Sanctions, Financing Constraints, and the Organization of Conflict*

Nicola Limodio† Lucas A. Mariani‡

March 2026

Abstract

This paper studies how financial sanctions imposed through the international dollar-based system affect the fundraising, organizational structure, and violent conduct of militant groups. We focus on Pakistan, where many extremist organizations operate dual structures that combine a militant wing with a formal charitable front. Exploiting quasi-experimental variation from the staggered designation of Pakistani terrorist leaders by major international sanctioning bodies, and linking these shocks to administrative data on the universe of registered charities and their boards, we identify both directly sanctioned leaders and a network of indirectly exposed but unsanctioned associates. This structure allows us to trace how financial frictions imposed at the top of the organization propagate through domestic charitable networks. Sanctions tighten leaders' financial constraints and induce a systematic reorganization: directly and indirectly exposed charities become more likely to be active, local fundraising rises and reallocates toward charities linked to sanctioned networks, and leaders and associates expand participation across organizations. At the same time, conflict intensifies and groups fragment, with more attacks, casualties, and splintering. Our findings highlight that the effectiveness of financial sanctions depends on domestic intermediation structures, as internal and informal channels can offset restrictions on dollar-based finance and potentially intensify conflict.

*We thank Thomas Le Barbanchon, Michela Carlana, Sami K. Mahmood, Giovanna Marcolongo, James Poterba, Orkun Saka, Lorenzo Trimarchi, Juan Vargas, the seminar participants at Bocconi University, and City St George's University of London for useful comments. Emma Giacomobono and Paolo Ladalardo provided outstanding research assistance. Nicola Limodio received funding by the European Union ERC-FINDEV-101115804.

†Bocconi University, BAFFI and IGIER, and CEPR. Email: nicola.limodio@unibocconi.it

‡Bocconi University. Email: lucas.mariani@unibocconi.it

1 Introduction

A defining feature of the contemporary global system is the growing reliance on financial coercion as an instrument of statecraft. Sanctions on banks, firms, and individuals have become central to the response to geopolitical crises, most prominently the recent Russia–Ukraine war, and are leading governments to reassess their exposure to foreign-controlled financial infrastructure and services. Recent work in geoeconomics conceptualizes these measures as policies that operate through the architecture of global financial markets, by altering access to payment systems, reserve currencies, and cross-border capital flows—rather than through traditional trade or military channels (Baldwin, 1985; Drezner, 2024; Clayton et al., 2025a,b,c). Yet despite their growing prominence, we still have limited micro-level evidence on how such financial sanctions affect the behavior and organization of those they target.

More broadly, conflict and finance interact through a two-way feedback: armed violence reshapes financial networks, while the structure of intermediation conditions the resources available for violence. Recent evidence shows that this adjustment is not only about aggregate retrenchment but also about reallocation (de Haas et al., 2025). These results have key implications for financial statecraft: policies that impose financial frictions can change not just the amount of funding available, but also its composition and the organizational channels through which it flows—precisely the margin on which targeted financial sanctions may induce substitution into alternative networks and organizational forms.

This paper examines how individual financial sanctions imposed on leaders of violent organizations affect their fundraising capacity, organizational responses, and conflict behavior. These leaders intermediate resources from diverse sources (domestic and international donors, state sponsors, commercial activities, and informal networks) and rely on both formal and informal financial channels to move funds across time, space, and activities. Individual sanctions on terrorists operate within a broader geoeconomic strategy that leverages dollar clearing, correspondent banking, and global compliance standards. In fact, the designations of sanctions issued by U.S., U.N. and other authorities are enforced through the financial

system of the local countries, via know-your-customer and anti–money laundering rules, effectively turning local financial institutions into implementers of the global financial system. As a result, sanctions that freeze assets or restrict access to the international financial system are designed to tighten financial constraints and reduce conflict. However, their theoretical impact is ambiguous in principle. While reduced access to funds may depress operations, sanctioned leaders may strategically adapt by decentralizing fundraising and reallocating financial flows through their broader organizational networks. The net effect on conflict therefore depends on how these opposing forces play out under sanction-induced financial frictions. To shed light on this empirical question, we focus on a salient case: individual financial sanctions imposed on the leaders of terrorist organizations operating in Pakistan. This setting offers a rare micro-level lens to analyze administrative data on how the geopolitical use of the dollar-based system shapes the organization and behavior of non-state actors.

This country presents an ideal setting for this analysis for three reasons. First, we can observe the identity of sanctioned leaders and compile individual-level data on financial sanctions issued by major international bodies, which are then matched with the universe of registered non-profit organizations in Pakistan. These are a central source of charitable donations and also a documented means of financing for terrorist groups (Limodio (2022)). Second, the country presents a structure of sanctions that are staggered over time, with different leaders being designated in different years, generating plausibly exogenous variation in the timing of shocks to their access to finance. Third, we have access to rich administrative data on all registered charities, their boards, and their activity. As a result, we are able to match the sanctioned leader to the charities through which he operates, the corresponding members and other connected charities.

To discipline the empirical analysis, we develop a simple conceptual framework in which a sanctioned leader interacts with an operative who can allocate effort between the leader's organization and an alternative, independent project. In the model, effort on either project simultaneously raises the likelihood and intensity of terrorist attacks and generates financial

resources, for instance by creating or promoting charities associated with that project. Financial sanctions tighten the leader's budget constraint and limit the incentives he can offer, creating an agency friction: once the leader can no longer pay the operative a sufficiently high return, the operative reallocates effort from the leader's organization to his own charities and violent activities. Both actors then attempt to compensate for the funding shortfall by increasing fundraising effort in their respective networks, so that overall charitable activity and the total resources available for terrorism can rise even as the leader's formal access to finance is curtailed. The model therefore rationalizes why sanctions may lead to an increase, rather than a decrease, in aggregate conflict, and provides clear predictions on fundraising, organizational restructuring, and violence that guide our empirical strategy.

The empirical identification of the organizational effects of financial sanctions is challenging because it requires shocks to leaders' access to finance that are plausibly exogenous to the dynamics of their organizations. To address this, we exploit two sources of variation from our rich administrative data. First, we observe when charities are created, whether they are active in a given year, and which individuals sit on their boards. This allows us to build a domestic charity network around terrorist leaders and the universe of individuals connected to them, and to match these leaders to the terrorist groups they serve. Individual financial sanctions arrive at different points in time, so we use this staggered timing as a quasi-experimental shock to leaders' access to formal finance, comparing the behavior of exposed leaders and their organizations before and after sanction to that of leaders and organizations that are not yet sanctioned or that will never be sanctioned. Second, we construct a network-based measure of exposure: a charity (or individual) is indirectly exposed if it has no sanctioned member itself but shares at least one board member with a charity that has a sanctioned member, and we compare these connected units to otherwise similar charities and individuals linked to leaders who are never (or not yet) sanctioned. Combining the staggered timing of sanctions with this network-based variation, and drawing on household survey data on charity fundraising (Zakat donations), detailed records on terrorist attacks, and a newly

collected dataset on group splits, we can track how sanctioned leaders and their associates adjust charitable involvement, the creation and functioning of organizations, fundraising, and violent activity.

As a result, our empirical strategy is structured around a difference-in-differences framework with staggered treatment. We first define direct exposure at the organization level: a charity is treated from the year in which any of its board members becomes exposed to an individual financial sanction. As exposure arrives at different dates for different individuals, we implement the imputation-based estimator of Borusyak et al. (2024), which delivers consistent average treatment effects under staggered adoption and avoids the negative-weight problems of traditional two-way fixed-effects estimators (Goodman-Bacon, 2021). In most analyses, we use two complementary samples. First, we compare individuals, charities, and terrorist groups that are or will be exposed (treated) to those that are never exposed (control), which provides a broad benchmark for the overall effects. Second, to exploit more finely the rich staggered timing in our data, we restrict the control group to individuals, charities, and groups that are "not yet treated" but will be exposed later in the sample. This two-sample strategy allows us both to document effects relative to the full population and to sharpen identification by using future-treated units as a tighter counterfactual for treated ones.

Our first set of results concerns the charitable sector. We find that sanctions trigger a reorganization of charitable activity within networks rather than a simple collapse of exposed entities. At the charity-year level, the probability that a directly exposed charity is active rises by around 10–20 percentage points after a member is sanctioned, relative to a baseline probability that a charity is active around 35%. The response is, if anything, stronger for charities that are only indirectly exposed through overlapping board members: their probability to be registered and active increases by approximately 15–30 percentage points, and these effects build up over several years after the first sanction, as shown in Table 2. At the individual level, both sanctioned leaders and unsanctioned associates expand their

participation in charities, as measured by the number of districts in which they are active and the number of distinct organizations in which they serve on the board Table 3.

Second, we show that this organizational response is joined by a sizable rise in local fundraising via Zakat. Using household survey data, we relate individual Zakat donations to the division-level share of charities connected to individuals exposed to a sanction. Following an increase in local exposure to sanctioned charities, both the extensive and intensive margins of Zakat giving expands: households in more-exposed divisions are more likely to donate and, conditional on donating, give larger amounts, controlling for household characteristics and local and time-varying unobservables (Table 4). Quantitatively, a one–percentage-point increase in the share of exposed charities raises the probability of donating by 0.11 percentage points.

A key feature of the Zakat data is that donations can be directed either to private charities, which may include organizations connected to violent groups, or to public, state-administered charities, which are unlikely to be directly involved in militant activity. If sanctions operate through the charitable networks we study, we would expect adjustments to occur primarily in donations to private charities rather than to public ones. To test this implication, we split Zakat donations according to the type of recipient. The last 4 columns of Table 4 show that donations to private charities increase significantly with local exposure to sanctioned organizations, whereas donations to public charities remain flat. This sharp contrast provides an ideal placebo test: it is difficult to rationalize a third factor, other than sanctions operating through private charitable networks, that would systematically raise giving to private recipients while leaving donations to public recipients unchanged.

After verifying that sanctions shape the organization of charities and change the fundraising, we study the effects on attacks and presence of terrorist activity in response to sanctions. At the group–district–year level, sanctions are associated with a sizable and persistent increase in violence. The probability of at least one attack in a group–district cell rises by roughly 6–20 percentage points, and the number of attacks increases by around 0.5–0.7 in-

cidents per year relative to a mean of 0.27 (Table 5). The effects are long-lived: event-study estimates show no pre-trends and a growing divergence between exposed and unexposed cells in the years following the first sanction. We also document that sanctions raise the number of casualties and the probability of any casualties, indicating that the escalation is not limited to more frequent but low-intensity events. These effects on violence are tightly linked to the presence of charitable infrastructure and to organizational restructuring within terrorist networks. As show in Table 6, groups that operate a charitable arm prior to sanctions exhibit much larger increases in both the probability and number of attacks after a leader is sanctioned than groups without charities, even after matching on pre-sanction group size and geographic scope. From a geoeconomic perspective, our results speak to a central concern in the design of financial sanctions: whether restricting access to the dollar-centric system suppresses targeted activities or induces substitution into alternative, more opaque channels and organizational forms.

