist organizations. This study aimed to analyze diverse financial channels and mechanisms employed by terrorists while also presenting targeted countermeasures. The research has employed a mixed-methods approach, combining quantitative and qualitative data analysis techniques, to conduct a comprehensive examination of terrorism financing patterns and vulnerabilities present in the financial system (Maxfield & Babbie, 2015).

The significance of the study resides in its capacity to disrupt terrorist activities, mitigate attacks, and protect the lives of individuals who are not involved in any wrongdoing. The obstruction of financial networks serves as a significant impediment to the operational capabilities of terrorist organizations, whereas the establishment of international cooperation plays a crucial role in effectively addressing this transnational concern (FATF, 2023b; Shillito, 2015). The results of this study make a valuable contribution to the development of evidence-based policies and

practices aimed at countering terrorism financing. These findings offer valuable insights for various stakeholders, including policymakers, law enforcement agencies, financial institutions, aid organizations, and non-profit entities (ACAMS, 2022). In summary, the objective of this study was to contribute to the establishment of a more secure global milieu by reducing the financial capabilities of terrorist organizations.

2. Background/Statement of the Problem

Terrorism remains a grave concern for nations worldwide, and its financing is a critical aspect that demands attention (Fletcher et al., 2021). The funding acquired by terrorist groups enables them to purchase weapons, recruit members, conduct training, and execute attacks. Furthermore, research has revealed that terrorism has exerted a substantial economic influence on a global scale. According to Bardwell and Iqbal (2020), terrorism had a huge financial impact in 2018; the cost of terrorism amounted to \$33 billion, with a cumulative impact of \$855 billion on the global economy. Despite international efforts to combat terrorism financing, the persistent threat poses a challenge to global security. The motivation behind this research was to address the existing gap in countering terrorism financing effectively and provide future directions. Although significant progress has been made in recent years, terrorist groups continuously adapt their financial tactics, making it necessary to refine countermeasures (FATF, 2023b).

Additionally, the interconnectedness of the global financial system presents unique challenges, as terrorists exploit these networks to move funds discreetly. Understanding the scope and nature of terrorism financing is vital for devising effective counter-strategies.

By analyzing the vulnerabilities in financial systems and studying the various methods used by terrorist organizations, the study contributed to developing targeted approaches to disrupt their funding sources. Moreover, exploring the role of financial institutions, regulatory frameworks, and international collaboration is essential for strengthening counter-terrorism financing efforts. This project aimed to provide valuable insights into the dynamics of terrorism financing and the effectiveness of current strategies. By identifying shortcomings and best practices, the study has proposed evidence-based recommendations to enhance global efforts in countering terrorism financing effectively and efficiently.

3. Literature Review

The existing body of literature pertaining to countering terrorism financing places significant emphasis on the crucial role of disrupting the financial networks that provide sustenance to terrorist organizations. Scholars and practitioners have emphasized numerous strategies, encompassing a wide range of approaches such as gathering and analyzing financial intelligence, and implementing enhanced regulations and sanctions (Mouzakiti, 2020). Successfully addressing the transnational aspect of terrorism financing necessitates establishing international collaboration

and exchanging information (Mouzakiti, 2020).

According to Ojo (2020), terrorist organizations and criminal groups partake in illicit activities such as abduction, contraband trafficking, narcotics commerce, and various other endeavors to generate funds for their operational endeavors. The illicit funds undergo a laundering process through different channels, including Bureau de Change services. The detection of such activities is made difficult by the presence of vulnerabilities in the existing anti-money laundering and counterterrorism laws (Chitimira & Animashaun, 2023).

According to Brewczyńska (2021), the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) legal system relies heavily on the pivotal involvement of Financial Intelligence Units (FIUs). Financial Intelligence Units (FIUs) play a crucial role in facilitating the exchange of information between private financial institutions and law enforcement agencies. Nevertheless, the European Union's data protection framework poses difficulties when it comes to ascertaining the appropriate data protection regime for Financial Intelligence Units (FIUs) (Brewczyńska, 2021). Furthermore, the establishment of the Egmont Group aimed to enhance collaboration among Financial Intelligence Units (FIUs) in combating money laundering and the financing of terrorism while also promoting the adoption of domestic initiatives in this domain (FATF, 2023b; Mouzakiti, 2020). According to Mouzakiti (2020), a resolution was discovered in 2000 that facilitated the sharing of information for the purpose of anti-money laundering (AML) while excluding counterterrorist financing. This resolution was applicable across various institutional models of Financial Intelligence Units (FIUs).

A recent study conducted by Chitimira and Animashaun (2023) has brought to light the prevalence of terrorist financing activities in Nigeria, particularly through the utilization of the Bureau de Change and cash couriers. To address the issues of money laundering and terrorist financing, Nigeria has implemented a range of statutes pertaining to anti-money laundering and countering the financing of terrorism (AML/CTF). These include the TPA 2011, EFCC Act, Money Laundering (Prohibition) Act 2011, and Money Laundering Act 2022. Nevertheless, it is important to acknowledge that the existing statutes in place suffer from various shortcomings that impede their ability to effectively address the issues of money laundering and terrorist financing within Nigeria's financial markets and institutions. To tackle these challenges effectively, it is imperative for policymakers, regulatory bodies, enforcement authorities, and relevant stakeholders to give explicit and statutory recognition to the prohibition of illicit activities (Chitimira & Animashaun, 2023). In addition, various factors, including geographical isolation, illicit activities such as corruption, piracy, drug trafficking, and human trafficking, as well as the presence of unofficial financial systems, contribute to the appeal of these regions for individuals involved in banditry, criminal enterprises, and terrorist networks (Ojo, 2020).

Markovic (2021) highlights the global surge in terrorism, particularly in Africa, with incidents like the September 11 attacks and bombings in Madrid and London

highlighting the financial requirements of terrorist organizations. The study focused on Boko Haram in Nigeria and al-Shabaab in Somalia. Boko Haram, linked to al-Qaeda and ISIS, has modified its strategies since 2003, employing female suicide bombers. Al-Shabaab, active since 2004, has targeted multiple institutions within Somalia and carried out notable attacks, such as the 2013 siege at the Westgate Mall in Nairobi and the 2017 truck bombing in Mogadishu (Markovic, 2021). Nigeria has implemented legislative measures to address violent extremism, but ongoing difficulties include constraints in pursuing cases related to terrorism financing and weaknesses in border protection. Corruption and capacity restrictions hinder external partnerships with organizations like the Trans-Sahara Counterterrorism Partnership and the Egmont Group. Somalia has made progress with the AML/CFT Act of 2016, but governance difficulties and the territorial dominance of groups like al-Shabaab hinder its execution (Markovic, 2021).

