



**FINANCIAL ACTION  
TASK FORCE**

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**STUDY GUIDE**

# AGENDA

**Discussion of State-Sponsored  
Extremism, with special emphasis  
on the middle eastern region**



# INDEX

SR.NO.	TOPIC	PG. NO.
1.	LETTER FROM THE EXECUTIVE BOARD	3
2.	INTRODUCTION TO THE COMMITTEE	4
3.	INTRODUCTION TO AGENDA	6
4.	IMPORTANT TERMS	7
5.	HISTORY	10
6.	TIMELINE	11
7.	SIGNIFICANT LEGAL FRAMEWORKS	15
8.	IMPORTANCE OF THE FATF	17
9.	MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING	18
10.	EFFICACY OF SANCTIONS	27
11.	EFFICACY OF THE U.S. STATE SPONSOR OF TERRORISM LIST	29
12.	ECONOMIC IMPACT WORLDWIDE	30
13.	RESPONSE OF KEY STAKEHOLDERS	32
14.	QUESTIONS DELEGATES ARE EXPECTED TO TACKLE	39
15.	BIBLIOGRAPHY	40

# LETTER FROM THE EXECUTIVE BOARD

Esteemed Delegates,

The Executive Board of the Financial Action Task Force (FATF) extends its warm greetings to all delegates participating. As representatives entrusted with the task of shaping global policies concerning financial integrity and combating illicit financial activities, we are gathered here today with a common purpose: to safeguard the stability and integrity of the international financial system.

The FATF recognizes the profound significance of our collective efforts in combating money laundering and extremism financing, which pose significant threats to global security and stability. In our interconnected world, the illicit flow of funds across borders has the potential to fuel extremism, organized crime, and corruption, undermining the very foundations of peace and prosperity. Therefore, it is imperative that we strengthen our resolve and cooperation to tackle these pressing challenges head-on.

Through our mutual evaluations and peer reviews, we assess the effectiveness of member countries' measures in combating financial crimes, providing invaluable insights and enhancing our anti-money laundering systems. Moreover, the FATF remains committed to promoting global compliance with its standards and ensuring a level playing field for all stakeholders. This includes enhancing domestic legislation, strengthening regulatory frameworks, improving international cooperation, and enhancing the capacity of relevant authorities to detect, investigate, and prosecute financial crimes effectively.

As the Executive Board of the FATF, we urge all member states to uphold their commitments to combat money laundering and extremism financing and to actively contribute to the achievement of our shared objectives. By working together with determination, resolve, and cooperation, we can build a safer, more secure, and prosperous world for future generations.

Regards,

The Executive Board,

Vihan Purohit- Head Chairperson

Sumedh Desai- Vice Chairperson

Eesha Agarwal- Moderator



# INTRODUCTION TO THE COMMITTEE

Established in 1989 by the G7 countries, the Financial Action Task Force (FATF) stands as a pivotal intergovernmental body dedicated to addressing the pressing global challenges of money laundering and terrorist financing. With a membership that now extends to 38 jurisdictions, comprising nations, territories, and regional entities, FATF operates as a cornerstone in the international effort to safeguard the integrity of the global financial system. At its core, FATF's mission revolves around the formulation of international standards and the promotion of effective measures aimed at combating financial crime.

The FATF Recommendations, a comprehensive set of guidelines crafted by the organisation, serve as the bedrock for member jurisdictions' efforts to counter money laundering and terrorist financing. Covering a wide array of areas including legal frameworks, regulation, and operational practices, these recommendations provide a roadmap for countries to strengthen their anti-money laundering (AML) and counter-terrorist financing (CFT) regimes. From criminalising money laundering to implementing robust customer due diligence procedures, the FATF Recommendations offer a framework that fosters cooperation and coordination among member nations.

Central to FATF's mandate is its mutual evaluation process, a mechanism through which member countries assess each other's compliance with the FATF standards. This peer-review system ensures accountability and transparency, compelling nations to uphold rigorous standards in combating financial crime. Through mutual evaluations, countries not only showcase their commitment to combating money laundering and terrorist financing but also identify areas for improvement and capacity-building



# INTRODUCTION TO THE COMMITTEE

Moreover, FATF serves as a hub for the exchange of best practices, expertise, and information among its member jurisdictions. By facilitating dialogue and cooperation, FATF empowers countries to enhance their AML/CFT capabilities, bolstering the collective resilience of the international financial system against illicit activities. Additionally, FATF conducts typology studies to identify emerging trends and methodologies employed by criminals, thereby enabling member nations to adapt and evolve their strategies accordingly.

In essence, the Financial Action Task Force stands as a vital pillar in the global fight against financial crime. Through its standards, evaluations, and collaborative efforts, FATF reinforces the collective resolve of nations to combat money laundering, terrorist financing, and other threats to the integrity of the international financial system. By promoting adherence to best practices and fostering international cooperation, FATF plays a pivotal role in safeguarding the stability and security of the global economy.



# INTRODUCTION TO THE AGENDA

The Financial Action Task Force (FATF) is an organisation of the UN, which leads global action to tackle money laundering, terrorist and proliferation financing. Among other functions, it researches money laundering and how terrorism is funded, promotes global financial standards, and assesses whether countries are taking effective action. As a financial authority, it wields power over the evaluation and documentation of finance around the globe.

State-sponsored extremism, a complex and contentious topic, refers to the form of extremism carried out when states support non-state actors that engage in extremist activities. This support ranges from direct involvement or indirect facilitation: political endorsement, logistical aid, military training, supply of weapons, etc. The U.S. Congress defines state-sponsored extremism as “the active involvement of a foreign government in training, arming, and providing other logistical and intelligence assistance as well as sanctuary to an otherwise autonomous terrorist group for the purpose of carrying out violent acts on behalf of that government against its enemies.”