Moreover, our main novel evidence concerns how sanctions reshape the internal organization of violent groups. We construct a new panel of militant group split-ups by systematically hand-collecting information from newspaper articles and online sources, identifying the year in which new factions emerge from an existing organization and linking each splinter group to its parent. Using this dataset, we show that the number and likelihood of split-ups increase sharply with the cumulative number of sanctioned members in a group (Table 7). An additional sanctioned member is associated with a sizable rise in the number of splits and in the probability of any split in a given year, relative to baseline means of 0.30 splits and a 19 percent split probability. The effect is concentrated among groups with a charitable arm: for these organizations, the marginal impact of an extra sanctioned member on both the count and incidence of split-ups is much larger than for groups without charities, and remains large and precisely estimated when we restrict the control group to "not-yet-sanctioned" organizations. These patterns provide direct evidence that sanctions, by tightening a financial constraint at the leadership level, translate into organizational frictions and heighten inter-

nal agency problems, leadership disputes, and competition over resources, which manifest in the proliferation of factions. Consistent with this mechanism, we document that sanctions lead to more attacks against the state and more attacks against other militant organizations, indicating that the newly created factions compete both vertically (against the government) and horizontally (against rival groups).

Our findings have implications for the design of the international financial architecture. The fact that sanctions on a small number of leaders are absorbed through internal capital markets and informal fundraising networks suggests that the effectiveness of financial statecraft depends critically on the structure of domestic financial intermediation. In environments where charitable and informal channels can substitute for formal cross-border finance, tightening access to the dollar-based system may reallocate, rather than eliminate, funding and can even increase the scale of conflict. This mechanism complements work on sovereign reserve management and de-dollarization by highlighting an additional margin of adjustment outside the formal state and corporate sectors.

A large set of robustness checks and alternative specifications in the Appendix supports this interpretation. We first show that the response of the charitable sector is not driven by a narrow set of opaque organizations: the post-sanction increase in charity activity is present both for charities that predominantly use cash and for those relying on bank-based payment instruments, indicating that the reorganization we document is not simply an artifact of informal finance (Table A.1). We then verify that our main extensive-margin results are not sensitive to the unit of analysis. When we aggregate to the individual–district level and measure the number of charities per person, we obtain very similar patterns, confirming that sanctions induce broader engagement in the charitable sector rather than changes confined to a few outlier organizations (Table 3).

On the side of violent outcomes, we document that the escalation in terrorism following sanctions is not limited to a higher count of low-intensity events. Sanctions increase both the probability and the number of attacks that produce casualties, and they raise total casualties

per group–district–year, showing that the net effect is a genuine intensification of conflict (Table A.4). Moreover, the composition of violence shifts toward more capital-intensive tactics: bombings and heavily armed assaults respond strongly, whereas less capital-intensive methods exhibit more muted changes, in line with the idea that the financial channel is especially relevant for costly operations (Table A.5). We also decompose the targets of violence and find that sanctions lead to more attacks not only against the state but also, to a smaller extent, against other militant organizations, with the bulk of the increase coming from traditional targets such as security forces and civilians (Table A.6). Finally, to address concerns that groups with charitable arms are simply larger or more active ex ante, we re-estimate our specifications in a matched sample that balances treated and control groups on their pre-sanction geographic footprint and activity; the stronger post-sanction response of groups with charities remains intact (Table A.7). Event-study graphs throughout the paper show flat pre-trends, and all results are stable across alternative control groups, fixed-effects structures, and functional forms. Taken together, this extensive robustness analysis reinforces the conclusion that financial sanctions on leaders embedded in charitable networks systematically induce financial substitution, organizational fragmentation, and an escalation of conflict.

This paper contributes to three main strands of literature. First, it adds to the growing work on the geoeconomics of finance and economic coercion by providing a microeconomic counterpart and analysis of the organizational consequences of sanctions. Clayton et al. (2025a) develop a methodology to detect geoeconomic pressure and show that firms respond differently to tariffs, financial sanctions, and export controls; we extend this firm-centered view by documenting how targeted non-state organizations reoptimize internally when sanctions bind. Clayton et al. (2025b) emphasize the importance of identifying the channels through which coercive threats operate; our findings speak directly to this call by revealing a previously overlooked channel inside violent organizations. Clayton et al. (2025c) model how financial and trade relationships amplify hegemonic power and how defensive "eco-

nomic security" policies can generate inefficient global fragmentation; our evidence uncovers an analogous fragmentation mechanism within sanctioned groups, as leaders shift financial intermediation to followers, creating agency frictions. Bianchi and Sosa-Padilla (2024, 2025) study how sanctions and reserve seizures affect sovereign default and the dollar's role in the international monetary system. Our evidence complements firm-level work by providing micro-level evidence on how financial sanctions propagate through domestic financial networks, reallocate fundraising across organizations, and present unintended consequences on the targeted entities (Keerati, 2022; Mamonov and Pestova, 2022; Efing et al., 2023).

Second, this paper also speaks to a growing literature in corporate finance and organizational economics showing that external cleavages and frictions, such as political polarization, identity conflict, and partisan alignment, can reshape how organizations select, allocate, and motivate people rather than simply changing outcomes at the margin. Colonnelli et al. (2020) show that political interference distorts selection inside organizations, while Colonnelli et al. (2025) document that political alignment between owners and workers affects hiring, careers, and firm behavior; Hjort (2014) similarly shows that social divisions can reduce productive efficiency inside firms. Kempf and Tsoutsoura (2021) highlights that partisan identity can also shape behavior within financial intermediation and Engelberg et al. (2023) uses frontier methods to document the partisanship among regulators and explores the corresponding policy effects of this. Our paper contributes to this line of research by studying a related organizational environment: violent and terrorist groups exposed to targeted financial sanctions. We show that when sanctions tighten financial constraints at the top of the organization, the response is not a mechanical contraction of activity, but an endogenous reorganization of the group through expanded reliance on affiliates, charitable fronts, and overlapping networks, generating fragmentation, broader fundraising efforts, and more violence. In this sense, our results extend this literature by showing how shocks transmitted through the financial system reverberate on organizations with weak formal governance, altering internal incentives, reallocating authority and resources, and ultimately changing both organizational structure

and performance.

Third, we contribute to the literature on looking for terrorism financing and the organizational economics of violent groups. Prior work documents that shocks to resource availability—through commodity prices, aid flows, or development projects—shape conflict intensity and tactics (Dube and Vargas, 2013; Berman et al., 2017). A parallel literature emphasizes agency problems and financial frictions within terrorist organizations, highlighting how constraints on local operatives interact with central funding and monitoring technologies (Shapiro and Siegel, 2007; Bueno de Mesquita, 2013; Shapiro, 2013; Wright, 2016; Limodio, 2022). By treating financial sanctions as shocks to the internal capital market of violent organizations, our analysis provides direct evidence that such frictions matter: groups with access to flexible, charity-based funding adjust their financing and organizational structure in ways that sustain and even intensify attacks. Finally, we relate to work on sanction leakage and evasion in international trade and finance, which shows how targets reroute flows through intermediaries and third countries (Eaton and Engers, 1992; Fisman et al., 2008, 2025; Mamonov et al., 2023). Our contribution is to show that even highly targeted individual sanctions can be undone at the network level, not by simple evasion but through endogenous reallocation of fundraising and the proliferation of competing organizations.

The remainder of the paper is organized as follows. Section 2 presents a simple conceptual framework and the institutional background. Section 3 describes the data and empirical strategy. Section 4 reports the main results on charities, Zakat donations, terrorist activity, and group splits, and discusses mechanisms. Section 5 presents robustness checks. Section 6 concludes.

2 Theoretical and Institutional Setting

2.1 Theoretical Framework

To organize the empirical analysis, we develop a simple static model with a leader (principal) and an operative (agent). Both players choose non–negative effort levels in conflict activities, and each unit of conflict effort simultaneously (i) raises the probability or intensity of a terrorist attack and (ii) generates resources by creating or promoting charities that can be used to finance further activity. When the operative works for the leader, his effort increases both the likelihood of an attack attributed to the leader's organization and the leader's wealth, for example through fundraising in a charity aligned with the leader. When the operative works independently, his effort instead raises the attack activity and financial resources of a separate, alternative organization.

Formally, let $e_L \geq 0$ denote the leader's effort on his own project, $e_T \geq 0$ the operative's effort on the leader's project, and $e_O \geq 0$ the operative's effort on an alternative terrorist project (another group, splinter faction, or freelancing). The operative's effort on any project generates both violent output and funding for the corresponding organization. The operative's utility is

$$U_A(e_T, e_O) = qe_T + pe_O - \frac{c}{2}(e_T + e_O)^2,$$

where $q \geq 0$ is the piece rate per unit of e_T paid by the leader, $p > 0$ is the operative's private return per unit of e_O (including wages and access to independent charities), and $c > 0$ governs the convex cost of total effort $e_T + e_O$. The leader's conflict output is $y_L = F(e_L + e_T)$ with $F(z) = Az - (b/2)z^2$, $A > 0$, $b > 0$, so total effective input is $z = e_L + e_T$ and F is strictly concave. Each unit of e_L and e_T raises both the likelihood of an attack by the leader's organization and the amount of funding and charity activity controlled by the leader. Each unit of e_O similarly raises attacks and funding for the alternative organization. The leader's payoff is

$$U_L(e_L, e_T) = F(e_L + e_T) - qe_T - \frac{\gamma}{2}e_L^2,$$

where $\gamma > 0$ captures the (convex) cost of leader effort.

Given q and p, the operative chooses (e_T, e_O) to maximize U_A. Since the cost depends only on the sum $e_T + e_O$, the operative specializes in the activity with the higher effective return. Solving his problem implies that if $q \geq p$ he works only for the leader (so $e_T = q/c$ and $e_O = 0$), whereas if $q < p$ he separates and works only on his own project (so $e_T = 0$ and $e_O = p/c$). Taking e_T as given, the leader chooses e_L to maximize $U_L(e_L, e_T)$. The first–order condition $A - b(e_L + e_T) - \gamma e_L = 0$ yields a unique interior solution

$$e_L(e_T) = \frac{A - be_T}{b + \gamma},$$

so that operative effort raises the leader's effective input $z = e_L + e_T$ while allowing him to economize on his own costly effort.

We model sanctions as a tax $\tau \in [0, 1)$ on the leader's non–charity wealth W_0, which tightens the financing constraint for the wage bill qe_T. In particular, if each unit of e_T generates proportional charity–based funding that can be used to pay wages, the effective resource constraint can be written as $qe_T \leq (1-\tau)W_0 + \kappa(e_L + e_T)$, where $\kappa > 0$ captures how conflict effort (including work in charities) raises the leader's usable wealth. This constraint implies an upper bound $\bar{q}(\tau)$ on the feasible incentive rate q. Without sanctions ($\tau = 0$), we assume $\bar{q}(0) \geq p$ and parameter values such that the leader optimally chooses $q^N \geq p$ and employs the operative on his project. In this regime the operative works exclusively for the leader, exerting $e_T^N = q^N/c > 0$ and $e_O^N = 0$, while the leader chooses $e_L^N = e_L(e_T^N) > 0$ according to the best response above. All charity–related fundraising effort by the operative is therefore tied to the leader's organization, and overall funding is concentrated in that group. Overall conflict, defined as the sum of conflict output from the leader's organization and from the alternative project, is $C^N = F(e_L^N + e_T^N)$, since $e_O^N = 0$.