The findings by El Khoury Chady (2023) highlight the necessity for a more thorough investigation into the strategies utilized by intelligence and law enforcement agencies in collecting and evaluating financial intelligence to improve counterterrorism endeavors. The paper emphasizes the difficulties linked to institutional measures, especially in regions with underdeveloped financial institutions, and underscores the risks associated with cash usage, informal money transfer methods, and emerging technology such as cryptocurrency. Furthermore, the results underscore the significance of comprehending and evaluating the dangers associated with financing terrorism, enhancing the exchange of information among organizations responsible for reporting, and tackling the resource-intensive process of identifying and reporting suspicious activity (El Khoury, 2023). The study ends by emphasizing the crucial importance of international collaboration, highlighting obstacles such as distrust, legal disputes, and restrictions on information sharing that impede the effectiveness of counterterrorism endeavors.

Nongovernmental organizations (NGOs) engaged in diverse service and humanitarian activities may be vulnerable to exploitation for terrorist financing as a result of factors such as their established credibility, substantial financial resources, reliance on cash transactions, extensive international reach, and relatively limited oversight (ACAMS, 2022). In order to safeguard these organizations from being exploited by individuals who finance acts of terrorism, the Financial Action Task Force (FATF) proposes a set of recommended practices aimed at assisting authorities in effectively monitoring their operations (ACAMS, 2022). The vulnerability of charities and non-profit organizations (NPOs) to terrorist financing is underscored by a case study that centers on the Islamic Defenders Front (IFI) in Indonesia (ACAMS, 2022). The IFI initially portrayed itself as a non-profit organization offering social welfare services, but subsequently became associated with acts of terrorism. According to ACAMS (2022), terrorist organizations occasionally establish operational associations with non-profit organizations (NPOs), enabling them to leverage the resources and programs offered by these NPOs to facilitate their activities.

The issue of terrorist financing through non-profit organizations (NPOs) has been a subject of ongoing debate and controversy. These organizations possess certain vulnerabilities that render them prone to exploitation (Shillito, 2015). The vulnerabilities encompass a range of factors, such as the erosion of public trust, the substantial financial resources at stake, the organizations' extensive global reach, the utilization of alternative financial instruments, and the presence of limited regulatory oversight. The confluence and aggregate impacts of these factors present substantial obstacles for regulators in the field of counter-terrorism financing, thereby elevating the risk and regulatory attention surrounding the exploitation of non-profit organizations (Shillito, 2015).

The Lowy Institute study aimed to determine the contribution of Australian charities in providing humanitarian aid during the conflict in Syria and Iraq (Shanahan, 2018). The study revealed that humanitarian disasters create opportunities for terrorist groups to enter conflict zones and generate funds by posing as aid organizations. Jihadists take advantage of genuine humanitarian needs for their own purposes. This presents difficulties for security forces in discerning between genuine humanitarian endeavors and those manipulated by radicals.

FINTRAC (2022) reported that transactions linked to funding international terrorist groups mainly involved sending funds to other countries, especially to regions known for financing terrorist activities. The most commonly observed jurisdictions of concern in the studied FINTRAC disclosures were Iraq, Lebanon, Pakistan, Syria, Türkiye, the United Arab Emirates, and Yemen. Individuals in Canada performed outbound foreign fund transfers largely using MSBs, often supported by cash deposits. According to FINTRAC's 2018 baseline assessment on terrorist financing, Canadian reporting entities face the highest risk of terrorist financing from the Middle East, particularly Syria, Iraq, and Türkiye. In recent years, the emergence of ISIL in Syria and Iraq has significantly contributed to the primary terrorist financing threats in Canada (FINTRAC, 2018). These include extremist travelers, also called foreign terrorist fighters, journeying to the Middle East to engage in the conflict, people offering financial assistance for terrorist actions overseas, and individuals in Canada being motivated to carry out terrorist attacks within the country. Despite losing substantial territory in the past few years, the Islamic State remains a major threat not only to Canada but to the entire world.

According to Meiryani et al. (2023), an investigation was conducted to assess the efficacy of regulatory technology in the Indonesian banking industry with regard to anti-money laundering and countering the financing of terrorism. The findings suggest that electronic know-your-customer (eKYC) and cost and time efficiencies (CTE) have minimal impact, whereas transaction monitoring (TM) exhibits a moderate influence on anti-money laundering and countering the financing of terrorism efforts. The majority of bankers adhere to the prescribed guidelines, policies, and regulations.

The appeal of Bitcoin to individuals involved in illicit activities, including criminals and terrorists, can be attributed to its pseudo-anonymous nature (Fletcher

et al., 2021). The proposal put forth by Fletcher et al. (2021) suggests classifying Bitcoin as a technological innovation and subjecting it to regulation by private-sector technology firms. Salami (2018) presents a study that underscores the potential risk of terrorism financing in relation to Financial Technology advancements, specifically in the realm of virtual currency products and services. There is a need for a synchronized worldwide regulatory approach to tackle this risk effectively, and this study examines the possibilities of employing Regulatory Technology and establishing global standardization as a means to alleviate the potential harm. It is imperative to continue efforts aimed at restricting terrorist organizations' ability to utilize both formal and informal financial channels (FATF, 2023b; Chitimira & Animashaun, 2023). The effectiveness of sanctions and regulations is subject to diverse perspectives, as noted by Akartuna and Thornton (2021).

The challenge associated with assessing the tangible effects of counter-terrorism financing measures is widely recognized, given the propensity of terrorists to regularly modify their financial strategies (Akartuna & Thornton, 2021).

According to the FATF Crowdfunding for Terrorist Financing report (2023), there is an increasing importance of crowdfunding as a creative method of generating funds, which is used by individuals globally for worthy reasons but also manipulated by terrorist entities. Although the majority of crowdfunding activities are legal, terrorist organizations such as ISIL, Al-Qaeda, and racially or ethnically motivated terrorists have exploited crowdsourcing as a means of supporting their operations. This report was the first extensive international study on terrorist financing using crowdfunding conducted by FATF. Its objective was to gain insight into and address the issue of TF by utilizing global experiences and best practices (FATF, 2023a). The study highlights several crucial factors, like the misuse of humanitarian, charity, or non-profit purposes, utilization of specialized crowdfunding platforms, manipulation of social media platforms and messaging applications, and the correlation between crowdfunding and virtual assets. Terrorist entities employ several strategies, frequently integrating them, to generate financial resources for their unlawful operations. The difficulties in identifying and preventing terrorist financing associated with crowdfunding arise from the intricate nature of the activities, insufficient availability of comprehensive data, and a scarcity of knowledge among intermediary platforms (FATF, 2023a).

Shanahan's study (2018) reveals that Jihadists, such as Omar Hussain, manipulate humanitarian efforts in Syria and Iraq as a means to avoid being detected. Hussain, who is also recognized as Abu Sa'eed al-Britani, employed philanthropic activities as a disguise by conducting online investigations on groups in order to evade observation by MI5 (Shanahan, 2018). The individual inquired about sustenance, lodging, and authorization for recording, conducted an investigation into Islamic decrees about adoption, and sought guidance from Imams indirectly in order to demonstrate authenticity in his philanthropic motives. By employing this strategy, he managed to evade close examination and journey to areas of violence for the purpose of engaging in jihadist endeavours, all while posing as a provider

of humanitarian assistance (Shanahan, 2018).