The topic is one littered with controversy, partially owing to the ambiguous nature of the term ‘extremism’ – perceived by certain stakeholders as rightful and others as deeply problematic. In recent years, there has been an increase in the occurrence of state-sanctioned extremist activities as direct military conflict between nations becomes rarer and rarer.

The question of the appropriate approach to countering such extremism is also heavily disputed. While some promote the use of economic sanctions, others call for less stringent and more moderate means of resolution. Throughout this study guide, we will delve into key concepts related to state-sponsored extremism, examine the entities involved, scrutinise the perspectives of key stakeholders, and explore potential paths toward resolution.



# IMPORTANT TERMS

- **Financial Action Task Force:** it is a global money laundering and terrorist financing watchdog that sets international standards to prevent illegal activities and the harm they cause to society. It devises and promotes the adoption of international standards to prevent money laundering and terrorist financing.
- **State-Sponsored Extremism:** it refers to the undertaking or encouragement by the authorities of a state, or the toleration by the authorities of a state of organised activities calculated to carry out terrorist acts in another state.
- **Money Laundering:** it means disguising financial assets so they can be used without detection of the illegal activity that produced them. It is the process of acquiring money illegally but turning it into clean, legal tender by passing it through a number of complex financial transactions.
- **Terrorist Financing:** it includes the means and methods used by terrorist organisations to finance their activities. This money can come from either legitimate sources, (e.g. from business profits and charitable organisations) or from illegal activities (e.g. trafficking in weapons, drugs or people, or kidnapping).
- **Economic Sanctions:** they are a coercive tactic employed by states or institutions against states, groups, or individuals to get the actor to change its behaviour through disruption in economic exchange. Unilateral sanctions are those sanctions which are imposed by one country against another, while multilateral sanctions are those which are imposed by two or more countries against another country.





# IMPORTANT TERMS

- **Mutual Evaluation Reports:** these are peer-reviewed reports analysing the implementation and effectiveness of measures to combat money laundering and terrorist financing. They provide an in-depth description and analysis of a country's system for preventing criminal abuse of the financial system as well as focused recommendations to the country to further strengthen its system. Implementation of a mutual evaluation process allows member countries to undergo assessments of their anti-money laundering and counter-terrorist financing (AML/CFT) regimes to ensure compliance with FATF standards.
- **National Risk Assessment:** it allows countries to identify and assess its money laundering and terrorist financing risks, so that they can apply AML/CFT measures that correspond to the level of risk i.e. employ the risk-based approach (RBA). RBA is central to the FATF Recommendations as it enables countries to prioritise their resources and allocate them efficiently.
- **Counter-Terrorism Financing (CTF):** it seeks to stop the flow of illegal cash to terrorist organisations and is a key component to combat terrorism. The FATF Recommendations suggest that every nation must implement the following two CTF measures:
  - The criminalization of terrorist financing based on the Terrorist Financing Convention, including the financing of terrorist acts, organisations and individual terrorists.
  - The implementation of targeted financial sanction regimes complying with the United Nations Security Council resolutions relating with the prevention as well as the suppression of terrorism and terrorist financing.

# IMPORTANT TERMS

- **Anti-Money Laundering (AML):** it refers to a set of legally recognized rules made to prevent money laundering. It consists of a set of policies, procedures, and technologies that prevent money laundering and monitor potential fraudulent activity.
- **Trade-Based Money Laundering:** it is the process of disguising the proceeds of crime and moving value by using trade transactions in an attempt to legitimise their illicit origins, which is generally brought about by misrepresenting the price, quantity or quality of imports or exports.
- **Parallel Banking System:** it refers to a situation where at least one U.S. bank and one foreign financial institution are controlled directly or indirectly by the same individual or group of persons who are closely associated in their business dealings or otherwise working together, but aren't subject to consolidated supervision by a single home country supervisor.
- **Cryptocurrency:** it is a digital or virtual currency secured by cryptography, which makes it nearly impossible to counterfeit or double-spend.
- **Financial Intelligence Unit:** it is responsible for receiving, analysing, and disseminating information related to suspicious financial transactions and activities.
- **Remittances:** refer to the money by a foreign worker for household income to their family or friends in their home country.

# HISTORY

## History of the FATF

The formation of the FATF in 1989 by the G7 countries was in response to growing concerns about money laundering and the potential use of the global financial system for illegal activities.

### Early Focus On Money Laundering

The initial focus of the FATF was centred on developing policies and recommendations to combat money laundering, including the issuance of the "40 Recommendations" in 1990.

### Expansion

In the aftermath of the 9/11 attacks in 2001, the FATF extended its focus to address the issue of terrorist financing, reflecting the evolving landscape of global security threats.

### Special Recommendations

The development and issuance of the "Special Recommendations on Terrorist Financing" in 2001 provided additional measures for countries to implement to combat the financing of terrorism.

### Global Expansion and Membership Growth:

Expansion of the FATF membership beyond the original G7 countries, with various regional organisations and individual nations joining reflected the task force's commitment to a global approach.



# TIMELINE

## Iran

**1979-1981:** Iran Hostage Crisis

**1984:** The U.S. designates Iran as a state-sponsor of terrorism.

**2019:** The United States designates Iran's Islamic Revolutionary Guard Corps as a foreign terrorist organisation. A Department of State report clarified that Iran used IRGC as a front to "provide support to terrorist organisations, provide cover for associated covert operations, and create instability in the [Middle-East] region".

**August 2022:** The US Department of Justice charges Iranian national and member of the IRGC Shahram Poursafi with the attempt to arrange for the murder of John Bolton, the National Security Advisor under former President Donald Trump. The Justice Department believes that this attempt was likely in retaliation for the "January 2020 death of Iran's Islamic Revolutionary Guard Corps - Qods Force (IRGC-QF) commander Qasem Soleimani."

