Research Report

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Implementing measures to trace and prevent terrorism financing

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Introduction

Terrorism is the use of violence or intimidation against civilians or non-combatants to achieve political, religious or ideological goals. Terrorism financing refers to the collection of money or other resources intended to support terrorism. These funds come from illegal acts, such as crime, but they can also come from apparently legitimate sources. Preventing terrorism financing is an important part of keeping international security because terrorists need financing to operate. Since money can cross borders through banks and online payment services, international cooperation is needed to identify transactions with malicious intent.

General Overview

How terrorists gain funding

Terrorists need funding to support their activities and acquire supplies. Funding can come from many different sources such as crime, kidnapping for ransom and extortion. In some cases, terrorist groups exploit businesses or organisations to collect money. The United Nations Security Council has concluded that the prevention of terrorist financing is an important part of international counterterrorism efforts. The resolution they made, called 2462, calls on states to make sure that willful donations or funding to terrorist groups is seen as a crime and asks to establish measures to prevent terrorists from obtaining money.

Tracing financial transactions

Tracing financial transactions helps authorities understand where money comes from, how it moves and who receives it. Banks can play an important role by identifying unusual transactions and reporting suspicious transactions to the authorities. One method is the use of customer identification and verification procedures. Financial institutions should be able to see who their customers are and, if it is relevant, identify the people who own or control companies. Another tool is financial intelligence. Authorities can analyse info from financial institutions and compare that with information from criminal investigations. This can reveal connections between people and companies that would otherwise remain hidden. However, this isn't always straightforward. Transactions can pass through several countries, each with different rules. Some governments also lack the resources to investigate financial networks. As a result, cooperation is necessary to prevent criminals from exploiting these differences.

The role of modern technology

Digital payment services and virtual currencies have created new ways of transferring money across borders. These technologies can make payments faster and more accessible, but they may also be misused to move funds toward terrorism. Modern tools can help authorities identify suspicious patterns and process a lot of data. However, these tools must be used carefully. Automated systems can make mistakes and unusual activity does not automatically mean terrorism is involved. Investigations should therefore include human oversight. The Financial Action Task Force (FATF), an organization that establishes for combating money laundering and terrorist financing, has made recommendations covering financial transparency and preventive measures. Its standards also emphasize risks that are associated with virtual assets.

International cooperation and legal challenges

Terrorism financing is a global problem because funds can move between countries in a very short time. A transaction that begins in one country may pass through many different countries and institutions before reaching its destination. If these countries do not cooperate, investigations can become more difficult. Countries must therefore share financial intelligence, and assist each other with the identification of suspected terrorists assets. Organisations can help establish standards and evaluate whether countries implement them correctly. But governments do not always agree on how this information should be collected and shared. Some prioritise their own country and the confidentiality of financial data. There are also concerns about privacy and the possibility that counterterrorism measures could unfairly target certain groups. Another challenge is making sure that financial restrictions do not prevent humanitarian organisations from providing essential assistance. Legitimate charities may be in areas affected by conflict, where financial risks are difficult to assess.

Major Parties Involved

1. United states of America (USA)

The USA is one of the most important countries in international efforts to stop terrorism financing. Its institutions and agencies play a significant role in catching suspicious transactions and making financial restrictions. That is why they have a major position in the international financial system, and are an important part of fixing this issue

2. European Union (EU)

The EU works to combat money laundering and terrorist financing by common financial rules and targeted financial sanctions. Its policies aim to increase transparency and make it more difficult for terrorist groups to hide their ownership of assets. Cooperation between EU countries is important because transactions can move easily between these countries within the European market.

3. United Nations (UN)

The UN provides a forum where countries can discuss international peace, security and consequences of military technologies. These discussions serve to identify common concerns and consider possible international rules. The security council within the UN has made resolutions to take measures against terrorism financing.

4. Developing countries

Developing countries are important countries because they are the ones that usually encounter terrorist groups. Limited funding and weaker financial systems can make it more difficult to identify suspicious transactions. International assistance can help these countries with strengthening their institutions.

Possible Solutions

1. Establish international standards

Countries should implement consistent minimum standards for identification and reporting of suspected financial support for terrorist groups. The FATF and UN have provided recommendations and obligations as a foundation for this process.

2. Strengthen financial transparency

Governments should have appropriate customer verification as a must and ensure that authorities are able to access information who own or control companies. This would make it harder to conceal the origins of funds behind anonymous accounts. Regulations should be relevant to the risks involved.

3. Provide training and financial support

Wealthier countries and organisations should provide developing countries with training and resources. This could include helping authorities there improve their financial investigations and train specialists. Strengthening weaker countries would help reduce the opportunities for terrorist groups.