A study aimed to improve comprehension of resourcing actions related to or originating from Canada that support terrorist threats, and to identify efficient methods for dealing with the resourcing process (O'Halloran et al., 2016). The research sought to analyze publicly available data on five terrorist organizations operating in Canada (the Liberation Tigers of Tamil Eelam (LTTE); Hamas; Al Shabaab (AS); a grouping of Al Qaeda-inspired individuals and entities, except Al Shabaab, under the heading "Al Qaeda inspired"; and Hezbollah). Its objective was to provide insights into the present understanding of terrorist financing operations and evaluate the effectiveness of existing policies in addressing these risks. The analysis, carried out using the Terrorist Resourcing Model (TRM), emphasized the limited availability of data and the inherent difficulties in monitoring terrorist financing operations (O'Halloran et al., 2016). The study emphasized the significance of expanding the scope beyond solely financial activities.

Gaps from Previous Studies

Multiple studies have analyzed and suggested strategies to combat terrorism financing. These consist of:

Regulatory Frameworks/Structures and Challenges in Enforcement

Regulatory frameworks like anti-money laundering (AML) and counter-terrorism financing (CTF) laws are designed to prevent illegal funds from entering the financial system and help authorities detect and stop suspicious transactions. However, studies by Chitimira & Animashaun (2023) and Shanahan (2018) have found deficiencies in enforcement and compliance. These vulnerabilities provide opportunities for terrorists to take advantage of weaknesses in the financial system, highlighting the necessity for stronger regulatory measures and enforcement systems. This study sought to provide evidence-based recommendations to enhance and innovate efforts to combat terrorism financing by filling the gaps.

Technological Advancements and Security Threats

Technological advancements such as blockchain and virtual currency bring both advantages and difficulties in combating terrorism financing (Fletcher et al., 2021; Salami, 2018). Although these technologies have the potential to improve financial transparency and security, they also introduce new security concerns and vulnerabilities that must be addressed, as they could be utilized by terrorists to hide their financial transactions. This study aims to provide preventive strategies.

International Cooperation and Exchange of Information

Brewczyńska (2021) and El Khoury Chady (2023) emphasized the crucial function of Financial Intelligence Units (FIUs) in enabling the sharing of information between financial institutions and law enforcement agencies. Collecting and analyzing financial intelligence is crucial for detecting suspicious transactions and dismantling terrorism financing networks. International cooperation and sharing of information are essential for combating the global aspect of terrorism financing. However, obstacles such as trust issues, legal constraints, and limitations on data exchange exist. These restrictions impede the effectiveness of cross-border

endeavours and underscore the necessity for more coordination and cooperation among stakeholders. This study aims to emphasize the importance of increased collaboration by presenting evidence of the costs and consequences of not cooperating, which leads to a lose-lose.

Vulnerabilities in Non-Profit Organizations (NPOs) and Charities

Non-profit organizations (NPOs) and charities are susceptible to being used for terrorist financing because of variables like inadequate supervision, significant financial assets, and worldwide influence (ACAMS, 2022; Shillito, 2015). Existing research offers little understanding of particular vulnerabilities and techniques to mitigate them, creating a gap in knowledge on how to successfully/practically protect these organizations against misuse.

Weaknesses in Financial Systems

Authors like Ojo (2020) and Shanahan (2018) point out weaknesses in banking institutions, such as informal money transfer methods and the exploitation of non-profit organizations (NPOs) for terrorist funding. These studies offer little understanding of particular vulnerabilities and techniques to reduce them, creating a knowledge gap on how to effectively address these issues.

Assessment of Counter-Terrorism Financing Measures

Evaluating the efficacy of counter-terrorism finance measures is difficult because of the ever-changing nature of terrorist fundraising activities and the flexibility of terrorist groups (Akartuna & Thornton, 2021). Their research emphasizes the necessity for more thorough and data-driven methods to evaluate the effects of these interventions and to pinpoint areas that require enhancement.

Alignment with Research Objectives

This study seeks to fill gaps and weaknesses by analyzing different techniques, recognizing problems, and investigating alternative ways to enhance the effectiveness of combating terrorism financing operations. This research aims to strengthen regulatory frameworks, improve international collaboration, reduce technological risks, and protect vulnerable sectors from exploitation by terrorist organizations through detailed analysis and evidence-based recommendations.

Drawing upon prior research, the present study has employed a mixed-methods methodology in order to provide a more comprehensive understanding of the patterns associated with terrorism financing and the efficacy of current countermeasures. The process entailed integrating quantitative data analysis with qualitative insights from subject matter experts.

4. Research Questions

1. What are the current methods and channels used for terrorism financing, and how do they evolve over time?
2. How effective are the existing strategies and regulations in disrupting terrorism financing networks?
3. What are the key challenges and vulnerabilities in countering terrorism financing within the global financial system?

4. What are the potential improvements and innovative approaches that could enhance the effectiveness of countering terrorism financing efforts?

5. Hypothesis

Given the nature of this research, which aimed to explore strategies, challenges, and future directions for countering terrorism financing, the hypotheses were generally formulated based on the specific research questions. These hypotheses represented the expected answers or outcomes that the research aimed to find through data analysis and investigation.

The hypothesis related to Research Question 1.

H1: There is significant variation in the methods and channels used for terrorism financing over time.

The hypothesis related to Research Question 2.

H2: The existing strategies and regulations have varying levels of effectiveness in disrupting terrorist financing networks.

The hypothesis related to Research Question 3

H3: The current strategies and regulations for countering terrorism financing have certain vulnerabilities in the global financial system that need to be addressed.

The hypothesis related to Research Question 4

H4: There are potential improvements and innovative approaches that can enhance the effectiveness of efforts to counter terrorism financing.

It is important to note that the hypotheses are formulated following the principles of hypothesis testing. The research aimed to either accept or reject these hypotheses based on the evidence and data collected during the study (Maxfield & Babbie, 2015). The hypotheses guided the data analysis and interpretation, helping to draw meaningful conclusions regarding countering terrorism financing strategies. While the hypotheses were initially formulated to test variation and vulnerability in terrorism financing approaches (H1–H4), findings were primarily exploratory due to the descriptive rather than inferential nature of the analysis; future studies could apply correlation analysis or regression techniques.

6. Objectives

General Objective: To assess the effectiveness of countering terrorism financing: Strategies, Challenges and Future Directions

Specific Objectives

1. To analyze and identify the current methods and channels used for terrorist financing.
2. To evaluate the effectiveness of existing strategies and regulations in disrupting terrorist financing networks.
3. To identify key challenges and vulnerabilities in countering terrorism financing within the global financial system.
4. To propose evidence-based recommendations to improve and innovate ef-

forts to counter terrorism financing.