**2024:** Houthi rebels, who have been fighting a civil war since 2014 against Yemen's government, attack ships travelling through the Red Sea. White House national security spokesperson Adrienne Watson has said that Iran is "deeply involved" in providing the Houthis with crucial intelligence and supplying them with weapons - something that the accused nation refuses. It is feared the economic impact of the attacks will be massive, as 15% of global oceanic trade passes through the Red Sea.

# TIMELINE

## Cuba

**1982:** The U.S. designates Cuba as a state-sponsor of terrorism for its “long history of providing advice, safe haven, communications, training, and financial support to guerrilla groups and individual terrorists.”

**2015:** Cuba’s designation as a ‘state-sponsor of terrorism’ is rescinded.

**2021:** In January, the Trump Administration re-includes Cuba in its ‘state-sponsor of terrorism’ list.

## North Korea

**1983:** The Rangoon Bombing was a failed assassination attempt against Chun Doo-hwan, the then President of South Korea, allegedly arranged by North Korea. It eventually led to over 20 deaths and 46 injuries.

**1987:** The bombing of Korean Air Flight 858 allegedly orchestrated by North Korea, which killed all crew and passengers on board – 115 people in all. It was subsequently designated “a terrorist act” by the US State Department and cited as a reason for the inclusion of North Korea on its ‘State Sponsors of Terrorism’ List. Although the incident was discussed in multiple UNSC meetings, no resolution was passed, and North Korea continues to deny its involvement.

**1988:** North Korea is included in the ‘state sponsor of terrorism’ list by the U.S., chiefly for its alleged ‘terrorist’ activities against South Korea.

# TIMELINE

## Libya:

**1988:** The worst act of mass murder in British history, the 'Lockerbie Bombing' is infamous as an act of state-sponsored terrorism carried out by the Libyan Intelligence Services. Everyone on board the Pan Am Flight 103 was killed that night - from an 82-year-old to a months-old baby. It is believed that this attack was in retaliation to an assassination attempt by the US against Colonel Gaddafi, which ended up killing his adopted daughter along with 15 civilians.

## Taliban, Al Qaeda, Saudi Arabia

**1999:** United Nations Security Council resolution 1267 imposes a sanctions regime against Osama bin Laden, Al-Qaeda, and the Taliban.

**2001:** September 11 terrorist attacks carried out by Al-Qaeda against the United States.

**2007:** Operation Encore is a secret operation launched by the FBI to investigate potential Saudi influence in the 9/11 attacks. Although "circumstantial evidence" was uncovered, a direct link could not be established, possibly owing to CIA interference.

**2018:** Jamal Khashoggi, a US-based journalist and fervent critic of the Saudi administration was murdered in the Saudi Consulate in Istanbul. A subsequent UN investigation found that it "constituted an extrajudicial killing for which the state of the Kingdom of Saudi Arabia is responsible".

# TIMELINE

## Russia

**2022:** The US Senate passes a unanimous resolution to label Russia as a state sponsor of terrorism, owing to the invasion of Ukraine and other violations committed under Putin's regime. The European Parliament and 8 other nations declare Russia to be a state sponsor of terrorism.

## U.S.A

**2016:** Justice Against Sponsors of Terrorism Act is passed by the U.S. Congress, overriding President Obama's veto. It allows victims of terrorism to bring class action suits against any state directly or indirectly involved in terrorist acts against American citizens. The act brings into question the immunity of sovereign states and other fundamental principles of international law.

# SIGNIFICANT LEGAL FRAMEWORKS

## 1. International Convention for the Suppression of the Financing of Terrorism (1999)

The chief objective of the Convention was to “enhance international cooperation among States in devising and adopting effective measures for the prevention of the financing of terrorism, as well as for its suppression through the prosecution and punishment of its perpetrators”.

It provided, for the first time, the obligation that States must criminalise state financing of extremism and established an international legal framework for cooperation among member states directed toward the prevention of such financing, ensuring the penalization and prosecution of offenders.

## 1. Special Recommendation VIII on the abuse of NPOs for Terrorism Financing (2001)

FATF defines a non-profit organisation (NPO) as “A legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of ‘good works’”.

Special Recommendation 8 requires countries to undertake a domestic review of their entire NPO sector, or have the capacity to obtain timely information on its activities, size, and other relevant features, and assess whether the laws/regulations that relate to the portion of the NPO sector are adequate, and cannot be abused.



# SIGNIFICANT LEGAL FRAMEWORKS

The FATF re-issued guidelines pertaining to Special Recommendation 8 in 2023:

1. R.8 requires countries to periodically distinguish organisations that fall under the NPO category defined by the FATF, and survey the TF risks posed to them. In other words, R.8 does not apply to all of the organisations working in the not-for-profit realm, but only to those that are within the FATF definition of NPOs. Among these, only a small portion may be facing a “high risk” of TF abuse.
2. R.8 requires countries to have in place proportionate, risk-based and focused measures to address identified TF risks. A risk-based approach is essential given the diversity within the domestic NPO sector and the varying degrees of risk of TF abuse they face. A number of NPOs may already have adequate self-regulatory measures and relevant internal control measures to diminish TF risks, so that state authorities need not take additional measures.
3. Countries should exercise mindfulness of the potential impact of these measures on legitimate NPO activities. Disproportionate obligations on NPOs may hamper their legitimate activities and delivery of important services, therefore affecting economic and other human rights. R.8 clarifies that countries must ensure oversight of NPOs, but they need not designate and supervise NPOs as reporting entities or require them to conduct customer due diligence.