Under sanctions, the tax $\tau > 0$ reduces the non–charity component of the leader's wealth $(1-\tau)W_0$ and thus lowers the maximal incentive rate $\bar{q}(\tau)$ that he can finance. We focus on

the case in which sanctions are sufficiently tight that $\bar{q}(\tau) < p$. In this regime, even if the leader devotes substantial effort to his own activities (including charity–related work that raises $\kappa(e_L + e_T)$), he cannot offer a piece rate q that matches the operative's private return p from working independently. The operative then separates and reallocates all effort to his own project: $e_T^S = 0$ and $e_O^S = p/c$. His effort now raises both the probability and intensity of attacks by the alternative organization and the wealth that he controls through his own charity networks. Anticipating this, the leader optimally sets $e_L^S = e_L(0) = A/(b+\gamma)$, which is strictly higher than e_L^N, to partially compensate for the loss of the operative. Total charity–linked effort and funding in the system increase: the leader devotes more effort to his own organization, while the operative reallocates his effort to an independent project ($e_O^S > 0$), so that the sum of effort devoted to conflict and fundraising across the two organizations is higher than in the no–sanctions benchmark.

The following proposition summarizes the main implications of the model.

Proposition 1. *When a financial sanction reduces the leader's usable non–charity wealth so that the maximal feasible piece rate satisfies $\bar{q}(\tau) < p$, and for parameter values such that in the no–sanctions regime the leader optimally employs the operative ($q^N \geq p$ and $\frac{p}{c} > \frac{\gamma}{b+\gamma} e_T^N$), there exists an equilibrium in which: (i) the operative separates from the leader and devotes all effort to an alternative terrorist project ($e_T^S = 0$ and $e_O^S = p/c$); (ii) charity activities and fundraising increase, as the leader raises his own conflict effort and the operative devotes positive effort to an independent project, so that total effort devoted to conflict and fundraising in the system rises; (iii) the total funding available to the two terrorist groups rises, because each unit of effort simultaneously increases both attacks and the resources channeled through charities; and (iv) the overall level of conflict, defined as the sum of violent activity from the leader's organization and from the alternative project, strictly increases relative to the no–sanctions benchmark. In this sense, a financial sanction on the leader tightens his internal capital market, induces organizational separation, and leads to more—not less—charity activity, funding, and violent conflict at the aggregate level.*

2.2 Institutional Setting

Pakistan offers a unique institutional and social environment in which charitable donations, religious obligations, and militant organizations are deeply intertwined. Terrorist groups frequently operate through dual structures: formal charitable fronts that collect donations, and covert militant wings that use these resources to finance attacks. This duality has been widely documented, including in recent empirical work showing that religious charities can act as intermediaries for terrorism financing by exploiting legal frameworks and social trust (Limodio, 2022).

Zakat donations play an important role in this system. As one of the core pillars of Islamic giving, Zakat provides a predictable annual flow of funds that can be mobilized by local charities, including those with opaque or militant affiliations. These donations—often delivered in cash or through informal channels—are difficult to monitor and can be redirected for operational purposes. The liquidity and periodicity of Zakat funding make it a flexible financial instrument for organizations seeking to quickly ramp up or reallocate resources in response to external shocks.

The institutional landscape also reflects systemic weaknesses in oversight. Prominent militant outfits, such as Lashkar-e-Taiba (LeT), have operated registered charities under different names, blurring the distinction between philanthropy and militancy. Regulatory capacity remains limited, and Pakistan has faced repeated scrutiny from the Financial Action Task Force (FATF) for deficiencies in anti-money laundering and counter-terror finance enforcement.

To explore these institutional dynamics at scale, we construct a rich dataset linking individual charity participants to formal sanctions across time.[1] Using administrative records from the Nonprofit Organizations Central Registry, we observe the full universe of registered charities and their affiliated individuals. We then merge these with global sanctions data—to identify sanctioned individuals within the charity network. Our data show that sanctioned

[1]For more details, see Section 3.

individuals frequently sit at the center of densely connected networks, often bridging multiple organizations. Figure 1 illustrates the web of charity affiliations in our sample, while Figure 2 highlights the case of Zafar Iqbal, a senior LeT leader and sanctioned individual who appears as a central node connecting several charities. These figures underscore how charitable structures serve not only as financial channels but also as personnel coordination platforms for sanctioned actors.

In parallel, Pakistan has experienced widespread organizational fragmentation among armed groups. Internal leadership disputes and succession struggles frequently lead to splintering. Gassebner et al. (2023) show that such splits significantly increase violence, as newly formed groups compete for visibility, recruits, and financial support. Importantly, the rise in violence is not due to infighting but to strategic signaling under competitive pressure. In our context, the decentralization of financing—triggered by sanctions disrupting central figures in charity networks—can further amplify these dynamics. As financial flows are restructured and redistributed across more organizations or individuals, they may lower barriers to entry, intensify rivalry among splinter factions, and elevate incentives for attacks as a form of strategic differentiation.

Overall, these features—voluntary religious donations, fragmented oversight, liquidity-sensitive financing, and fluid organizational structures—make Pakistan a compelling setting to study the unintended consequences of financial sanctions. Our study focuses on how sanctions targeted at key individuals within charitable networks affect group behavior, operational strategies, and the broader ecology of violence.

3 Data and Empirical Strategy

3.1 Data

Pakistan provides a high-incidence setting of terrorism and charity-based donations, where many extremist groups operate dual structures: a formal charity front and a covert militant

wing. To study the effect of sanctions on terrorist financing, we compile a novel dataset that links information on charity networks, targeted individuals, donations, and attacks. Our data construction builds on and extends sources from previous research (Limodio, 2022; Gassebner et al., 2023):

- **Charity Registry and Participation**: We use administrative records from Pakistan's Nonprofit Organizations Central Registry, maintained by the Federal Board of Revenue. These data include the universe of registered charities, along with information on founding dates, geographic location, and payment instruments (e.g., cash, bank, check). Crucially, the registry also lists individuals affiliated with each charity, allowing us to reconstruct a panel of individual–charity links. These links form the basis for our network-level analysis and sanction exposure measures.

- **Sanctioned Individuals and Group Affiliation**: We obtain data on individual sanctions from SanctionsExplorer.org, a centralized database curated by C4ADS that compiles sanctions issued by the UN, OFAC (U.S.), EU, UK, and Canada. For each sanctioned individual, we observe names, aliases, dates of designation, known affiliations, and issuing authority. We use this information to infer the terrorist group affiliation of each individual, based on descriptive fields and the sanctioning body's justification. We then match sanctioned individuals to the charity registry using fuzzy string matching and manual validation. This allows us to identify both direct and network-based exposure to sanctions, and to link charities to specific militant groups.

- **Terrorist Attacks**: Terrorist incidents are sourced from the Global Terrorism Database (GTD), which includes detailed information on the date, location, responsible group, attack type, and casualties of each event. We restrict the sample to attacks in Pakistan and harmonize group identifiers over time. We construct a panel at the terrorist group–district–year level for our main analysis of violence.

- **Organizational Splits**: To track group-level adaptation, we hand-collected data on

organizational splits from media reports. Using group names in the GTD, we identified instances in which new groups emerged from existing ones—e.g., through leadership disputes or factional breakaways. These splits are coded by year and parent group based on consistent naming patterns and confirmed through contemporaneous news sources.

- **Zakat Donations**: Household-level data on charitable donations come from the Pakistan Social and Living Standards Measurement Survey (PSLM), a nationally representative survey administered by the Pakistan Bureau of Statistics. The PSLM reports the amount and channel of Zakat donations, excluding mandatory deductions. We aggregate donation amounts at the division-year level to capture variation in local financing flows.

[Insert Table 1 About Here]

Table 1 reports descriptive statistics for key outcomes. Panel A shows district-year variation in terrorist activity and charity presence. On average, there are 0.27 attacks per district-year, though the distribution is highly skewed, with a maximum of 92 attacks in a single district-year. About 9% of district-years report active charity presence, and 12% have at least one charity. The average number of active terrorist groups per district-year is 0.78, and roughly 1.19 groups per district-year are associated with sanctioned members.

Panel B presents household-level statistics on Zakat donations. The average share of sanctioned charities over total charities at the division-year level is 9.3%, with substantial variation (ranging from 0 to over 50%). The mean donation per household is PKR 1,613, with donations heavily skewed—some households report giving over PKR 600,000. Most donations are directed toward private sector recipients, such as friends, relatives, or mosques, with very limited public-sector giving.

These patterns highlight substantial heterogeneity in both charity activity and terrorist group exposure across time and space, underscoring the importance of flexible empirical

strategies in identifying the causal effects of sanctions on organizational behavior.

3.2 Empirical Strategy

We estimate the effects of exposure to individual sanctions on charity activity, Zakat donations, and terrorist incidents using a combination of difference-in-differences (DID) and event-study estimators. Our strategy exploits variation in the timing of exposure across individuals and the organizations they are affiliated with, using rich panel data tracking outcomes over time (see Figure 3 and Figure 4).

Recent research has highlighted that traditional two-way fixed effects (TWFE) models can produce misleading estimates when treatments occur at different times.[2] To address these concerns, we apply the imputation-based estimator proposed by Borusyak et al. (2024), which provides consistent estimates of average treatment effects under staggered treatment and avoids issues related to negative weighting or implicit extrapolation.

We further account for potential differences between exposed and non-exposed units by employing two complementary control group strategies. First, we use the full sample of observations, combining treated and untreated units over the full panel ("All" sample). Second, we restrict the control group to only those units that have not yet been exposed by time t but will be treated later in the sample ("Not-yet-treated" sample). This latter approach improves internal validity by ensuring that exposed and comparison units are drawn from a more comparable risk set.

We implement this design in a series of regressions across our main outcomes.

First, to assess whether exposure to an individual sanction in the charity personel increases the likelihood that a charity becomes active, we estimate:

$$\text{Active}_{it} = \alpha_i + \alpha_{dt} + \beta_S \times \text{PostExposure}_{it} + \epsilon_{it}, \tag{1}$$

[2]See, e.g., Goodman-Bacon (2021); Callaway and Sant'Anna (2021); de Chaisemartin and d'Haultfœuille (2020). Goodman-Bacon (2021) shows that TWFE estimators produce a weighted average of unit-time treatment effects, where weights can be negative depending on the structure of treatment timing (de Chaisemartin and d'Haultfœuille, 2020).

where Active_{it} is an indicator for whether charity i is active in year t, and PostExposure_{it} equals one if any member of charity i has been exposed to a sanction by time t. Charity fixed effects α_i absorb time-invariant heterogeneity; district-year fixed effects α_{dt} control for location-specific shocks.

Next, to isolate the effects of the sanction due adaptation from the direct effects of the funding shock, we estimate effects of sanctions on charities connected to the sanctioned individual through personnel ties:

$$\text{Active}_{it} = \alpha_i + \alpha_{dt} + \beta_S \times \text{ExposedNetwork}_{it} + \epsilon_{it}, \tag{2}$$

where $\text{ExposedNetwork}_{it}$ equals one if charity i has at least one unsanctioned member connected to an individual exposed to a sanction.

To analyze local fundraising responses, we use a continuous DID specification:

$$\text{ZakatDonations}_{dt} = \alpha_d + \alpha_t + \beta_S \times \frac{\text{ExposedCharities}}{\text{TotalCharities}}_{dt} + \mathbf{X}'_{hdt}\gamma + \epsilon_{dt}, \tag{3}$$

where the key regressor is the share of charities in division d and year t exposed to a sanction. Because nearly all divisions become exposed around the same time, staggered treatment is not a concern in this setting. The specification includes division fixed effects α_d and year fixed effects α_t, as well as a vector of household-level controls $\mathbf{X}_{hdt}$: total number of children, total family members, annual income, and the educational level of the household head. These controls account for observable differences in household donation behavior that may be correlated with exposure to affected charities.