7. General Methodology

The research adopted a mixed-methods approach, combining quantitative and qualitative data collection and analysis (Maxfield & Babbie, 2015). This allowed the researchers to analyze quantitative and qualitative data, providing a more holistic understanding of the topic and to explore the complexities of terrorism financing from multiple perspectives.

This study employs a mixed-methods design to examine evolving terrorism financing (TF) mechanisms and the effectiveness of global countermeasures. Drawing on data from 2012 to 2022, the analysis integrates financial transaction records, FATF mutual evaluation reports, FINTRAC reports, and expert commentary. Ten countries were purposively selected based on high Global Terrorism Index (GTI) and Global Peace Index (GPI) rankings, geographical diversity, and the availability of FATF assessment data. In other words, Global Terrorism Index (GTI) and Global Peace Index (GPI) were employed to rank terrorism severity; their limitations (e.g., reliance on reported incidents and perception-based metrics) were acknowledged and partially mitigated through cross-validation.

Quantitative Data Collection and Analysis

The quantitative analysis involved examining mutual evaluation reports and financial transaction data from various sources, such as FATF countries' reports, FIUs' reports, Financial Transactions and Report Analysis Centre of Canada (FINTRAC) reports, International Monetary Fund (IMF), United Nations, ACAMS, and World Bank. These datasets were selected based on their relevance, fitness in responding to our research questions, and reliability, with the aim of identifying patterns and trends in terrorism financing.

Qualitative Data Collection and Analysis

Qualitative data were obtained through reports, conferences, and webinars involving subject matter experts, policymakers, law enforcement agencies, and financial institutions engaged in AML/CTF efforts. Reports, conferences, and webinars were purposively selected to ensure diverse perspectives and comprehensive coverage of the subject matter. Data collection methods included responses, conclusions, recommendations, and document analysis from subject matter experts' reports, conferences, and webinars.

Data Analysis

The quantitative data analysis was conducted using a combination of techniques, including descriptive statistics, levels of measurement (nominal and ordinal), Pivot Tables (advanced MS Excel), Power BI, and ArcGIS Maps. These tools enabled the identification of trends and patterns of terrorism financing and the assessment of the scale and flow of funds related to terrorism (Maxfield & Babbie, 2015). Network analysis tools helped map linkages between jurisdictions and TF channels.

Descriptive statistics aided the researchers in summarizing specific characteris-

tics of quantitative data, offering insights into the frequency and distribution of terrorism financing operations.

The qualitative data analysis involved thematic coding and content analysis to gather insights related to terrorism financing, identify key challenges faced by stakeholders, and assess the strengths and weaknesses of existing counter-terrorism financing measures. Furthermore, the utilization of the I2 Analyst Notebook has helped examine social network structures and relationships to better understand the dynamics inside terrorist financing networks.

Qualitative data sourced from conferences, policy papers, and expert reports were thematically coded using a structured framework. Inter-coder reliability was maintained through dual-review coding, and triangulation with FATF country assessments and open-source intelligence ensured validity.

Addressing Challenges

Special focus was placed on overcoming potential obstacles and difficulties in collecting and analyzing financial intelligence data due to its sensitive and confidential nature. To address these difficulties, strategies involved forming connections with global counterterrorism forums like the United Nations Counter-Terrorism Committee Executive Directorate (UN-CTED), along with collaborating closely with relevant parties.

8. Significance of Study

The study's findings will contribute to the global understanding of terrorist financing and provide practical strategies to boost countermeasures. By identifying weaknesses and making evidence-based suggestions, this study hopes to assist policymakers, law enforcement, financial institutions, and international organizations in developing focused and robust tactics to disrupt terrorism financing networks. As terrorist funding risks vary, governments must constantly update their counter-terrorist financing regimes in order to detect and stop these actions effectively (FATF, 2023b).

9. Limitations

The ever-evolving methods employed in financing terrorism required us to regularly upgrade our countermeasures and techniques based on the updates, a task that required us to join various expert groups. Another limitation is that this study used a select number of secondary data studies, and the researcher acknowledged the limitations, including reliance on secondary data and limited generalizability, which future studies could address through primary data collection and broader comparative analysis. Notwithstanding these constraints, we are certain that our research offers significant perspectives on counterterrorism financing, establishing a solid foundation for further studies.

10. Analysis and Results

According to ACAMS (2022), global sanctions have decreased funding to organi-

zations supported by traditional state sponsors of terrorism, prompting these organizations to look for additional sources of cash to carry out their operations. During the analysis, the study revealed that terrorists use vulnerabilities in financial and regulatory systems to generate funding. They bypass official channels to evade detection and utilize innovative technologies and techniques to move resources. They have established harmful and highly lucrative connections with drugs and crime syndicates, among other groups (ACAMS, 2022). They exploit philanthropic causes to deceive people into contributing. Terrorists are changing their strategies and expanding their financial resources by engaging in activities such as the oil trade, extortion, using cash couriers, ransom kidnappings, etc. (Figure 1).

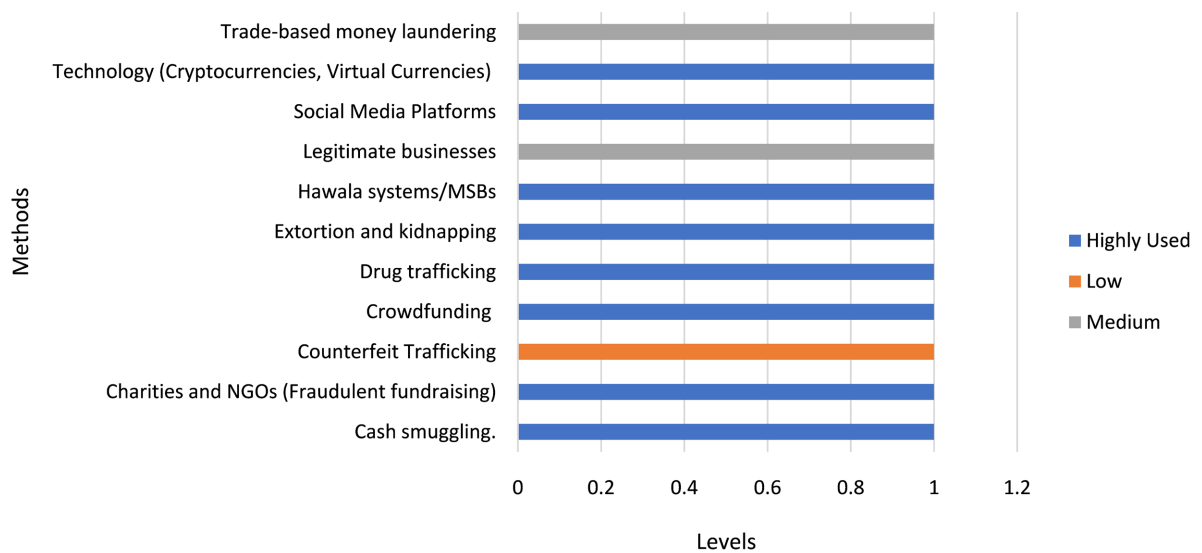


Figure 1. Current methods and channels used for terrorism financing. Source: Author's analysis based on ACAMS (2022), FATF (2023b), FINTRAC (2022).

