Foreword

Since 9/11, countering the financing of terrorism (CFT) has been a focus of U.S. and international security policy, and an evolving feature of the regulatory and risk environment for authorities and the private sector. In the wake of those terrorist attacks, the U.S. government led an aggressive effort to use all elements of national power to prevent further attacks and to disrupt and dismantle terrorist networks. The tools of economic coercion, financial regulation, and risk management were deployed deliberately to undermine the ability of terrorist actors to access capital and leverage the financial system. These measures ultimately were seen as a fundamental element of a preventative paradigm to disrupt terrorist plots, networks, and alliances—and their global reach.

The early CFT efforts started with an intense targeting of al-Qaeda and related groups, but expanded quickly to include disrupting the financing and material support to all terrorist movements. The mission was to bankrupt terrorist organizations and to make their financial and commercial relations a vulnerability for their operations. It was understood that not every dollar or euro could be tracked or captured, and that such efforts alone could not stop all terrorist acts. But the strategy was clear: make it harder, costlier, and riskier for terrorists and their networks to raise and move money around the world. This meant isolating and unplugging terrorist actors and supporters from the sinews of the global financial and commercial system, and forcing terrorist leadership to make hard budget decisions because of constrained resources. Ultimately it led to the disruption of terrorist attacks, weakening of terrorist networks, and constraint of their global reach and ambitions.

This mission required new approaches and modalities to affect terrorist activities beyond U.S. borders.

- The long pole in the tent was the need for more information about financial networks. Financial intelligence or “FININT” became a discipline within the intelligence and law enforcement communities, with a premium placed on gathering more financial information, expanding networks of data sharing globally, and understanding and following suspect financial footprints and relationships. Financial ties do not lie. Such information allowed authorities to “follow the money,” but also informed how the private sector understood and reacted to revealed risks.

- A range of tools—starting with a targeted sanctions regime under Executive Order 13224, which focused on terrorist financing—were established and ultimately refined and expanded. The targeting of facilitators and institutions financing terrorism through asset freezes, prosecutions, and UN listings reshaped the financial battlespace and use of such tools to deter material support to terror. Designations and arrests became preferred tools of disruption.

- At the same time, the U.S. government deepened and broadened the anti-money laundering (AML) system, with the passage of Title III of the USA PATRIOT Act, which expanded the requirements for more transparency, traceability, and accountability to control criminal and terrorist access to the financial system. New sectors and actors, like jewelers and *hawaladars*, were now subject to the same AML requirements as commercial banks. AML tools were now used to discover and manage financial criminal activity, and to prevent rogue actors from accessing the financial system. In this evolution, banks, money service businesses, and those that facilitated flows of funds, were converted more deliberately into guardians at the gates of the financial system. The integrity of the financial system was now to be safeguarded as an element of both regulation and national security.

- Financial diplomacy emerged center stage, with central banks, finance ministries, and financial intelligence units playing a preventative role in gathering financial information and securing the financial system. The Financial Action Task Force expanded its AML mandate to establish new CFT standards, thereby amplifying the global reach and expectations for effective systems to prevent or deter terrorist funding. CFT was present on every agenda, often catalyzing necessary, yet uncomfortable, conversations about the sources of funding, the weakness of capacity and will, and the ideologies animating global terrorism.

- In the global war on terror, the U.S. military developed the doctrine of "threat finance" to understand and undermine enemy actors' ability to resource their war-fighting, insurgent, or terrorist capabilities. This ultimately led to threat finance cells in Iraq and Afghanistan to target Taliban, al Qaida, and other terrorist and insurgent activity that generated funding, like oil smuggling, extortion, and the drug trade. With the rise of Islamic State (ISIS) control of territory, resources, and a war economy, the U.S. military targeted ISIS cash centers, couriers, and financial infrastructure. With threat finance, CFT was intertwined with classic warfare.

The playbook established to counter terrorist financing is now embedded in how U.S. and authorities around the world track and trace terrorist ties, freeze accounts and block transactions, dismantle terrorist networks, and regulate and manage terrorist-related risks in the financial system. But despite the investment, focus, and successes, there are limits and challenges to the CFT regime.

- The tools of financial exclusion work best where there are chokepoints and connectivity with the formal financial system. Leveraging sanctions or other economic tools against lone wolf terrorists (of whatever ideological stripe), or within informal and isolated economies, can be challenging at best. Capacity and cooperation to track and disrupt terrorist financing is often lacking in the jurisdictions where it is most needed.