Next, we analyze if the effects of the individual sanctions and the potential funding responses using charities translate into any changes in terrorist activity. To do that we estimate the effects of such a exposure on terrorist activity:

$$\text{Terror}_{dgt} = \alpha_{gd} + \alpha_{gt} + \beta_S \times \text{PostExposure}_{gt} + \epsilon_{dgt}, \tag{4}$$

where Terror_{dgt} is either the number of attacks or an indicator for any attack by group g in district d and year t. We include group-district fixed effects α_{gd} and group-year fixed effects α_{gt}. As with the charity regressions, we apply the Borusyak et al. (2024) estimator to address staggered adoption.

Across specifications, we test the identifying parallel trends assumption using event-study plots that display dynamic treatment effects and confirm the absence of systematic pre-trends. Standard errors are clustered at the appropriate level—charity, district, or group—depending on the outcome of interest.

4 Results

4.1 Effect of Sanctions on Charities

This section analyzes how financial sanctions imposed on individuals affect the behavior of charitable organizations with which they are affiliated. The key empirical challenge is identifying the causal effect of sanctions on charity activity, disentangled from confounding shifts in enforcement, local conditions, or endogenous selection. To address this, we exploit both direct exposure—charities with a sanctioned member—and a cleaner, more plausibly exogenous form of network exposure—charities indirectly linked through shared personnel affiliations.

Panel A of Table 2 presents difference-in-differences estimates where treatment is defined by the presence of at least one sanctioned individual within a charity. Across specifications, we find that sanctions lead to a sizable increase in the probability that a charity becomes active. In the full sample, sanctions are associated with a 6.1 percentage point increase in activation (column 1), growing to 9.4 percentage points when district-by-year fixed effects are included (column 3). Notably, column (4) restricts the comparison group to charities that are not treated yet but will be sanctioned in the future—effectively controlling for potential time-invariant differences across charities and isolating the impact of timing. Under this "not-

yet-treated" design, the effect rises to 21.9 percentage points, indicating a strong behavioral response to sanctions even among observably similar organizations.

Panel B shifts focus to charities that are not directly linked to any sanctioned individual but are exposed via second-degree network ties: at least one of their members is affiliated with another charity that includes a sanctioned individual. These organizations are legally untouched but experience indirect exposure through personnel overlap. The estimates show that even this more distal form of network exposure substantially increases activity. The effect ranges from 15.0 to 19.7 percentage points across specifications, and in column (4)—which again uses only not-yet-treated charities as controls—the estimate rises to 29.5 percentage points. Since these charities are not themselves sanctioned and do not have any sanctioned members, this pattern is consistent with a structural adaptation to external enforcement shocks propagating through organizational networks.

[Insert Table 2 About Here]

The dynamics of these effects are presented in Figure 5, which shows event-time estimates centered around the year of first sanction exposure. The pre-treatment coefficients are flat and indistinguishable from zero, supporting the assumption of parallel trends. Following the sanction year, the probability that a charity is active increases persistently, reaching 10–12 percentage points above baseline by year four. This gradual and sustained rise suggests that the operational response to sanctions unfolds over time, consistent with strategic reorganization and substitution behavior within the charitable network.

[Insert Figure 5 About Here]

Together, these results provide strong evidence that sanctions on individuals—both directly and indirectly—activate organizational responses among affiliated charities. Importantly, the effects estimated in Panel B are not simply spillovers: they exploit more exogenous variation in exposure, as the focal organizations are not targeted and are treated only

through network connections. The use of not-yet-treated organizations as controls further reinforces the credibility of the identification. These findings point to a broader organizational resilience and adaptability in response to targeted financial regulation, suggesting that enforcement strategies need to consider the role of personnel networks in mediating policy impact.

4.2 Sanctions and Zakat Donations

This section investigates a potential mechanism behind the observed increase in charity activity following individual sanctions: the mobilization of Zakat donations. Zakat, a religiously mandated form of almsgiving, plays a central role in financing both philanthropic and, in some cases, militant organizational infrastructures. When a member of a charitable network is sanctioned, affiliated groups may face a sudden financial shock. In response, they may strategically intensify Zakat-based fundraising, particularly during the Ramadan period, when religious giving peaks.

Table 4 presents evidence consistent with this interpretation. Following the sanctioning of an affiliated individual, reported Zakat donations increase significantly. This result suggests that charities may not only become operationally active after sanctions, but also seek to re-stabilize their funding base. This interpretation aligns with prior evidence that extremist networks systematically use charitable institutions to mobilize religious donations in support of organizational activities (Limodio, 2022).

To distinguish this mechanism from alternative explanations, we also examine the effect of sanctions on public sector charity donations. The estimated coefficients are statistically indistinguishable from zero. These null results serve as a falsification test: the observed increase in Zakat is not simply due to broader shifts in individual generosity, economic trends, or seasonal giving. Rather, the response appears organizationally mediated and targeted—specific to charitable structures activated in response to individual sanctions.

[Insert Table 4 About Here]

These results support the view that increased charity activity is not a passive byproduct of sanctions but part of a deliberate financial adjustment process. Charities, particularly those embedded in personnel networks affected by sanctions, act as flexible funding conduits. The surge in Zakat collections reflects an adaptive response designed to offset the economic impact of individual financial restrictions, illustrating the financial resilience of such networks.

4.3 Sanctions and Terrorism

We now examine how sanctions affect terrorist violence. Table 5 reports estimates from a difference-in-differences design measuring the impact of individual-level sanctions on the intensity of terrorist activity. Across specifications, we find that sanctions lead to a statistically and economically significant increase in attacks. The baseline estimate indicates an increase in the probability of a terrorist incident, as well as in the number of attacks and associated casualties, in the years following a sanction. These effects are not only immediate but persist for several years, highlighting the potential for sanctions to escalate rather than contain violence.

[Insert Table 5 About Here]

The dynamic response is further illustrated in Figure 6. The event-study estimates show no evidence of pre-trends, followed by a sharp increase in violence beginning in the year of the sanction. The effect intensifies over time, suggesting that the organizational and strategic adjustments by terrorist actors in response to sanctions take time to materialize but then persist.

[Insert Figure 6 About Here]

The effect is particularly strong for groups with an affiliated charitable organization. As shown in Table 6, terrorist groups that also operate a charity arm exhibit significantly larger post-sanction increases in violence. This finding reinforces the idea that charities serve as

operational infrastructure and funding vehicles. Their presence enables sanctioned groups to more effectively absorb financial shocks, mobilize resources, and reconfigure their strategic posture following disruptions.

[Insert Table 6 About Here]

We also find evidence that sanctions increase the likelihood of organizational fragmentation within terrorist networks. Table 7 shows a significant rise in group splits following sanctions. This is consistent with the theory that sanctions exacerbate internal frictions—such as leadership disputes or competition over scarce resources—which in turn lead to the proliferation of armed actors. Recent empirical work by Gassebner et al. (2023) shows that such proliferation increases organized political violence, as new splinter groups compete for funding, recruits, and visibility. Our results support this channel: the increase in violence post-sanction is not only due to the intensified activity of existing groups, but also the emergence of new, competitive ones.

[Insert Table 7 About Here]

In sum, sanctions intended to suppress terrorist capacity may trigger adaptation along two key dimensions: (i) financial substitution through affiliated charities, and (ii) organizational restructuring through group splits. These adjustments—rather than reducing violence—may instead contribute to its escalation and diffusion, particularly in settings where institutional infrastructure allows for flexible responses.

5 Robustness Checks

5.1 Type of Payment

In our main analysis, we find that sanctions lead to increased activity among charities. One concern is that this effect may be concentrated among a particular type of organization—namely, those that operate primarily in cash, which are more opaque and often harder

to monitor. Prior research has shown that terrorist organizations are more likely to exploit cash-intensive charities for financing purposes (Limodio, 2022).

To assess whether our results are being driven by this channel, we disaggregate the response by mode of payment. Table A.1 reports estimates separately for charities receiving donations in cash and those operating via branch-based or banking infrastructure. We find that both types of organizations increase their activity following sanctions, with no meaningful difference in the magnitude of the effect. This suggests that the response is not limited to cash-based charities and, more broadly, that the mobilization we observe is not simply a function of financial opacity.

[Insert Table A.1 About Here]

5.2 Sanction Enforcement and Terrorist Activity

This section studies whether the effects of sanctions on terrorist activity depend on enforcement capacity. The motivation follows Efing et al. (2023), who emphasize that the formal enactment of sanctions need not produce uniform behavioral responses when enforcement differs across jurisdictions. Using FATF assessments, they classify countries with weak anti-crime policies and note that noncompliant countries are declared noncooperative; Pakistan appears explicitly among the noncooperative (FATF blacklisted) cases. This institutional setting suggests that sanctions should be less effective for Pakistani groups operating primarily under domestic enforcement relative to organizations that operate internationally and therefore face stricter cross-border compliance constraints.

Table A.2 implements this idea by allowing the post-sanction effect to vary by group nationality, contrasting the domestic institutional environment in Pakistan with the cross-border environment relevant for international groups. The estimates indicate substantial heterogeneity: the post-sanction change in violence is not uniform and is primarily concentrated among international groups.

[Insert Table A.2 About Here]

Table A.3 provides complementary evidence on organizational adjustment. Post-sanction changes in group split-ups are likewise concentrated among international groups rather than domestic Pakistani groups. This pattern is consistent with an enforcement-based interpretation in which cross-border exposure tightens the effective sanction environment and increases the returns to reorganization, such as fragmentation or rebranding, to sustain operations under higher enforcement pressure.

[Insert Table A.3 About Here]

Taken together, the results support the paper's core claim that sanctions effects depend on enforcement capacity and institutional quality. They link heterogeneous sanction enforcement to downstream real outcomes in violence and to organizational adaptation, complementing the existing evidence that focuses primarily on financial intermediaries' responses to sanctions (Efing et al., 2023).

5.3 Number of Charities per Individual

We further assess the robustness of our results by using a coarser measure of charity activity: the number of active charities per individual in a given district. While this specification is less granular than our baseline, which measures activation at the charity-year level, it offers a useful aggregate perspective on organizational engagement.

As reported in Table 3, we continue to find a significant increase in activity in the post-sanction period. This confirms that our baseline findings are not an artifact of how the charity-level panel is constructed, and that the rise in participation is robust even when using individual-level aggregates.

[Insert Table 3 About Here]

5.4 Sanctions and Terror Casualties

Table A.4 tests whether the increase in terrorist activity following sanctions also translates into higher human costs. We examine both the number of casualties and an indicator for any casualties as dependent variables. Across specifications, sanctions significantly increase total casualties and the probability of any casualty, with effects persisting when restricting the control group to not-yet-sanctioned entities. This confirms that sanctions intensify the lethality—not just the frequency—of terrorist operations.

[Insert Table A.4 About Here]

These results complement the baseline findings by demonstrating that organizational adaptation after sanctions has substantive operational consequences: sanctioned and network-linked groups escalate both attack intensity and destructive capacity. The consistency of these results across specifications reinforces the interpretation that sanctions trigger organizational fragmentation and resource reallocation that ultimately heighten the human toll of violence.