1. Current Methods and Channels Used for Terrorism Financing

Our analysis found that these are the most used methods and channels to acquire, move, and safeguard funds and other assets for terrorist financing. The most commonly observed jurisdictions of concern in the studied FINTRAC disclosures were Iraq, Lebanon, Pakistan, Syria, Türkiye, the United Arab Emirates, and Yemen (FINTRAC, 2022). Individuals in Canada performed outbound foreign fund transfers largely using MSBs, often supported by cash deposits. Furthermore, many studies analyzed have shown the vulnerabilities of NPOs across the globe and, consequently, that they are being exploited by terrorist groups.

The evolution of terrorist financing has been influenced over time by several factors, such as the uptake of new technology, adjustments to legislative changes, modifications to terrorist group strategies, changes in geopolitical dynamics, and reactions to countermeasures.

2. Effectiveness of Existing Strategies and Regulations

An assessment of the efficacy of current methods and policies in disrupting terrorism financing networks has been conducted primarily using the mutual evaluation reports of FATF countries. The strategies involve disrupting financial transactions, identifying and prosecuting individuals who provide financial support, seizing assets, deterring new members, weakening terrorist groups, and decreasing terrorist acts (FATF, 2013-2023).

The study used historical data on terrorism financing operations to examine trends chronologically. This entailed gathering data on the frequency and scale of various funding methods and channels utilized by terrorist organizations.

GTI scores indicate the severity of terrorism in each country. This study used descriptive statistics to understand the rankings.

The mean GTI score is around 8.258.

The median GTI score is approximately 8.285.

This provides insight into the data's central tendency while being less affected by extremes. values.

The range of GTI scores: approximately 1.201 (7.627 in Niger and 8.828 in Afghanistan). This provides an idea of the spread or variability of terrorism severity across these countries (Figure 2).

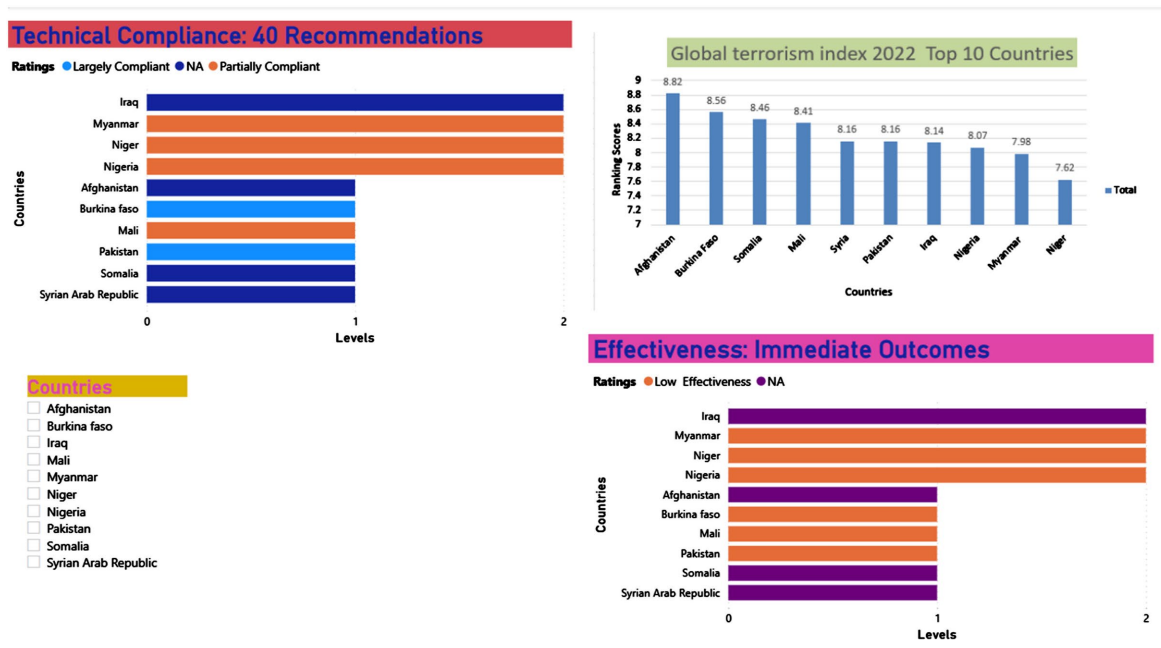


Figure 2. Technical Compliance: 40 Recommendations. Source: FATF (2013-2023).

The study has selected ten countries based on the Global Terrorism Index 2022. During the analysis, the study found that out of the ten, only six have been mutually evaluated, and those are: Burkina Faso, Mali, Myanmar, Niger, Nigeria, and Pakistan. The study findings depict that five of the six countries partially comply with FATF 40 recommendations. However, by analyzing deeply, the study finds

that all of these countries are complying mainly by putting policies and regulations in place, such as having (R.3) Money Laundering Offense, (R.9) financial institutions secrecy laws, (R.21) Tip-off and Confidentiality, (R.27) Powers of supervisors, (R.29) Financial Intelligence Units (FIUs), (R.30) Responsibilities of Law Enforcement, and (R.31) Powers of law and investigative authorities, among others. By analyzing the immediate outcomes, the study finds that the ratings of all countries in this study are Low Effectiveness, as is shown on this dashboard. This is due to the fact that they are not complying with key recommendations such as (R.8) Non-Profit Organizations (NPOs) and (R.7) Targeted financial sanctions related to proliferation. Furthermore, below is an example of what the study has found with low effectiveness in all six countries (**Figure 3**):

Immediate Outcomes	Explanatory Notes	Effectiveness Level
IO1	Money laundering and terrorist financing risks are understood and, where appropriate, actions are coordinated domestically to combat money laundering and the financing of terrorism and proliferation.	Low
IO2	International co-operation delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.	Low
IO4	Financial institutions, DNFBPs, and VASPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions.	Low
IO8	Proceeds and instrumentalities of crime are confiscated.	Low
IO9	Terrorist financing offences and activities are investigated, and persons who finance terrorism are prosecuted and subjected to effective, proportionate, and dissuasive sanctions.	Low
IO10	Terrorists, terrorist organisations, and terrorist financiers are prevented from raising, moving, and using funds, and from abusing the NPO sector.	Low

Figure 3. Effectiveness level. Source: FATF (2013-2023) and FATF (2024).

As per below (**Figure 4**), the study found, as an example, Burkina Faso was largely complying with the FATF 40 Recommendations but, surprisingly, it has a low level of effectiveness.