## **Classification of countries with insufficient measures to combat money laundering and terrorist financing**

High-Risk Jurisdictions subject to a Call for Action (“black list”): North Korea, Iran, Myanmar

Jurisdictions under Increased Monitoring (“grey list”)



# IMPORTANCE OF THE FATF

## **Global Standard-Setting Body:**

The FATF serves as the global standard-setting body for anti-money laundering (AML) and counter-terrorist financing (CFT) measures. Its recommendations and standards are widely adopted.

## **Promotion of Financial System Integrity:**

The FATF plays a crucial role in promoting the integrity of the international financial system by setting standards that combat money laundering and terrorist financing.

Its guidelines help ensure the transparency and legitimacy of financial transactions, reducing the risk of illicit activities within the global financial landscape.

## **Prevention of Criminal Exploitation:**

By establishing robust AML and CFT standards, the FATF contributes significantly to the prevention of criminal exploitation of the financial system.

Its recommendations are designed to identify and address vulnerabilities that could be exploited by criminals, terrorists, and other illicit actors.

## **Enhanced Regulatory Compliance:**

Countries that align with FATF recommendations benefit from enhanced regulatory compliance, which contributes to the stability and reliability of their financial systems.

Compliance with FATF standards also improves a country's reputation in the international financial community, fostering trust among global stakeholders.

Currently, only 4 nations are listed on the US list of countries designated as state sponsors of terrorism: Cuba, Iran, North Korea and Syria.



# MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING

## Al-Qaeda

The 9/11 Commission's report on Al-Qaeda's finances revealed that the group receives approximately \$30 million a year from fund-raising efforts, both intentional and unintentional, primarily from donors in the Gulf region, particularly Saudi Arabia (which was identified by multiple intelligence agencies to be the prime funding source for Al-Qaeda pre and post 9/11).

These include diversions of money from well-intentioned Islamic charities and funding provided to Al-Qaeda's affiliated groups. Notably, the report found that "No persuasive evidence exists that Al Qaeda relied on the drug trade as an important source of revenue, had any substantial involvement with conflict diamonds, or was financially sponsored by any foreign government." Instead of utilizing formal banking channels, the organisation used informal means for couriers and trucks for the transfer of cash.

The following are some charities accused of supplying money to Al-Qaeda:

- Al-Barakaat

Founded in 1985, the al-Barakaat network of money remitters was set up in Somalia to address the need for moving money earned in the United States back home since the country lacked a central banking system at the time. At the time of the 9/11 attacks had more than 180 offices in 40 countries, all existing primarily as a money-remittance source in Somalia.

Post the September 11 attacks, the United States labelled the organisation as a terrorist entity and shut down its overseas actions. However, no conclusive evidence to link the group to any terrorist financing was ever found, even by the 9/11 Commission Report.



# MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING

The act has terrible consequences for ordinary Somalians: millions were cut off from funds transferred to their relatives that remained frozen pending conversion of the UN blacklisting. The case remains a prime example of the dangers of generalisation and need to tread carefully on this topic.

- GRF

The Global Relief Foundation claimed to be a non-profit organisation working to provide humanitarian aid to Muslims in conflict zones, such as Afghanistan, Lebanon, and Kashmir, and at one point, was the largest Islamic charity in the U.S. In 2002, it was listed in a worldwide sanctions list by the UN Security Council.

Rabih Haddad, the co-founder of GRF had worked for Makhtab al-Khidamat , the precursor organisation to Al-Qaeda in the early 1990s. Mohammed Galeb Kalaje Zouaydi, a suspected financier of Al-Qaeda's terrorist efforts, was arrested in Europe in April 2002. Zouaydi and his partners transferred approximately \$600,000 to Al-Qaeda-related organisations, including GRF. Along with these transfers, Zouaydi transferred over \$200,000 to GRF's Belgium Office. GRF later admitted receiving funds from Zouaydi. GRF personnel had a number of contacts with Wadih el-Hage (Bin Laden's personal secretary) when he was in Sudan.

Further, El-Hage was in contact with GRF while he was active in an Al-Qaeda terrorist cell in Kenya. A GRF employee was found to have dealt with officials of the Taliban. In November 2001, another GRF medical relief coordinator travelled to Kabul, Afghanistan, and had dealings with Taliban officials until the collapse of the Taliban regime.

# MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING

- BIF

In 2002, the Benevolence International Foundation was sanctioned by the UN for “being associated with Al-Qaida, Osama bin Laden or the Taliban for ‘participating in the financing, planning, facilitating, preparing or perpetrating of acts or activities by, in conjunction with, under the name of, on behalf or in support of’, ‘supplying, selling or transferring arms and related materiel to’ or ‘otherwise supporting acts or activities of’ Usama bin Laden and Al-Qaeda:.

- Al Haramain

Al-Haramain is a now-dissolved Saudi-Arabian charity that was targeted by both the US and Saudi Arabia as “terrorist supporters”. In 2004, it was put on a sanctions list by the U.N. Al-Haramain (Union of the Comoros) was a branch of the Al-Haramain Islamic Foundation which presented itself as a private, charitable and educational non-governmental organisation. In 2018, it too was sanctioned by the U.N. on the charges that it had “provided financial, material and/or technological support to the Al-Qaida network”.

## ISIS

ISIS has often been labelled “the richest terrorist organisation” in the world, however even estimates of its net revenue are almost impossible to calculate. The group’s most notable sources of revenue are tied closely to its territory. There exists little evidence to prove that foreign donations or ransoms from kidnapping are a major source of income. Its three main revenue sources are:

(a) taxes and fees (b) oil (c) looting, confiscations, and fines.



# MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING

Experts regard the funding mechanisms of the Islamic State to be fundamentally different from other terror groups because of the large territory it controls which lends it unique income-generating opportunities. In recent years, however, its reliance on territory helps to explain the group's current financial troubles. According to figures provided by the Global Coalition, by November 2016 Islamic State had lost 62% of its mid-2014 "peak" territory in Iraq and 30% in Syria. This means fewer people and businesses to tax and less control over natural resources such as oil fields. In the years since 2014, Islamic State's annual revenue has declined significantly: from up to \$1.9b in 2014 to a maximum of \$870m in 2016.

A breakdown of its sources:

	2014 (in \$m)	2015 (in \$m)	2016 (in \$m)
Taxes and Fees	300–400	400–800	200–400
Oil	150–450	435–550	200–250
Kidnapping	20–40	Not known	10–30
Antiquities	Not known	Not known	Not known
Foreign Donations	Insignificant	Insignificant	Insignificant
Looting, Confiscations, Fines	500–1,000	200–350	110–190
<b>TOTAL</b>	<b>970–1,890</b>	<b>1,035–1,700</b>	<b>520–870</b>

A 2022 U.S. Treasury report suggests that ISIS still has direct access to \$25 million stored in Syria and Iraq. Their primary source of income i.e. "selling oil, extorting local economies, and looting banks", has been declining thanks to increasing international pressure and improved law enforcement.



# MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING

In October 2022, the global manufacturing company Lafarge admitted to a revenue-sharing arrangement with ISIS from 2013 to 2014. This is the first time that the U.S. Department of Justice prosecuted a corporate firm for providing “material support to terrorism”.

- **Countering ISIS Financing**

A report by The International Centre for the Study of Radicalisation (ICSR) found that key measures that tackled ISIS financing were:

- the Iraqi government’s August 2015 decision to stop paying salaries to government employees in Islamic State-held territories
- the launch of Operation Tidal Wave II in October 2015 which allowed for the targeting of key oil infrastructure, transportation systems, and cash depots
- continued efforts to reduce cross-border smuggling with Turkey and Kurdish-controlled areas in Iraq

Islamic State finances thus declined not so much because of specific measures aimed at “countering terrorist finance” but mostly because of the wider political and military campaign to isolate the group.

## Hamis

The US State Department has stated that Hamas raises funds from donations by affluent Palestinians, taxes on businesses, and Islamic charities. It claims that Iran provides \$100 million annually to Palestinian groups, including Hamas via shell companies, shipping transactions, and precious metals. While Qatar has also been long accused of providing Hamas with hundreds of millions of dollars, a government official in 2023 said that it only seeks to “maintain stability and quality of life for ... Palestinian families”.



# MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING

It particularly receives funds via cryptocurrency. Hamas-controlled crypto addresses received more than \$400,000 only in May 2021. The world's largest cryptocurrency exchange, Binance, has reportedly frozen hundreds of crypto accounts associated with Hamas at the request of Israeli authorities. The Wall Street Journal has reported that digital currency wallets connected to Hamas received about \$41 million over the past two years.

The French Institute for International and Strategic Affairs (IRIS) claims that Qatar supplies Hamas with up to \$30 million per month. Qatar maintains that it only provides Gaza with humanitarian assistance and is not a "financial backer" of Hamas. Hamas has also circumvented the existing blockade on Gaza and reportedly collects \$12 million a month from the Egyptian goods imported to Gaza.

Sums collected in the West constitute only a small portion of Hamas' total budget yet have a major role to play, since these networks also disseminate propaganda, accelerating youth radicalisation in the United States and Western Europe.

Charitable organisations are one of the most common vehicles used by Hamas networks in the West to collect funds for the group. Western-based charities backed by Hamas are then siphoned to Hamas in various ways. In many cases, the passage is not direct, since the formal recipient of the Western-based charity works as a middleman and re-directs all or part of the funds to Hamas. In other cases, the recipient is an educational/humanitarian organisation that belongs to the Hamas network.



# MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING

The following organisations have been linked to Hamas:

- KindHearts [Designated (2006)] - U.S.
- Union of Good [Designated (2008)] - U.S.
- IRFAN Canada [Listed as terrorist entity (2014)] - Canada
- Al Aqsa Int. Foundation [Banned (2002)] - Germany
- IHH [Banned (2010)] - Germany
- Stichting Al Aqsa [Banned (2003)] - the Netherlands

## Hezbollah

Iran has been accused of providing anywhere from \$100 million to \$200 million in annual funds to Hezbollah, most of which is cash, while the rest is in the form of weapons or material aid like weapons and operational support such as military training. According to political analysts, Iran's sponsoring of Hezbollah stems from their shared interest in supporting extremist Palestinian causes and undermining the cause of Israel.

Al-Manar is the official television mouthpiece of Hezbollah. Called the "station of resistance," it serves as Hezbollah's primary tool of propaganda dissemination. At the time of its founding in 1991, the station reportedly received seed money from Iran. By 2002 its annual budget had grown to approximately \$15 million, which, most analysts claim, comes from Iran.

Hezbollah also receives substantial sums from foreign expatriate remittances, especially from Lebanese nationals living in places with large Lebanese shia expatriate communities. According to Hezbollah Parliamentarian Mohammad Raad, their main source of funding is the group's investment portfolios and remittances from wealthy Shiites.

# MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING

Hezbollah supporters living in the U.S. have reportedly sent remittances back to Lebanon to fund Hezbollah activities. For example, in Charlotte, North Carolina, Hezbollah support networks organised regular parlour meetings held in members' homes where a collection basket was passed around after watching Hezbollah propaganda videos, usually produced by al-Manar. Charities accused of funding Hezbollah include Al-Aqsa, Bonyad-e Shahid, and the Al-Mabarrat Charity Association.

While some of these funds directly pay for Hezbollah's military and terrorist operations, others enable the group to provide its members with day jobs, lend it a garb of legitimacy, and build grassroots support among not only Shia but Sunni and Christian Lebanese. Experts state that owing to support from Iran, Hezbollah does not rely on charities or Western donations as much as other terrorist groups.