5.5 Sanctions and the Capital Intensity of Attacks

Table A.5 explores whether sanctions shift the composition of violence toward more or less resource-intensive operations. We distinguish between capital-intensive (e.g., bombings, coordinated assaults) and non-capital-intensive (e.g., shootings, kidnappings) attacks. The estimates show a pronounced post-sanction increase in the likelihood and number of capital-intensive attacks, while non-capital-intensive attacks also rise but to a lesser extent.

[Insert Table A.5 About Here]

These findings align with the mechanism proposed in Limodio (2022): access to flexible, charity-based funding allows sanctioned organizations to finance costly, capital-heavy attacks despite formal financial restrictions. In this sense, the robustness check strengthens the causal link between financial adaptation and the escalation of organized violence.

5.6 Sanctions and Conflict Against Other Terrorist Groups

Table A.6 examines whether the post-sanction rise in violence reflects greater conflict among terrorist groups or broader escalation against external targets[3] The estimates show a significant increase in attacks against other militant organizations, but this effect is smaller than the rise in overall terrorist activity.

[Insert Table A.6 About Here]

These results indicate that sanctions contribute to both internal and external forms of violence. Organizational fragmentation and competition lead some factions to engage directly with rival groups, yet most of the escalation occurs through intensified attacks on government and civilian targets. This pattern aligns with the mechanism proposed by Gassebner et al. (2023), where group proliferation heightens competition and political violence, but our findings suggest that sanctions-induced fragmentation amplifies conflict along multiple margins rather than only through inter-group fighting.

5.7 Sanctions and Terror: Charities or Group Size?

Table A.7 addresses the concern that our findings on terrorist activity could be mechanically driven by group size, as larger organizations might both operate charitable arms and be more likely to conduct attacks. To account for this, we implement a coarsened exact matching procedure based on the number of districts in which each group was active prior to any sanction in our sample. This approach balances treated and untreated groups on their pre-sanction geographic footprint before re-estimating our baseline specification.

[Insert Table A.7 About Here]

[3]As the number of attacks against other terrorist groups is limited, the not-yet-treated control group strategy cannot be implemented for this outcome due to insufficient identifying variation. Results for other types of attacks are similar to the baseline and are available upon request.

The results confirm that our main effects are not driven by size differences. Groups with pre-existing charitable structures continue to display a significantly larger increase in both the probability and number of attacks after sanctions, while the effects for groups without charities remain small and statistically insignificant.[4] Overall, the findings reinforce that the post-sanction escalation in violence is linked to the presence of charity-based financing networks rather than to pre-existing group scale.

6 Conclusion

Sanctions are a central instrument for disrupting terrorist financing networks, particularly through designations of individuals and organizations believed to channel resources to violent actors. Yet our findings show that these interventions can generate significant and persistent unintended consequences.

We begin by documenting that individual financial sanctions—especially those imposed on actors embedded within charitable networks—induce strategic adaptation across multiple organizational layers. Sanctioned individuals increase their participation in charities, deepening their involvement in existing fronts. Strikingly, these adjustments are not confined to sanctioned actors. Using a clean network-exposure design, we show that individuals who are not sanctioned but are indirectly connected to sanctioned leaders through overlapping charity affiliations also increase their charitable participation once their peers are designated. Because these individuals face no legal restrictions, their behavioral responses provide compelling evidence that enforcement propagates through personnel networks. This design strengthens causal interpretation and highlights how organizational interdependencies mediate the effects of financial restrictions.

We then examine whether increased charity participation translates into changes in fundraising. Zakat donations rise sharply following sanctions, especially in districts with

[4]Because the matching procedure substantially reduces the effective sample size of not yet treated units, therefore using this units as the control group cannot be implemented in this setting.

a larger share of sanctioned charities. This increase is specific to charity-linked giving and does not extend to donations routed through public channels, reinforcing the view that organizations strategically mobilize private resources to buffer against financial disruptions.

Sanctions also heighten political violence. Attacks and casualties increase, particularly for groups with charitable arms, and these effects persist for several years. We further show that sanctions are associated with a greater likelihood of group splits—hand-coded from media reports—with new factions contributing to the diffusion of violence as they compete for visibility, recruits, and funding. This dynamic echoes recent evidence that proliferation of armed groups intensifies conflict (Gassebner et al., 2023).

Our evidence on the proliferation of splinter groups mirrors, at the organizational level, macro patterns of fragmentation in global financial markets emphasized in recent work on the geoeconomics of finance. When leaders lose access to formal dollar-based channels, fundraising is reallocated toward more local, decentralized, and opaque structures, often accompanied by the emergence of rival factions. This suggests that the strategic use of financial sanctions can induce not only cross-border rerouting of capital flows but also internal fragmentation of targeted organizations, complicating both monitoring and deterrence.

Taken together, these results call for a rethinking of how financial sanctions are designed and implemented. While sanctions may successfully target known nodes in financing networks, they also activate second-degree responses that reshape the broader financial and organizational architecture of extremist groups. Effective financial statecraft requires acknowledging the networked nature of terrorist financing, monitoring indirect exposure through personnel ties, and anticipating reorganization strategies that can blunt enforcement and amplify violence.

These findings open several avenues for further research. One concerns cross-border spillovers: whether sanctions in one jurisdiction displace fundraising to less regulated markets. Another is the role of coordination failures and internal frictions—such as differences in adaptability between core and peripheral nodes—in shaping organizational responses. A

third avenue is the interaction between financial enforcement and emerging modes of digital fundraising, including cryptocurrency and social-media-based channels, which may increasingly mediate terrorist financing as traditional networks come under pressure.