- The private sector always has been challenged by discovering and managing the risk of terrorist financing, with constant demands for more specific information about suspect actors and designated groups. Many have questioned whether the costs expended to create compliance systems and controls have been worth the investment, and whether such measures are effective in stopping or deterring terrorism, especially when the cost of a singular terrorist attack may be negligible. The cost-benefit analysis of CFT is ever-present for regulated entities.

- The preventative use of sanctions and economic measures and regulations, especially against individuals and entities in unprecedented ways, has stressed legal constructs and understandings. Conflicting views on how to define “terrorism” and “material support” challenge implementation and impact humanitarian considerations in conflict zones. The differences between freezing, seizing, and forfeiture, and varied legal regimes have often confused policymakers, authorities, and the private sector, and stressed questions of due process, evidentiary standards, and delisting. Political rights and freedom of expression can clash with support for violent extremist groups, a problem exacerbated when dealing with domestic extremists.

- Terrorist financing is not a static risk. Terrorist groups like Hezbollah have grown more sophisticated in their operations, often blending criminal methodologies with their own, and running global money laundering and drug trafficking enterprises. Others like ISIS and al-Shabaab have run war economies and exploit the resources and people in their control—from taxing at ports and checkpoints to running oil and charcoal smuggling operations. And new technologies, including cryptocurrencies, allow for storing and moving value digitally, giving violent extremists the potential to access capital and connect with new allies in the dark corners of the financial system.

- CFT is most challenged when terrorist actors control the resources and implements of a state, as with the Taliban in Afghanistan. Such terrorist groups can hold entire populations and an economy hostage, forcing the international community to decide between humanitarian support and support to a terrorist regime. State sponsors of terrorism flow millions to proxies, using terrorists as shock troops in broader conflicts and to further their national interests and ambitions, as with Iran and its terrorist proxies. Resources flowing from government coffers and through institutions can more easily be cloaked in the perceived legitimacy of the sovereign.

Despite such challenges and lingering debates, the efforts to combat terrorist financing have resulted in long-term strategic impact. The CFT playbook has been reused to address every international security issue of import. Undermining the financial infrastructure and resources of rogue networks is now a given in any international strategy. The tools of financial exclusion and economic isolation are adapted to confront transnational threats from state and non-state actors—including proliferation, cyber malicious behavior, corruption, and human rights abuse. Designations, enforcement, and revelation of regulatory risk, act to deter illicit finance and change market behavior. Financial institutions remain central agents in preventing financial crime and protecting the integrity of the financial system. And as seen vividly in the case of Russia’s invasion of Ukraine, sanctions and financial measures have become a core feature of hybrid warfare, often central to international reaction and confrontation. The last twenty years have witnessed a new form of financial warfare being waged, starting with the fight against terrorism.

Though the memory of 9/11 will fade over time, the efforts to combat terrorist financing have remained critical to preventing violent non-state actors, and their state allies, from expanding their reach and achieving their violent and often revolutionary goals. With every terrorist group or activity—of whatever ideological stripe or motivation—authorities and the private sector consider it imperative to prevent the financial and commercial system from being leveraged and abused by terrorists and other malign actors. This also represents a fundamental element of financial transparency and security and how the private sector manages financial crime and sanctions risk. All of these considerations make the field of CFT important—and its study rich and dynamic.

Herein lies the importance of this scholarship. This book's perspective on terrorist financing can be seen as an important study of the last twenty years and the foundations for financial warfare underway and on the horizon. Challenges and questions abound regarding the legal, regulatory, operational, humanitarian, and broader policy implications of CFT. This book captures key issues and themes present in the consideration of the strategies and implementation of CFT. Each chapter benefits from experienced authors who have been directly involved in government, practitioners in the private sector and legal fields, and academics who have focused on themes touching on terrorist financing over many years. Their respective and collective work in these pages refreshes the memory, sharpens the debates, and enhances the ongoing study of terrorist financing.

The Honorable Juan C. Zarate

First-ever Assistant Secretary of the U.S. Treasury for Terrorist Financing and Financial Crimes and former Deputy Assistant to the President and Deputy National Security Advisor for Combatting Terrorism (2005–2009). Chairman of the Center on Economic and Financial Power at the Foundation for Defense of Democracies (FDD) and Chairman and Co-Founder of Consilient. For eight years, Lecturer on Law at the Harvard Law School.