3. A) Key Challenges in Countering Terrorism Financing

Implementing comprehensive terrorist financing risk evaluations is a major difficulty for many countries (El Khoury, 2023). The combination of terrorist financing risk assessments and money laundering risk assessments frequently produces unsatisfactory findings since the risk indicators for each differ. Countries struggle to undertake timely evaluations and win political backing because of insufficient methodology. Furthermore, conducting assessments concurrently with national risk assessments and mutual evaluations might result in hasty assessments and the exclusion of key players, reducing the effectiveness of risk mitigation measures.

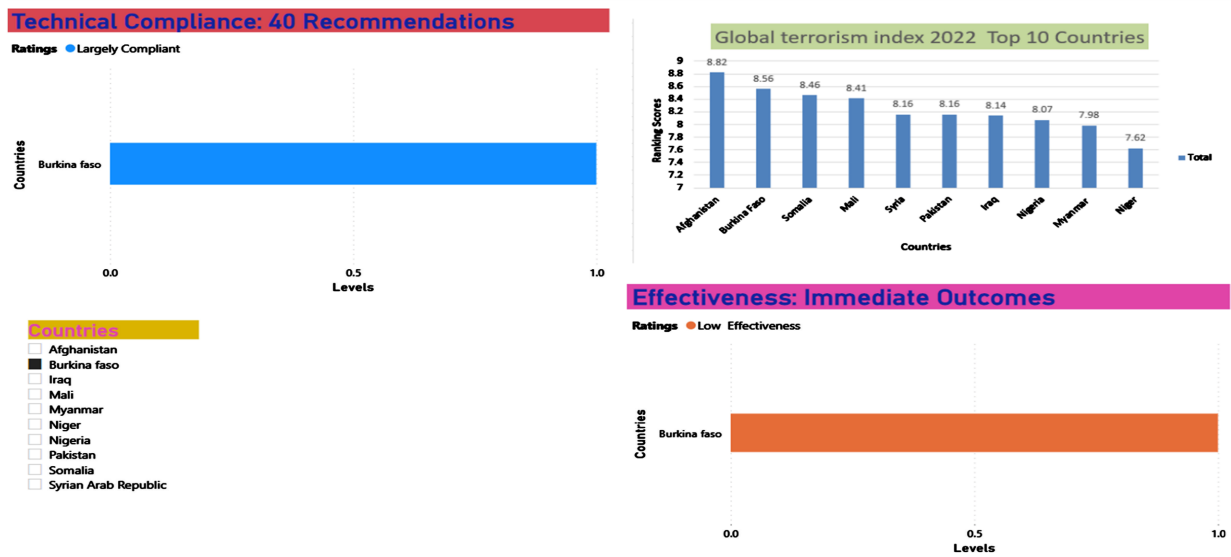


Figure 4. Global terrorism index. Source: Global Terrorism Index (2022); FATF (2013-2023).

Engaging the private sector in counter-terrorism financing initiatives remains difficult due to largely rule-based approaches and minimal reporting of questionable activities. Private sector procedures are frequently focused on targeted financial sanctions checks, resulting in considerable gaps in terrorist financing risk management (El Khoury, 2023). This problem is compounded in countries with less established financial systems, where reliance on cash and informal financial networks hinders the detection and reporting of suspicious activity. The uncertainty surrounding information sharing further limits private sector participation in counter-terrorism financing activities, emphasizing the need for legislative and regulatory remedies to promote information exchange (El Khoury, 2023).

Counterterrorism financing within the global financial system presents several significant challenges. According to FINTRAC (2022), these challenges encompass the dynamic nature of techniques and tactics employed, limitations in available resources, the transnational nature of terrorism financing, the utilization of informal financial systems, the lack of transparency in specific jurisdictions, the need for effective coordination among diverse stakeholders, and the complexities associated with differentiating between legitimate and illegitimate transactions. For example, the Lebanese counter-terrorist-financing regime exhibits certain risk concerns that are specific to the country (FINTRAC, 2018). These concerns encompass deficiencies or the absence of customer due diligence requirements beyond the banking sector, inadequate coverage for politically exposed individuals like Hezbollah officials, gaps in customer due diligence pertaining to international wire transfers, ambiguous establishment of beneficial ownership, and a lack of proactive reporting regarding suspected terrorist financing.

The study's results underscore significant barriers in the identification of terrorist financing (TF) operations, with particular emphasis on difficulties such as anonymity, transnational operations, dependence on intermediaries, and em-

ployee participation in money laundering schemes and terrorist financing (Rébé, 2019). The phenomenon of anonymity allows individuals to elude detection through the utilization of counterfeit identities or stolen identities for financial transactions. Similarly, wire transfer operations facilitate the receipt of modest sums of money by terrorists with restricted information, thus posing challenges for regulatory bodies in terms of tracking and imposing penalties. The digital domain adds an additional layer of complexity to the process of identifying and preventing fraudulent activities that take advantage of banking and electronic payment systems (Rébé, 2019). The aforementioned findings highlight the need to implement efficient strategies to address TF and identify opportunities for enhancing international collaboration and detection techniques.

- Strategies and methods that undergo rapid change, including the implementation of novel technologies and adjustment to regulatory modifications.
- Limitations in resources that could impede the ability to conduct thorough investigations and prosecutions.
- The intricate nature of terrorism financing, which frequently entails the transfer of funds between high-risk jurisdictions and the utilization of informal financial systems, can pose challenges in terms of monitoring and tracing the origins of funds employed in terrorist operations.
- Inadequate clarity and transparency in specific jurisdictions may impede endeavors to detect and impede terrorist financing, as well as facilitate coordination among diverse stakeholders (Figure 5).