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Tables and Figures

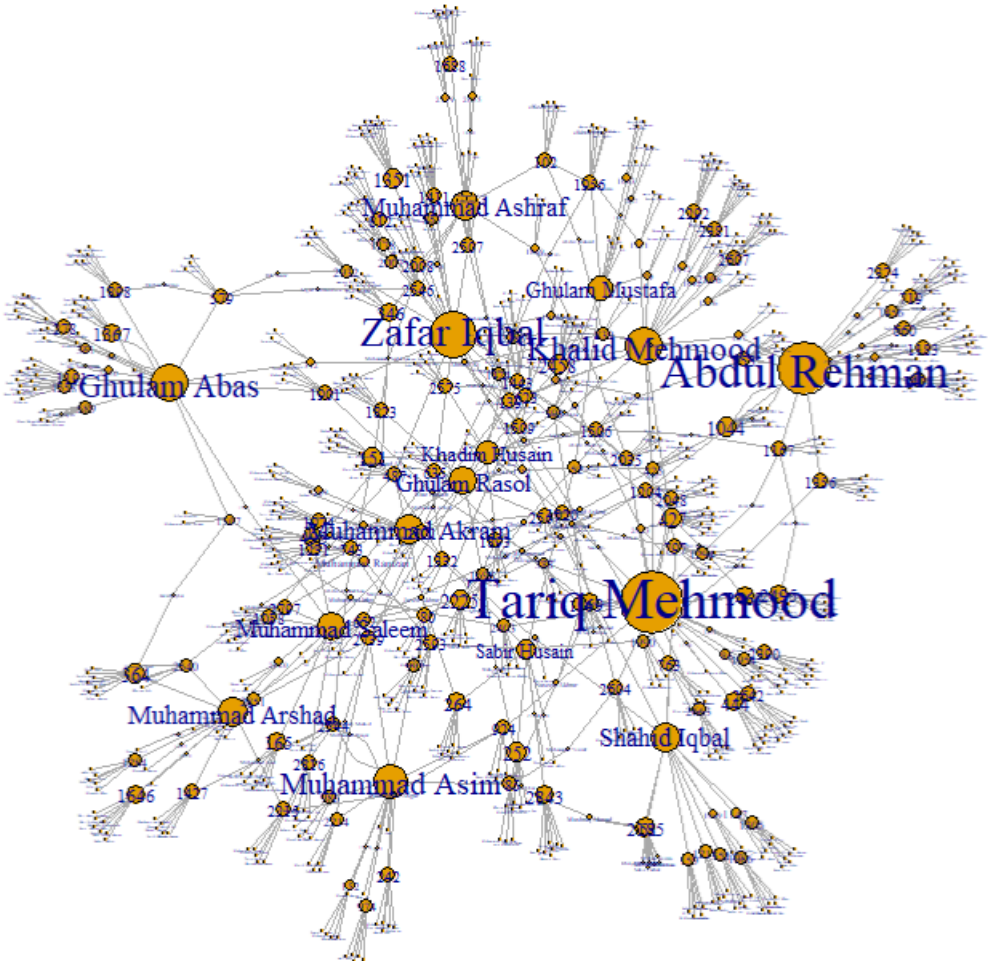


Figure 1: Charity Members Network

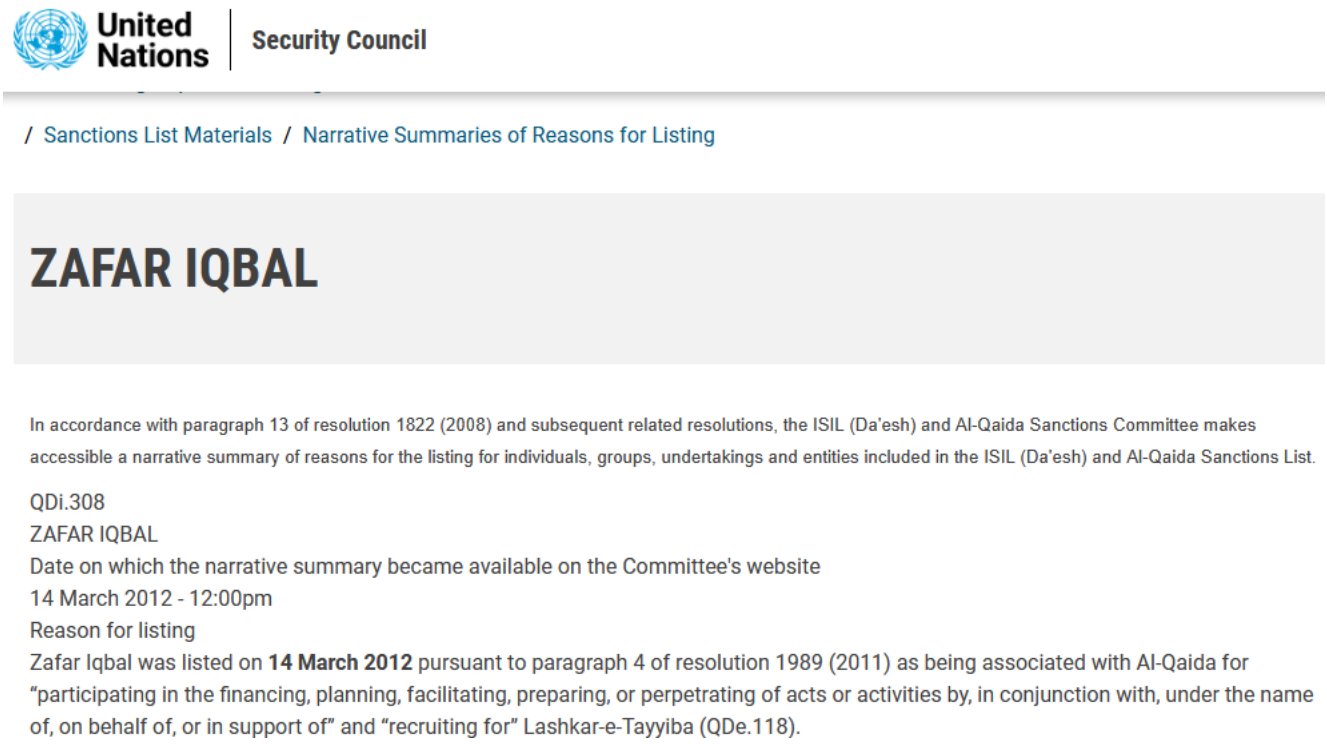


Figure 2: Zafar Iqbal's UN Sanction

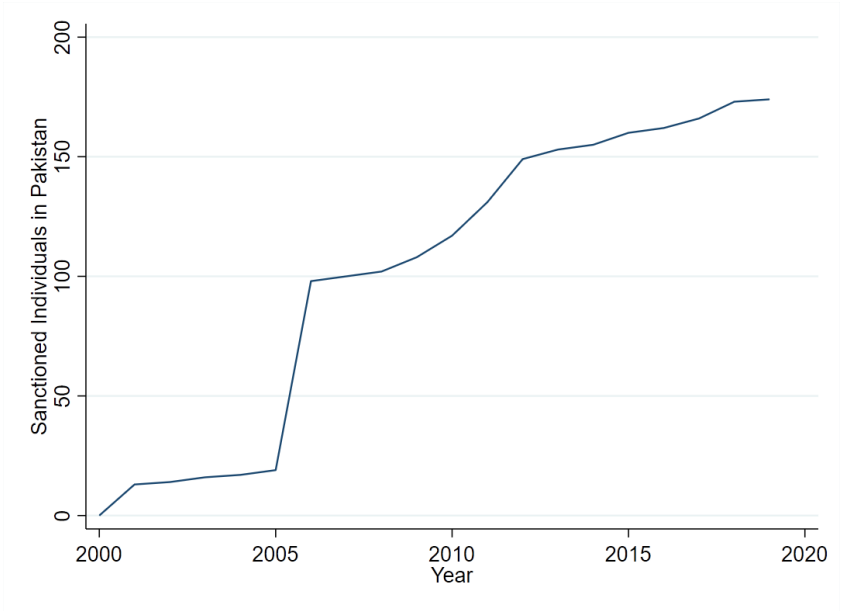
Table 1: Summary Statistics

District Level

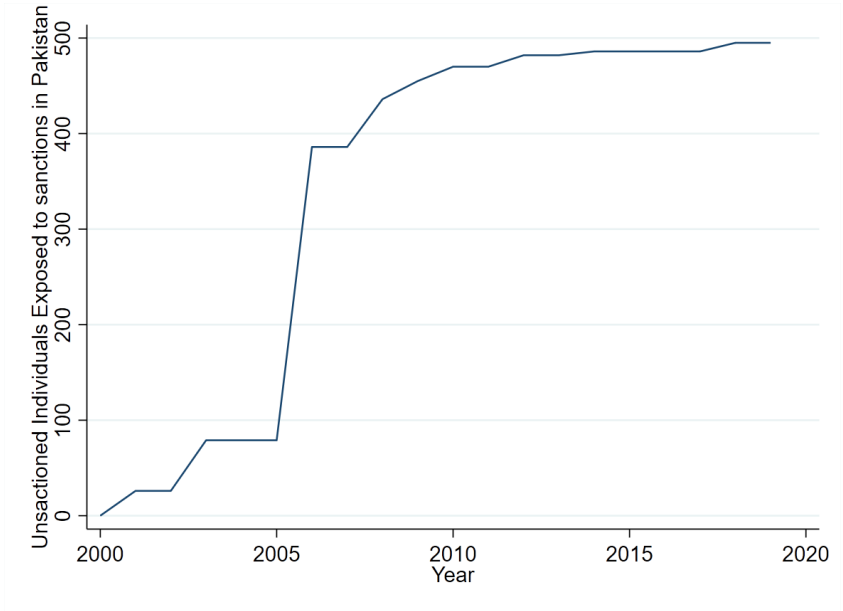
Variable	Mean	Median	Min	Max
# of Attacks	0.27	0	0	92
Active at District	0.09	0	0	1
Have Charities at District	0.12	0	0	1
# of Active Groups	0.78	0	0	12
# of Sanctioned Groups	1.19	0	0	6
# of Groups with Charities	0.86	1	0	2
Observations				13,981

Individual Zakat Donations

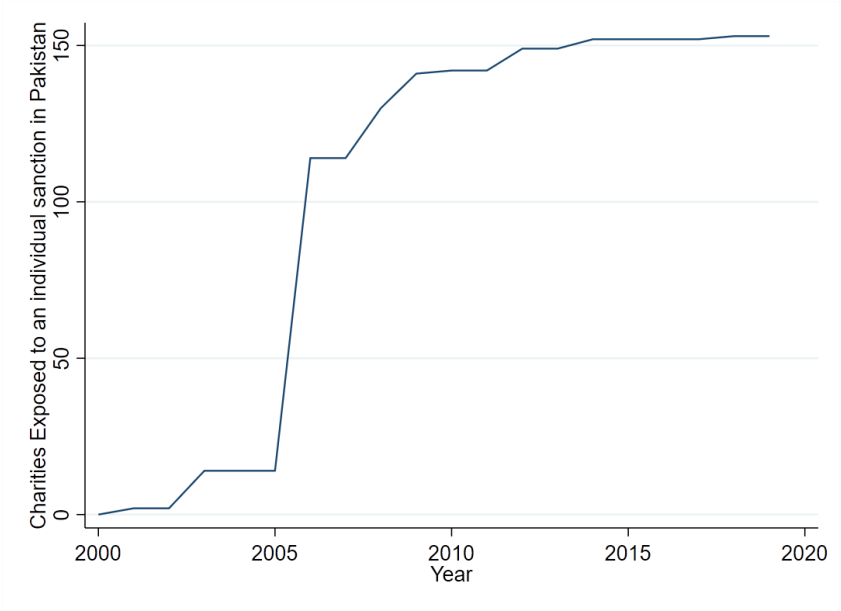
Variable	Mean	Median	Min	Max
$\frac{SanctionedCharities}{TotalCharities}$	0.09	0.05	0	0.53
Total Charities	150	161	0	478
Amount of Zakat paid	1613	0	0	666,000
Amount of Zakat paid to the private sector	1493	0	0	666,000
Amount of Zakat paid to the public sector	121	0	0	300,000
Observations				54,988



(i) Sanctioned Individuals in Pakistan



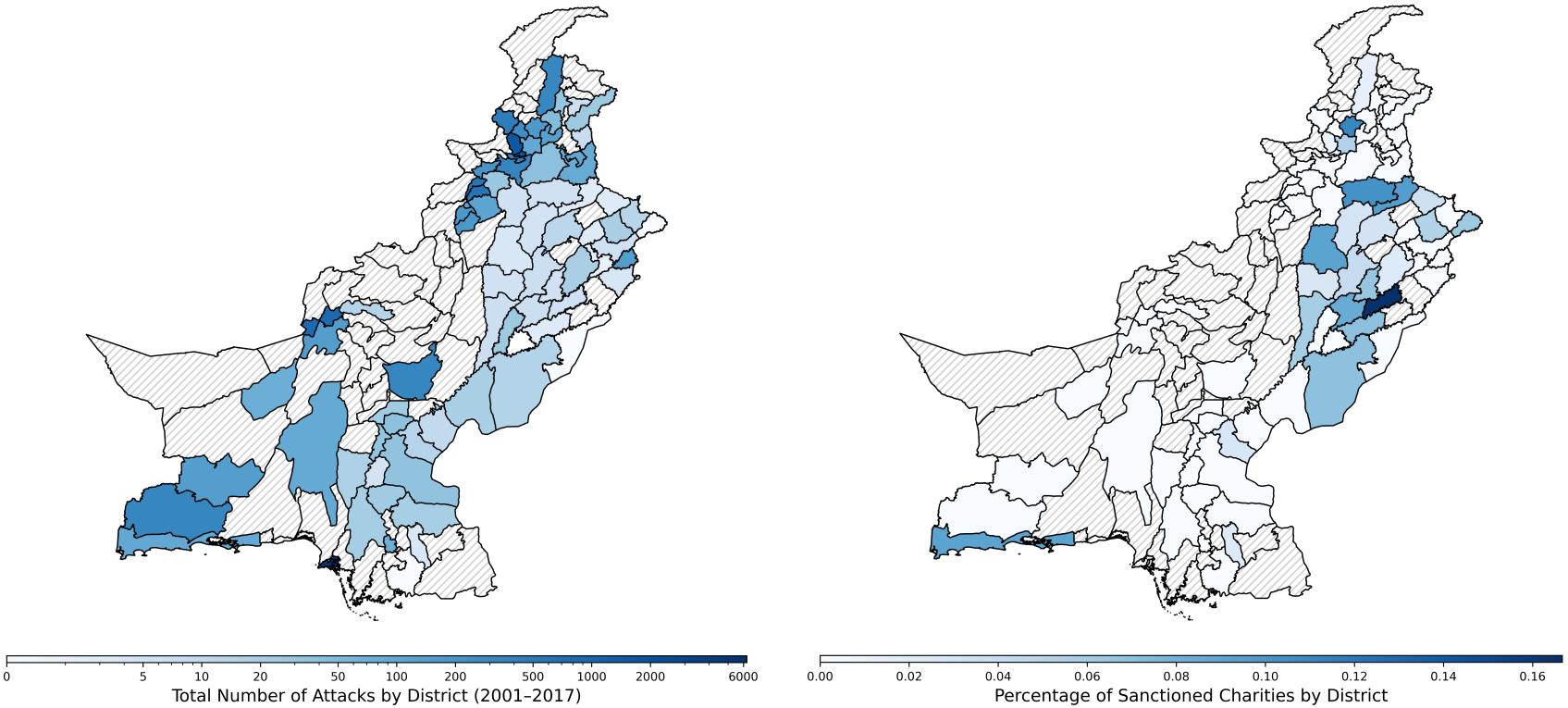
(ii) Individuals exposed to sanctions only through network



(iii) Charities with sanctioned board members

Figure 3: Sanctions over time

Notes: We obtain data on individual sanctions from SanctionsExplorer.org, a centralized database curated by C4ADS that compiles sanctions issued by the UN, OFAC (U.S.), EU, UK, and Canada.



(i) Terrorist Attaches across districts (log scale)

(ii) Charities with sanctioned board members across districts

Figure 4: Sanctions over time

Notes: Dashed polygons represent districts without any charity registration between 2001 and 2017.