U.S. officials think "a substantial portion" of the estimated millions of dollars raised by terrorist groups of the Middle East comes from the \$20 million-\$30 million brought in annually by the illicit scam industry in America. Hezbollah also relies on drug smuggling, conflict diamond trade in Sierra Leone and Congo, food-stamp fraud, and even the stealing and reselling of baby formula for its financing.

## Janjaweed

In 2014, the European Union established a partnership with the government of Sudan concerning the prevention or containment of migration from Sudan and from neighbouring countries in the Horn of Africa towards Europe.

# MAJOR EXTREMIST GROUPS AND THEIR SOURCE OF FUNDING

A report in 2017 brought to light that Sudanese authorities were using funds received from the E.U. to finance Janjaweed's militia actions along Sudan's porous borders. Subsequently, there were calls from media advocacy groups and human rights groups for the E.U. not to allow any of their funds earmarked for the said program to directly or indirectly benefit the Rapid Support Forces of Sudan with the Janjaweed militia.

## Houthi Rebels

The Houthis are a local Iran-backed Yemeni rebel movement group that currently control  $\frac{1}{3}$  of Yemeni territory and  $\frac{2}{3}$  of its population. They revolted against the official government in 2011, overthrowing it in 2014. Starting from late 2023, in a show of support for Hamas and the Palestinians, the group attacked U.S. and Israel-associated ships in the Red Sea, and fired missiles at Israel.

Iran provides financial aid to the Houthis through the Sa'id al-Jamal network, which relies on a web of exchange houses throughout the Middle East to facilitate the movement of Iranian funds to Houthi-aligned financial firms in Yemen. These funds are ultimately transferred to the Houthis or associated businesses throughout the area. Additionally, Iranian fuel is being provided to the Houthis. China also had a hand in financing the Houthis, albeit unknowingly, by buying illicit Iranian oil.

# EFFICACY OF SANCTIONS

Economic sanctions are mostly imposed via trade embargoes, restrictions on imports and exports, denial of foreign assistance (including loans and investments), the freezing of foreign assets, and the prohibition of economic transactions between companies and the sanctioned state.

There has been growing criticism regarding the use and efficacy of sanctions in combating extremism. Independently wealthy terrorists such as the late Osama bin Laden run “a murky network of homegrown, privately financed and largely independent groups”, and sanctions are rather inefficient in dealing with such self-reliant criminals.

One of the key problems with economic sanctions is that ‘terrorism’ is poorly defined. Some extremist groups are recognized by certain nations while others brand them as terrorists. Geographic proximity to the sanctioned state is also important; monitoring the sanctioned state is easier if it lies in the vicinity of the sanctioner. For example, keeping a watch on countries like Iran from the U.S. requires more resources and tax-payer money than doing so in a closer nation like Cuba.

Sometimes, the potential damage to the domestic economy outweighs the benefits of sanctioning an alleged extremist supporter. For instance, a country like Saudi Arabia has ample resources and wealth; imposing sanctions has little impact on its overall economy – but harms the economy of the sanctioner. Research by the Institute for International Economics found that in 1995 workers could have lost between \$800 million and \$1 billion in export sector wages.

Another argument against the imposition of sanctions is that they negatively impact the masses more than the elite of the sanctioned nation. The alleged perpetrators of extremist attacks in North Korea and Iraq had little to lose from the sanctions imposed on them by the West, yet millions of the innocent, powerless populace suffered from starvation and poverty.



# EFFICACY OF SANCTIONS

Some also believe that sanctions may violate the principle of sovereignty in international law. In the past, countries like Canada have threatened to retaliate against excessive US sanctions, claiming that they are “extra-territorial”. Sanctions may thus hamper friendly foreign relations and alliances.

Sanctions may also pave the way for retaliation in the form of an embargo from the victim state, which has a devastating impact on the health of the sanctioner economy. Critics also point out that unless the sanctions are near-universal, the affected nation can easily obtain goods and resources from other states. For example, despite Libya being a major target of sanctions by the United States, the Libyan Government annually sold approximately \$10 billion worth of oil to European states. The case of multilateral sanctions against the apartheid South African government is a counter-example to this phenomenon. Thus, most sanctions are ineffective – unless multilateral in nature.

# EFFICACY OF THE U.S. STATE SPONSOR OF TERRORISM LIST

Analysts claim that the Department of State's format list maintaining a tally of state sponsors of terrorism is no longer effective. Pakistan, for instance, has aided multiple terrorist groups fighting against India in Kashmir and has been a major sponsor of Taliban forces. The governments of Venezuela, Iraq, Yemen and the Palestinian territories have been accused of extremism- but do not feature in the said list.

Often, it can be hard to distinguish between a country's willful inaction and active backing of extremism. In many cases, the government in question doesn't actively train or arm the terrorist group, but lets it act with relative indemnity— an approach that, in practice, allows the government to claim ignorance or incapacity.

Owing to this complexity, the answer to the problem does not lie in a binary list, with countries either on it or off. This approach, experts suggest, is flawed and often does more harm than good as it provides little incentive for counterterrorism cooperation.

# ECONOMIC IMPACT WORLDWIDE

For more than 15 years, the United States has been imposing a number of economic sanctions against Venezuela, claiming the South American country has aided in drug trafficking, sponsored extremism, and committed human rights abuses.

According to a report by the Center for Economic and Policy Research, sanctions levied against Venezuela have led to more than 40,000 deaths from 2017–2018. They have also increased diseases and worsened mortality, forcing millions of people to leave the country, and are a major factor in an economic collapse that has left people scrambling to find food and medicine – bringing into question whether sanctions are an effective foreign policy tool or simply collective punishment.