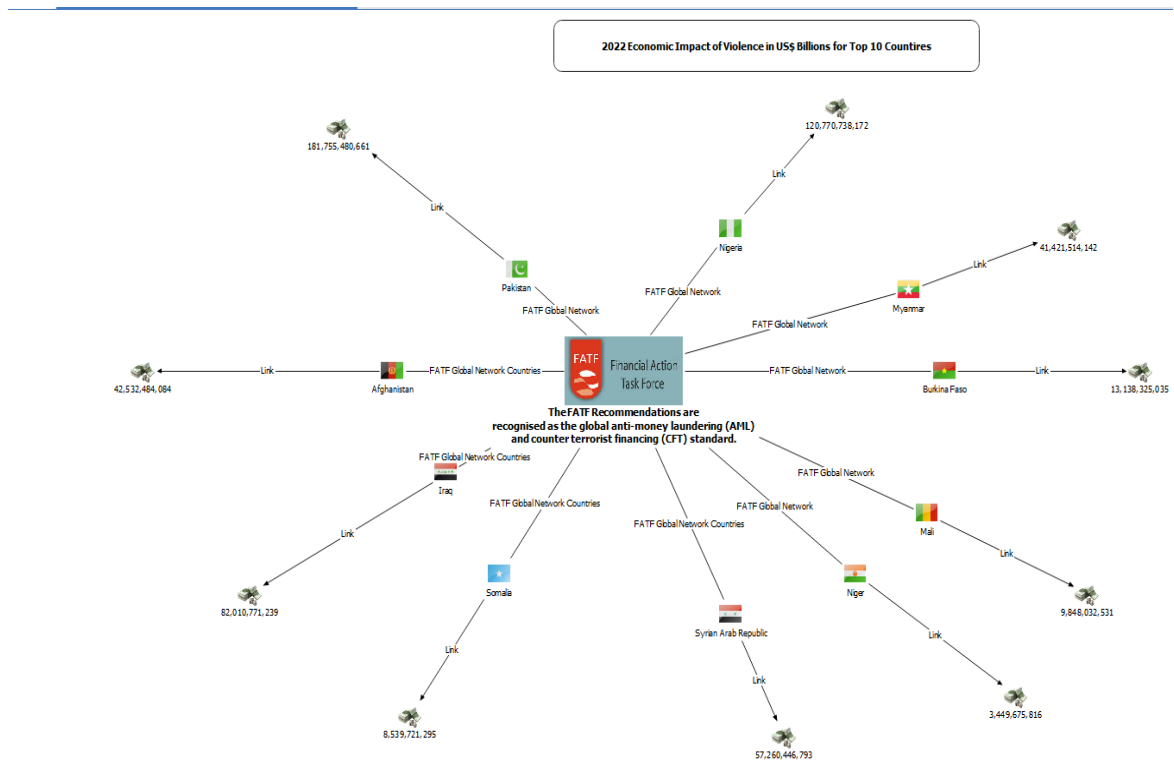


Figure 5. 2022 economic impact of violence in US\$ billions for top countries. Source: Global Peace Index (2023).

The study revealed that the economic impact of violence related to terrorism is vast and affects many, including countries, communities, and families.

The mean is the total economic impact divided by the number of countries = \$560,727,189,768 divided by 10. Therefore, the average economic impact for the top ten global terrorist countries is \$56.07 billion.

The Median: For ten countries, the median is the average of the fifth and sixth values. The median value is approximately \$41,977,999,113.

The range of economic impact is \$178,305,804,845, calculated by subtracting \$3,449,675,816 from \$181,755,480,661. Therefore, the economic impact of the top ten global terrorist countries is around \$178.31 billion.

Furthermore, the thematic summary assessment of deficiencies in executing crucial provisions of Security Council resolutions regarding the prevention of terrorism financing (TF) (United Nations, 2023) emphasizes the criticality of prompt and efficient prosecution and investigation of terrorism financing (TF), well-defined legal structures and policies mandating parallel investigations, formal frameworks governing public-private partnerships (PPPs), enhanced efforts to combat CFT, and formal frameworks for mandatory parallel investigations.

B) Vulnerabilities in Countering Terrorism Financing

Limited effectiveness in imposing targeted financial sanctions (TFS) impedes efforts to curb terrorism financing (El Khoury, 2023). Constraints such as insufficient sensitization, advice, and supervision from competent authorities contribute to inconsistent TFS implementation at the national and global levels. Complex procedures for resolving UN listings and delisting requests, combined with inequalities in resources and motivation among private sector actors, limit successful implementation.

International cooperation is critical in combatting terrorism financing, but several hurdles prevent efficient collaboration among countries. Capacity constraints, insufficient information exchange and prioritization, a lack of confidence among partners, and weak legal regimes are major barriers. Divergent perceptions of counter-terrorism tools and security classifications can impede information exchange and reduce the efficacy of international collaborations (El Khoury, 2023). Furthermore, changing terrorist financing typologies and disparities in information identified by various agencies create communication gaps, hampering global efforts to prevent terrorism financing.

The research identified several vulnerabilities in the global financial system's efforts to combat terrorism financing. These vulnerabilities encompass restricted global collaboration, deficiencies in regulatory frameworks, obstacles to financial inclusion, insufficient intelligence sharing, inadequate monitoring and reporting systems, and shortcomings in due diligence procedures and monitoring systems (FINTRAC, 2022).

This study examined the 15 deadliest global terrorist groups and discovered that in 2022, they carried out 1,410 attacks, resulting in a total of 3,648 deaths and 3,488 injuries (Global Terrorism Index, 2022). This study sheds light on the scope

and consequences of terrorist activities around the world, emphasizing the tragic loss of life and significant injuries caused by these attacks. On average, each of these terror groups caused approximately 243 deaths and 232 injuries, providing insight into their typical impact in terms of fatalities and injuries (Figure 6).

Per terror group, mean deaths: $3,648/15 \approx 243$ and mean injuries: $3,488/15 \approx 232$.

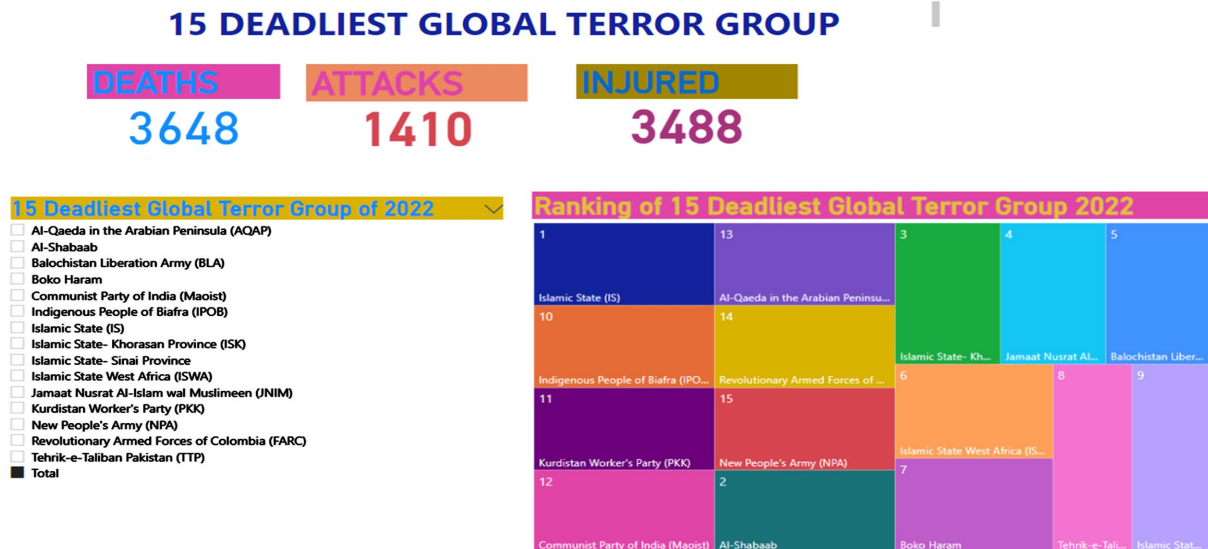


Figure 6. 15 deadliest global terror group. Source: Global Terrorism Index (2022).