Table 2: Sanctions and Active Charities

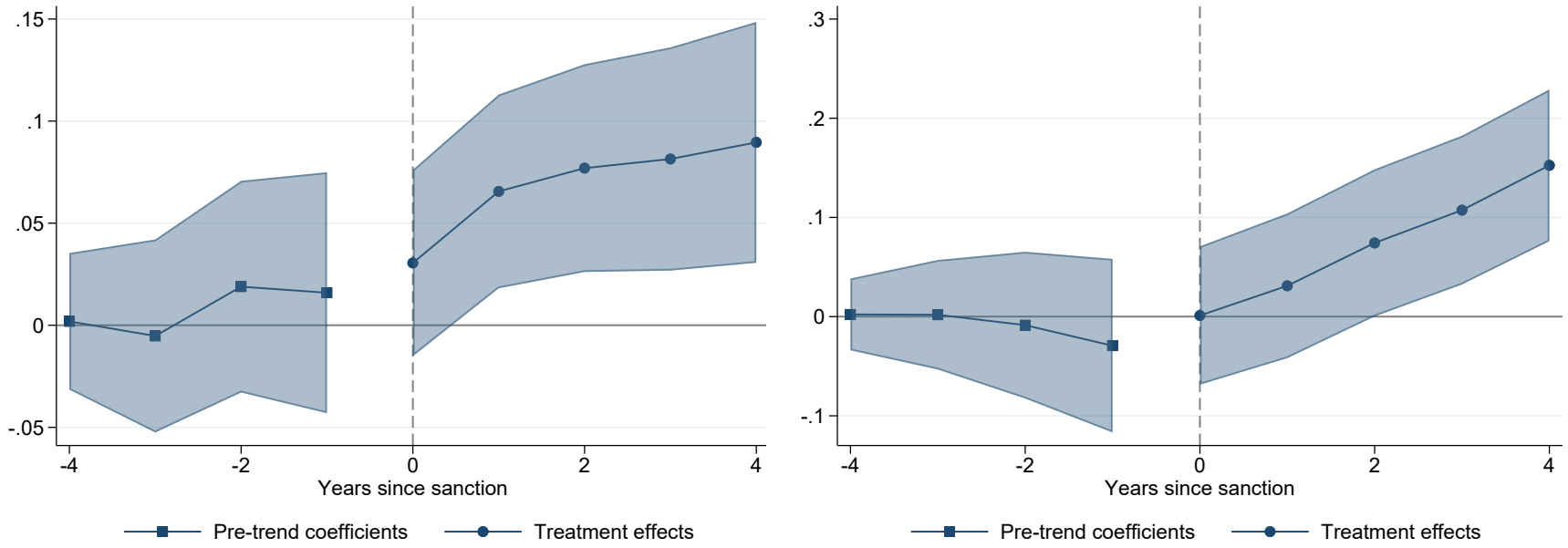
Panel A: Individuals Sanctioned in Charity

	Active Charity			
	(1)	(2)	(3)	(4)
Post-Sanction	0.061**	0.172***	0.094***	0.219***
	(0.024)	(0.062)	(0.025)	(0.037)
Observations	58737	3906	58711	2732
Charity FE	✓	✓	✓	✓
Year FE	✓	✓		
District X Year FE			✓	✓
MDV	0.366	0.343	0.366	0.398
Control Group	All	Not yet	All	Not yet

Panel B: Individuals Sanctioned in Charity Network

	Active Charity			
	(1)	(2)	(3)	(4)
Sanctioned Network	0.150***	0.364***	0.197***	0.295***
	(0.035)	(0.058)	(0.038)	(0.043)
Observations	46053	1659	46053	934
Charity FE	✓	✓	✓	✓
Year FE	✓	✓		
District X Year FE			✓	✓
MDV	0.380	0.157	0.380	0.219
Control Group	All	Not yet	All	Not yet

Notes: Each panel reports estimates using the sanctioned sample (Panel A) or the unsanctioned but network-exposed sample (Panel B). The dependent variable *Active Charity* equals 1 if charity i has any recorded activity in year t. *Post-Sanction* equals 1 in years $\geq$ the first designation date of any individual affiliated with charity i. *Sanctioned Network* equals 1 if charity i has no sanctioned member but at least one member is also affiliated with another charity that has a sanctioned individual (indirect exposure via personnel ties). Some specifications restrict controls to "not-yet treated" units. Standard errors clustered at the charity level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.



(i) Individuals Sanctioned in Charity

(ii) Individuals Sanctioned in Charity Network

Figure 5: Dynamic Effects of Sanctions on Charity Activity

Notes: Event-study coefficients relative to the first year of sanction exposure. Panel (i) shows effects for charities with a sanctioned member (*Post-Sanction*); Panel (ii) shows effects for charities indirectly exposed via personnel ties (*Sanctioned Network*). Outcome is the probability a charity is active (*Active Charity*). Shaded areas denote 95% confidence intervals. Specifications include charity fixed effects and common time effects; some variants include richer time-by-area fixed effects.

Table 3: Sanctions and Charities Involvement per Individual

Panel A: Sanctioned Individuals

	Active at district				asinh(# Charities)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Sanctioned Network	0.079***	0.229***	0.107***	0.176***	0.059***	0.208***	0.084***	0.158***
	(0.010)	(0.028)	(0.011)	(0.015)	(0.012)	(0.030)	(0.012)	(0.017)
Observations	137277	24234	137264	18919	137277	24234	137264	18919
Person X District FE	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓	✓			✓	✓		
District X Year FE			✓	✓			✓	✓
MDV	0.347	0.320	0.346	0.377	0.361	0.349	0.360	0.412
Control Group	All	Not yet	All	Not yet	All	Not yet	All	Not yet

Panel B: Unsanctioned Individuals affected by sanction at their network

	Active at the district				asinh(# Charities)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Sanctioned Network	0.085***	0.241***	0.114***	0.188***	0.064***	0.221***	0.091***	0.171***
	(0.011)	(0.029)	(0.011)	(0.016)	(0.013)	(0.032)	(0.013)	(0.018)
Observations	134337	21294	134337	16399	134337	21294	134337	16399
Person X District FE	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓	✓			✓	✓		
District X Year FE			✓	✓			✓	✓
MDV	0.345	0.308	0.345	0.365	0.358	0.335	0.358	0.398
Control Group	All	Not yet	All	Not yet	All	Not yet	All	Not yet

Notes: Person-level outcomes include *Active at District* (any charity participation by individual i in district d, year t) and asinh(# Charities) (IHS of the number of distinct charities individual i participates in). Panel A restricts to sanctioned individuals; Panel B to unsanctioned individuals indirectly exposed via personnel ties (*Sanctioned Network*). All models include individual (or individual×district) fixed effects and common time effects; some specifications add district×year fixed effects. Standard errors clustered at the individual level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 4: Sanctions and Zakat Donations

Panel A: Intensive Margin

	Zakat Donations		Private Zakat Donations		Public Zakat Donations	
	(1)	(2)	(3)	(4)	(5)	(6)
$\frac{SanctionedCharities}{TotalCharities}$	0.815**	0.883***	0.885***	0.967***	0.042	-0.062
	(0.342)	(0.317)	(0.336)	(0.312)	(0.110)	(0.106)
Observations	54988	53986	54988	53986	54988	53986
Division FE	✓	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓	✓
HH Characteristics Controls		✓		✓		✓
MDV	1.474	1.334	1.416	1.281	0.084	0.075

Panel B: Extensive Margin

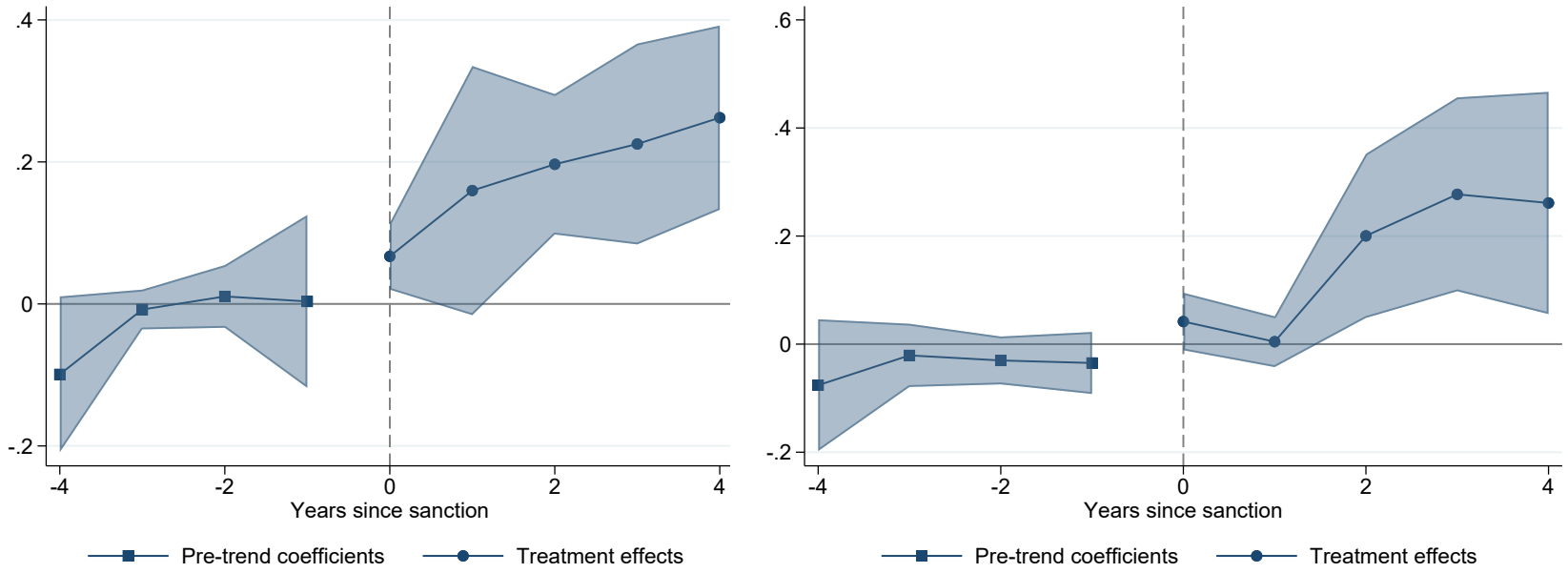
	Zakat Donations		Private Zakat Donations		Public Zakat Donations	
	(1)	(2)	(3)	(4)	(5)	(6)
$\frac{SanctionedCharities}{TotalCharities}$	0.110***	0.115***	0.119***	0.125***	0.001	-0.009
	(0.039)	(0.036)	(0.038)	(0.036)	(0.012)	(0.012)
Observations	54988	53986	54988	53986	54988	53986
Division FE	✓	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓	✓
HH Characteristics Controls		✓		✓		✓
MDV	0.163	0.148	0.157	0.142	0.009	0.008

Notes: Panel A reports intensive-margin results where outcomes are the inverse hyperbolic sine (IHS) of donation amounts; Panel B reports extensive-margin indicators (= 1 if amount > 0). *Zakat Donations* are household-reported annual charitable transfers; where applicable, results may be shown separately by destination type (e.g., private vs. public channels). The key exposure regressor is the local sanction intensity (e.g., share or presence of sanctioned charities in the administrative unit and year). All columns include area and year fixed effects; some add household covariates. Standard errors clustered at the administrative-division level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 5: Sanctions and Terror

	# of Attacks				Active at the city			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Post-Sanction	0.454***	0.649***	0.671***	0.594**	0.064***	0.111***	0.192***	0.151***
	(0.148)	(0.172)	(0.130)	(0.256)	(0.019)	(0.021)	(0.019)	(0.034)
Observations	13981	13393	3784	2956	13981	13393	3784	2956
Terror Group X District FE	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓		✓		✓		✓	
Year X District FE		✓		✓		✓		✓
MDV	0.271	0.267	0.191	0.059	0.088	0.085	0.056	0.021
Control Group	All	All	Not yet	Not yet	All	All	Not yet	Not yet

Notes: Outcomes include *Number of Attacks* (count of incidents by group g in district d, year t) and *Active at District* (indicator for any attack). *Post-Sanction* equals 1 in years $\geq$ the first designation date of any sanctioned individual affiliated with group g. Specifications include group×district fixed effects and common time effects; some columns add district×year fixed effects or "not-yet treated" comparisons. Standard errors clustered at the group level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.