A report by the U.S. Congressional Research Service states that U.S. sanctions on Iran are “the most extensive and comprehensive set of sanctions that the United States maintains on any country”. Annual inflation in Iran is greater than 42%, the national currency, the rial, has lost more than half of its value in the past three years. Oil exports fell from roughly 2.5 million barrels per day in 2017 to less than 0.4 million barrels per day in 2020, according to the US Energy Information Administration.

Iran seeks to mitigate the impact of U.S. sanctions through the development of what Supreme Leader Ali Khamenei once termed a “resistance economy.” The approach states that Iran must reduce its dependence on external actors and “build the economy from within.” U.S. sanctions have thus created incentives for Iran to further expand economic and military ties with China and Russia. China remains as a major buyer for Iranian oil, and Russia reportedly has sought to aid Iran with sanctions evasion.



# ECONOMIC IMPACT WORLDWIDE

According to a study by the National Library of Medicine, harsh sanctions have had an impact on all branches of the Iranian economy but are increasingly affecting vulnerable patients. Although medicine is not included in the list of the sanctions, the fear of possible U.S. sanction by pharmaceutical companies and international banks, has led to the shortage of specific drugs and medical facilities. More than six million patients suffering from complex diseases such as haemophilia, multiple sclerosis, thalassemia, epilepsy, and cancer have been impacted. Operating theatres in Iran are running out of anaesthetics and there were scores of deaths in the country due to the shortage of medicine.

Meanwhile in Afghanistan, Western powers want the Taliban to remove restrictions on women's rights while the Taliban wants Western powers to lift crippling sanctions and accept its legitimacy. U.S. sanctions on Afghan banks have contributed to food insecurity in the nation, with over twenty million Afghans — half the population — are hungry. Sanctions prevent Afghans from having a normal working economy, hamper remittances and dramatically increase the cost of importing food.



# POSITION OF KEY STAKEHOLDERS

## USA

The United States has long been a leader in the global effort to develop, implement, and promote strong anti-money laundering and counter-terrorist financing. It has been a member of the FATF since 1990. Since the 2016 FATF assessment of the United States measures to tackle money laundering and terrorist financing, the country has taken several actions to strengthen its framework. Secretary of the Treasury Janet L. Yellen said, "... the United States is advancing historic initiatives to safeguard the U.S. financial system, we commend the FATF's vital work to strengthen global standards relating to combating illicit finance."

There have been several anti-money laundering (AML) and combating the financing of terrorism(CFT) efforts on the part of the US Department of the Treasury including operationalizing a beneficial ownership information filing system, passing rules to check weaknesses in the United States residential real estate and investment adviser circles, and publishing updated National Risk Assessments on Money Laundering, Terrorist Financing, and Proliferation Financing. This strengthens the United States' AML/CFT framework, safeguards the U.S.A financial system from abuse, and furthers the security of the USA and the world. In an assessment of the US AML/CFT regime, of the eleven effectiveness ratings, the U.S. was given high ratings in four areas, which is unprecedented, four ratings of substantial, two of moderate, and one of low.

# POSITION OF KEY STAKEHOLDERS

## Iran

Designated a sponsor of terror by the U.S. government since 1984, the country is considered the “foremost state sponsor of terrorism,” providing “a range of support, including financial, training, and equipment, to [terrorist] groups around the world – particularly Hezbollah,” according to the U.S. State Department. In 2020 alone, it was estimated that Iran contributed over \$700 million to the extremist group Hezbollah. Moreover, Iran supplies political support and weapons to Hamas, an organisation classified by Israel, the United States, the United Kingdom, Canada, the European Union, Egypt, Australia and Japan as a terrorist organisation.

Iran has been on the FATF’s ‘blacklist’ in recent years for not adhering to transparency and international conventions against money laundering and extremist financing. The Iranian government requested the FATF for Iran’s removal from its worst category (shared by only two other countries): Myanmar and North Korea. In addition, Iran committed to addressing its strategic deficiencies in 2016. Iran’s action plan expired in January 2018. The FATF noted that Iran had not completed the action plan in June 2020. Given Iran’s failure to enact the Palermo and Terrorist Financing Conventions in line with the FATF Standards, the FATF fully lifted the suspension of counter-measures and called on its members and urged all jurisdictions to apply effective countermeasures, in line with Recommendation 19.

# POSITION OF KEY STAKEHOLDERS

## Cuba

Cuba maintains close associations with state sponsors of terror (Iran and North Korea). The Cuban regime continues to host ELN leaders tied with obsolete peace talks, despite Colombia's multiple entreaties for their extradition. Cuba also continues to harbour multiple fugitives who committed or supported acts of extremism in the United States. The U.S. Department of State labelled Cuba as "not cooperating fully" with the U.S. counterterrorism efforts in 2019, the first such certification of Cuba since 2015.

As of 2024, Cuba has been re-rated in February, and has become compliant to FATF standards with regards to Recommendations 31 and 28, but the remaining recommendations are stalled at partial compliance. Cuba was identified as a State Sponsor of Terrorism (1982) due to its long history of providing advice, safe haven, communications, training, financial support, and more, to guerrilla groups and individual terrorists. This designation was rescinded in 2015.

As for financial crime, Cuba does not identify money laundering as a major problem. Cuba must augment the transparency of its financial sector and continue to expand its engagement with the regional and international AML/CFT communities to increase its capacity to combat illegal activities. Cuba should augment the transparency of criminal investigations and prosecutions.