4. Potential Improvements and Innovations to enhance the effectiveness of Countering Terrorism Financing:

Amid the ongoing global fight against terrorism, countering terrorism financing (CTF) has emerged as a crucial priority. This entails interrupting the monetary streams that support terrorist operations. Improvements and novel techniques are required to tackle changing difficulties. This study examined potential and innovative ways, from strengthening international cooperation to harnessing technology such as blockchain and AI to disrupt terrorist financing networks and avoid future attacks.

Recommendations

There are thirteen recommendations in total, organized to address each research question, but many of them are cross-cutting across all research questions.

1. Current Methods and Channels Used for Terrorism Financing

- 1). Strengthen regulatory frameworks to prevent exploitation while allowing legitimate humanitarian work.
- 2) Ensure charities comply with transparency and auditing rules under the country's laws.
- 3) Prioritize understanding and reducing risks in crowdfunding for terrorist financing by implementing risk-based procedures, sharing information, and enforcing FATF Standards.

4) Analyze the use of cyber resources, such as hacking tools, online platforms for propaganda dissemination, and cryptocurrency transactions, by terrorist groups to fund their activities and evade detection.

5) Strengthening capacity building and ensuring the follow-up to the final destination of the funds, and working with community leaders to educate them on fundraising.

2. Effectiveness of Existing Strategies and Regulations

6) FATF should revisit the metrics used in evaluating countries' compliance vis-à-vis effectiveness.

7) Countries that are not complying with FATF measures should be seriously sanctioned globally.

8) Enhance international cooperation to foster FATF sanctions issued on countries that are not complying with outcome measures.

Prioritize understanding and reducing risks in crowdfunding for terrorist financing by implementing risk-based procedures, sharing information, and enforcing FATF standards.

3. A) Key Challenges in Countering Terrorism Financing

Prioritize understanding and reducing risks in crowdfunding for terrorist financing.

Implementing risk-based procedures, sharing information, and enforcing FATF Standards.

9) Develop public-private partnerships to enhance information sharing and coordination in countering terrorist financing efforts.

10) Continuously monitor and report suspicious transactions; consider FIN-TRAC reporting for domestic EFTs over \$10,000.

11) Enhance international cooperation to combat the financing of terrorism.

B) Vulnerabilities in Countering Terrorism Financing

2. Ensure charities comply with transparency and auditing rules under the country's laws.

12) Implement a Countering-Violent Extremism strategy to address radicalization and deter lone-wolf terrorists.

13) In the risk-based analysis, reporting entities should consider the following areas of vulnerability in conjunction with other indicators:

- Transactions involving individuals or entities with politically exposed persons (PEP)
- Anomalies in low-value international wire transfers, especially to regions heavily linked to terrorist organizations.
- Transactions in which certain nations serve as intermediaries for third countries, especially when that nation is at heightened risk of terrorist activity.

4. Potential Improvements and Innovations to enhance the effectiveness of Countering Terrorism Financing:

1) Strengthen regulatory frameworks to prevent exploitation while allowing legitimate humanitarian work.

- 2) Ensure charities comply with transparency and auditing rules under the country's laws.
- 3) Prioritize understanding and reducing risks in crowdfunding for terrorist financing by implementing risk-based procedures, sharing information, and enforcing FATF Standards.
- 4) Analyze the use of cyber resources, such as hacking tools, online platforms for propaganda dissemination, and cryptocurrency transactions, by terrorist groups to fund their activities and evade detection.
- 5) Strengthening capacity building and ensuring the follow-up to the final destination of the funds, as well as working with community leaders to educate them on fundraising.
- 6) Develop public-private partnerships to enhance information sharing and coordination in countering terrorism financing efforts.
- 7) Continuously monitor and report suspicious transactions; consider FIN-TRAC reporting for domestic EFTs over \$10,000.
- 8) Enhance international cooperation to combat terrorist financing.

11. Conclusion

Ultimately, the changing techniques and avenues for funding terrorism, along with the growing complexity of terrorist organizations, present substantial obstacles to worldwide security. To properly address these dangers, the current situation necessitates a comprehensive strategy that involves improved international collaboration, reinforced regulatory structures, and the use of cutting-edge technologies. It is essential to prioritize identifying and prosecuting financiers, enhancing intelligence sharing, and addressing the fundamental causes of terrorism as we adapt to the evolving landscape of terrorism financing. The world may strive to diminish the economic repercussions of terrorism and protect communities globally by taking this action. Non-profit organizations are essential to the global economy and social structures. They serve by providing crucial life-saving services, assistance, comfort, and hope to needy individuals. Efficient non-profit organizations can aid in counterterrorism efforts by offering specialized assistance to at-risk individuals and communities, thus deterring radicalization and extremism. FATF Recommendations aim to protect NPOs from terrorist financing abuse while ensuring legitimate charitable activities are not disrupted. Additionally, a critical aspect of this effort will involve revisiting the FATF 40 Recommendations to ensure they are equipped to address the evolving terrorist financing situation and to enhance these measures effectively; it is imperative to employ comprehensive and data-driven approaches. This underscores the importance of continuously assessing and adjusting strategies to address emerging threats proactively.

Based on the evidence and data collected during this study, the hypotheses formulated have been tested, and the results are shown below:

The hypothesis related to Research Question 1.

The research findings support the hypothesis (H1), indicating significant vari-

ation in the methods and channels used for terrorism financing over time.

The hypothesis related to Research Question 2

The research findings support the hypothesis (H2), suggesting varying levels of effectiveness in disrupting terrorist financing networks among existing strategies and regulations.

The hypothesis related to Research Question 3

The research findings support the hypothesis (H3), revealing certain vulnerabilities in the global financial system that need to be addressed within current strategies and regulations.

The hypothesis related to Research Question 4.

The research findings support the hypothesis (H4), demonstrating potential improvements and innovative approaches that can enhance the effectiveness of efforts to counter terrorism financing.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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List of Acronyms

ACAMS	Association of Certified Anti-Money Laundering Specialists
AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
CFT	Countering the Financing of Terrorism
EU	European Union
FATF	Financial Action Task Force
FINTRAC	Financial Transactions and Report Analysis Centre of Canada
FIUs	Financial Intelligence Units
FPI	Islamic Defenders Front
GDPR	General Data Protection Regulation
IMF	International Monetary Fund
ISIL	Islamic State of Iraq and the Levant
LED	Law Enforcement Directive
MSB	Money Services Business
NGOs	Non-Governmental Organizations
NPOs	Non-Profit Organizations
PKK	Kurdistan Worker's Party
PEP	Politically Exposed People
PPPs	Private Public Partnerships
SCP	Situational Crime Prevention
UN	United Nations
UNCTED	United Nations Counter-Terrorism Committee Executive Directorate