(i) Active at District

(ii) Number of Attacks

Figure 6: Dynamic Effects of Sanctions on Terror

Notes: Event-study estimates at the group×district level around the first sanction affecting group g. Panel (i) outcome: indicator for any attack in district d; Panel (ii) outcome: number of attacks (levels or IHS, depending on specification). Models include group×district fixed effects and common time effects; some variants add group×year or district×year fixed effects. Shaded areas denote 95% confidence intervals.

Table 6: Sanctions, Terror, and Charity Involvement

	Num. of Attacks			Prob. of Attack		
	(1)	(2)	(3)	(4)	(5)	(6)
Post-Sanction X No Charities	0.079	0.192		-0.006	0.111**	
	(0.162)	(0.135)		(0.025)	(0.047)	
Post-Sanction X Had Charities	0.859***	0.746**	0.606***	0.153***	0.166***	0.128***
	(0.220)	(0.338)	(0.231)	(0.026)	(0.043)	(0.030)
Observations	13393	2956	5332	13393	2956	5332
Terror Group X District FE	✓	✓	✓	✓	✓	✓
Year X District FE	✓	✓		✓	✓	
Year X Sanction Year FE			✓			✓
MDV	0.267	0.059	0.385	0.085	0.021	0.105
Control Group	All	Not yet	Sanctioned w/o Charities	All	Not yet	Sanctioned w/o Charities

Notes: Outcomes include *Number of Attacks* and *Probability of Attack*. Interactions of *Post-Sanction* with pre-sanction charity involvement indicators compare groups that operated a charity arm (*Had Charities*) versus those that did not (*No Charities*). Some specifications include group×district and district×year fixed effects, and flexible *Year*×*Sanction-Year* controls. Standard errors clustered at the group level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 7: Sanctions and Terrorist Group Split-ups

	# of Split-ups				Any Split-up			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
# of Sanctioned Members	0.085***		0.083***		0.010***		0.005**	
	(0.011)		(0.014)		(0.002)		(0.002)	
# of Sanctioned Members × No Charities		0.020***		-0.007		0.007**		-0.003
		(0.006)		(0.006)		(0.003)		(0.003)
# of Sanctioned Members × Had Charities		0.124***		0.111***		0.012***		0.008***
		(0.009)		(0.009)		(0.002)		(0.002)
Observations	1541	1541	184	184	1541	1541	184	184
Terrorist Group FE	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓	✓	✓	✓
MDV	0.302	0.302	1.511	1.511	0.187	0.187	0.598	0.598
Control Group	All	All	Not yet	Not yet	All	All	Not yet	Not yet

Notes: Outcomes are *Number of Split-ups* (count of new factions emerging from a parent group in year t) and *Any Split-up* (indicator). *Number of Sanctioned Members* is the cumulative count of sanctioned individuals affiliated with the parent group by year t. Models include group and year fixed effects; some columns use "not-yet treated" comparisons. Standard errors clustered at the group level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Appendices

A Other Tables and Figures

Table A.1: Sanctions, Charities, and Banking

Panel A: Individuals Sanctioned in Charity

	Active Charity Uses Bank				Active Charity Does not Use Bank			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Post-Sanction	0.074**	0.241***	0.094***	0.275***	0.057*	0.013	0.082**	-0.033
	(0.032)	(0.071)	(0.035)	(0.037)	(0.031)	(0.094)	(0.035)	(0.069)
Observations	28119	2415	28090	1791	30618	1491	30605	789
Charity FE	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓	✓			✓	✓		
District X Year FE			✓	✓			✓	✓
MDV	0.343	0.313	0.343	0.371	0.342	0.345	0.342	0.445
Control Group	All	Not yet	All	Not yet	All	Not yet	All	Not yet

Panel B: Individuals Sanctioned in Charity Network

	Active Charity Uses Bank				Active Charity Does not Use Bank			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Sanctioned Network	0.147***	0.350***	0.187***	0.271***	0.155***	-0.085**	0.202***	0.000
	(0.040)	(0.052)	(0.045)	(0.041)	(0.051)	(0.042)	(0.058)	(.)
Observations	20034	1071	20018	661	26019	392	26019	242
Charity FE	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓	✓			✓	✓		
District X Year FE			✓	✓			✓	✓
MDV	0.308	0.145	0.308	0.193	0.403	0.202	0.403	0.211
Control Group	All	Not yet	All	Not yet	All	Not yet	All	Not yet

Notes: The dependent variable *Active Charity* equals 1 if charity i is active in year t. Samples are split by payment instrument (e.g., bank-based versus cash-based transactions). *Post-Sanction* and *Sanctioned Network* defined as in the main text. Standard errors clustered at the charity level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table A.2: Sanctions, Nationality, and Terror

	Num. of Attacks			Prob. of Attack		
	(1)	(2)	(3)	(4)	(5)	(6)
Post-Sanction X Domestic	0.079	0.192		-0.006	0.111**	
	(0.162)	(0.135)		(0.025)	(0.047)	
Post-Sanction X International	0.859***	0.746**	0.606***	0.153***	0.166***	0.128***
	(0.220)	(0.338)	(0.231)	(0.026)	(0.043)	(0.030)
Observations	13393	2956	5332	13393	2956	5332
Terror Group X District FE	✓	✓	✓	✓	✓	✓
Year X District FE	✓	✓		✓	✓	
Sanction Year X Year FE			✓			✓
MDV	0.267	0.059	0.385	0.085	0.021	0.105
Control Group	All	Not yet	Domestic Groups	All	Not yet	Domestic Groups

Notes: Outcomes include *Number of Attacks* and *Probability of Attack*. Interactions of *Post-Sanction* with pre-sanction charity involvement indicators compare international terrorist groups, defined as nationality if the perpetrator group nationality is not Pakistan according to the Global Terrorism Database, and a domestic terrorist groups, defined if the perpetrator group is Pakistani according to the same source. Some specifications include group×district and district×year fixed effects, and flexible *Year*×*Sanction-Year* controls. Standard errors clustered at the group level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table A.3: Sanctions, Nationality and Group Split-ups

	# of Split-ups			
	(1)	(2)	(3)	(4)
# of Sanctioned Members × Domestic	0.024***	-0.032***	0.010***	-0.010**
	(0.006)	(0.009)	(0.003)	(0.004)
# of Sanctioned Members × International	0.126***	0.098***	0.014***	0.004
	(0.009)	(0.010)	(0.002)	(0.003)
Observations	1104	115	1104	115
Terrorist Group FE	✓	✓	✓	✓
Year FE	✓	✓	✓	✓
MDV	0.207	1.817	0.073	0.539
Control Group	All	Not yet	All	Not yet

Notes: Outcomes are *Number of Split-ups* (count of new factions emerging from a parent group in year t) and *Any Split-up* (indicator). *Number of Sanctioned Members* is the cumulative count of sanctioned individuals affiliated with the parent group by year t. International terrorist groups are defined as if the nationality of the group is not Pakistan according to the Global Terrorism Database, and a domestic terrorist groups, defined if the group is Pakistani according to the same source. Models include group and year fixed effects; some columns use "not-yet treated" comparisons. Standard errors clustered at the group level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table A.4: Sanctions and Terror Casualties

	Num. of Casualties				Any Casualty			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Post-Sanction	7.871***	9.957***	9.081***	8.157**	0.082***	0.112***	0.168***	0.131***
	(2.006)	(2.422)	(1.823)	(3.383)	(0.018)	(0.021)	(0.019)	(0.035)
Observations	13981	13393	3784	2956	13981	13393	3784	2956
Terror Group X District FE	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓		✓		✓		✓	
District X Year FE		✓		✓		✓		✓
MDV	2.777	2.781	2.716	0.998	0.071	0.069	0.049	0.018
Control Group	All	All	Not yet	Not yet	All	All	Not yet	Not yet

Notes: Outcomes are *Number of Casualties* (killed + injured) and *Any Casualty* (indicator). *Post-Sanction* is defined at the group level; fixed effects follow the main terror specifications (e.g., group×district and time effects). Standard errors clustered at the group level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table A.5: Sanctions and Terror - Capital Intensity

	Capital Intensive Attacks			Non-Capital Intensive Attacks		
	(1)	(2)	(3)	(4)	(5)	(6)
Post-Sanction X No Charity	0.057	0.176		0.023	0.016	
	(0.128)	(0.120)		(0.044)	(0.018)	
Post-Sanction X Charity Presence	0.644***	0.531**	0.422**	0.214***	0.215**	0.184***
	(0.170)	(0.243)	(0.184)	(0.053)	(0.098)	(0.054)
Observations	13393	2956	5332	13393	2956	5332
Terror Group X District FE	✓	✓	✓	✓	✓	✓
Year X District FE	✓	✓		✓	✓	
Year X Sanction Year FE			✓			✓
MDV	0.213	0.045	0.292	0.054	0.014	0.093
Control Group	All	Not yet	Sanctioned w/o Charities	All	Not yet	Sanctioned w/o Charities

Notes: Outcomes are split by attack type: *Capital-Intensive* (Bombings and Armed Assaults) versus *Non-Capital-Intensive* (all the other type of attacks). Interactions compare groups with versus without a pre-existing charity arm. Fixed effects follow the main terror specifications. Standard errors clustered at the group level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table A.6: Sanctions and Conflict Against Other Terrorist Groups

	Attacks Against Terrorist Groups		Other Attacks	
	(1)	(2)	(3)	(4)
Post-Sanction X No Charity	-0.013		0.092	
	(0.011)		(0.159)	
Post-Sanction X Charity Presence	0.038**	0.044***	0.821***	0.563**
	(0.016)	(0.013)	(0.210)	(0.224)
Observations	13393	5332	13393	5332
Terror Group X District FE	✓	✓	✓	✓
Year X District FE	✓		✓	
Year X Sanction Year FE		✓		✓
MDV	0.008	0.016	0.258	0.369
Control Group	All	Sanctioned w/o Charities	All	Sanctioned w/o Charities

Notes: *Attacks Against Terrorist Groups* counts incidents where the target is another terrorist groups; *Other Attacks* covers remaining targets (government, civilian, etc.). Interactions split groups by pre-sanction charity presence. Standard errors clustered at the group level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table A.7: Sanctions, Charities and Terror - Group Size Matched Sample

	Num. of Attacks		Prob. of Attack	
	(1)	(2)	(3)	(4)
Post-Sanction X No Charities	0.130		0.003	
	(0.216)		(0.034)	
Post-Sanction X Had Charities	1.725***	1.122***	0.276***	0.209***
	(0.409)	(0.343)	(0.044)	(0.040)
Observations	10758	3193	10758	3193
Terror Group X District FE	✓	✓	✓	✓
Year X District FE	✓		✓	
Year X Sanction Year FE		✓		✓
MDV	0.290	0.571	0.090	0.134
Control Group	All	Sanctioned w/o Charities	All	Sanctioned w/o Charities

Notes: Sample matched on pre-sanction group size (e.g., number of districts of activity). Outcomes are *Number of Attacks* and *Probability of Attack*. Interactions compare groups with versus without a charity arm. Standard errors clustered at the group level are shown in parentheses. Significance: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.