# POSITION OF KEY STAKEHOLDERS

## Russia

In July 2023, the Russian Federation was re-rated by the FATF on Recommendations 6, 7, and 25 from partially compliant to largely compliant, but compliance on Recommendation 15 fell from compliant to partially compliant. However, the membership of the Russian Federation to the FATF was suspended in February 2023, so the analysis was carried out by the Eurasian Group. The FATF released a statement condemning Russia's "illegal, unprovoked, and unjustified full-scale military invasion" of Ukraine, stating that it ran contrary to the prime principles of the organisation (aiming to augment security, safety, and the rectitude of the world financial system). Noting The actions of Putin's regime against civilians of Ukraine, MEPs (Members of the European Parliament) have recognised Russia as a state sponsor of terrorism.

## Saudi Arabia

Since the review of Saudi Arabia's measures to battle money laundering and terrorist financing in 2018, the nation has taken multiple steps to fortify its framework. As of now, Saudi Arabia is compliant on 17 out of 40 Recommendations and largely compliant on 21. It stays partially compliant on 2 out of 40 Recommendations. Saudi Arabia has stayed a regional chief in opposing terrorist financing, hosting the Terrorist Financing Targeting Center that unites the United States and Gulf partners to confront new & evolving networks, and lead efforts on anti-money laundering and counter-terrorist financing measures. Saudi Arabia remains an active part of the FATF and completed a Virtual Asset/Virtual Asset Service Provider risk assessment, according to FATF recommendations.

# POSITION OF KEY STAKEHOLDERS

## China

China's counterterrorism efforts have continued to target almost exclusively ethnic Uyghur and other Turkic Muslim alleged extremists, whom Beijing considers the primary source of extremism in Xinjiang. Its most noticeable efforts to counter extremism include detainment camps, which are globally criticised by human rights groups. It repudiates that its Xinjiang policies include human rights abuses, claiming that its system of "reeducation" camps exist to "combat separatism and Islamist militancy in the region" and are an essential part of the "war on terror."

China has been a FATF member since 2007 and is compliant on 9 of the 40 Recommendations and largely compliant on 22 of them. The nation stays partially compliant on 3 and is not compliant on 6 Recommendations. A report by the FATF concluded that China has a strong understanding of the money laundering and terrorist financing risks it faces, but it should focus more on the money laundering of crime proceeds and increase the breadth of sources used for its national risk assessment (2019).

Based on law enforcement investigations of the present, it is believed that China is not adequate in its control of terrorist financing. Chinese law enforcement claims to have limited ability to freeze funds and look into banking transactions; little regulations on corporate transparency exist. China piloted a central bank-backed digital currency known as the eCNY Digital Currency Electronic Payment, to lessen use of other virtual currencies, among other goals. It also augmented regulatory scrutiny of the financial sector by improving the anti-money laundering framework, but major shortcomings remained in effective execution and ensuring transparency, particularly in the context of global cooperation.

# POSITION OF KEY STAKEHOLDERS

## Iraq

The terrorist attacks launched by ISIL (Daesh) and its affiliated groups, or conducted by lone attackers inspired by them, have killed or injured hundreds, many of them innocent civilians. Meanwhile, Al-Qaeda and other terrorist organisations continue to pose a serious threat to international stability, security and peace. Many of these attacks have been occurring in Iraq since 2021. According to the last Mutual Evaluation Report undertaken by the FATF in 2013, Iraq was deemed Compliant for two and Largely Compliant for one of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all six of the Core Recommendations.

## Afghanistan

In October 2021, the FATF issued the following statement concerning the reinstatement of the Taliban regime in the country: "In light of recent events in Afghanistan, the FATF, as the global standard setting body for anti-money laundering and counter-terrorist financing, expresses its concern about the current and evolving money laundering and terrorist financing risk environment in the country."

## Pakistan

According to the U.S. government, Pakistan provides safe haven, transit, political, and diplomatic support to several groups engaged in extremism including Harakat ul-Mujahidin (HUM), which has been designated by the United States as a Foreign Terrorist Organization (FTO). HUM is also responsible for kidnapping and murdering tourists in Indian-controlled Kashmir. Pakistan was put on the FATF "Grey List," in 2018.

# POSITION OF KEY STAKEHOLDERS

As of 2020, out of the 40 FATF Recommendations, Pakistan was assessed as “compliant” in one and largely compliant in nine. It received a rating of partially compliant in twenty-six and non-compliant in four. In October 2022, it was removed from the same due to significant improvements in the overall AML/CTF framework.

## India

India became an observer member of the FATF in 2006 and joined as a full member in 2010. In 2013, the FATF recognized that India had made significant progress in addressing deficiencies identified in its mutual evaluation report and decided that the country should be removed from the regular follow-up process. Despite vociferous denials to the contrary, India claims that neighbouring Pakistan has been involved into financing, training, equipping and supporting Kashmiri militants and actively abetting their attempts at infiltration across the Line of Control (LoC).

## U.K.

The United Kingdom has been a member of the FATF since 1990. Since the review of the UK's measures to tackle money laundering and terrorist financing in 2018, the country has taken a number of steps to fortify its framework. As of today, the United Kingdom is compliant on 24 Recommendations and largely compliant on 15. The country stays partially compliant on only 1 Recommendation. As shown by the FATF Mutual Evaluation Report, although the UK has a well-developed and robust regime to combat money laundering and terrorist financing, it must strengthen its supervision, and augment the resources of its financial intelligence unit.

# QUESTIONS DELEGATES ARE EXPECTED TO ANSWER

1. Are economic sanctions preferable to direct military intervention to tackle extremism? If yes, why?
2. How can private actors be regulated to prevent the diversion of financial resources towards extremist purposes?
3. How can states balance the privacy interests of their citizens whilst combating the threat of extremist financing?
4. What role do cryptocurrencies play in providing extremists with a convenient base for financial transactions? Will regulation of cryptocurrency aid in tackling terrorist financing?
5. Is there a difference between a state actively aiding extremist organisations and merely being inactive in countering extremism?



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