

International Institutions and Market Enforcement: Generating Compliance in the Regime to Combat Terrorist Financing

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Abstract

How do international institutions generate deep and widespread policy change when they lack enforcement authority? This paper suggests institutions can use monitoring – specifically, a non-complier list – to drive policy improvements by outsourcing enforcement to market actors. Every day, market actors make decisions about how to allocate resources to foreign countries, most of which have strong incentives to conceal negative information. When institutional monitoring fills this gap, it can lead to market enforcement, whereby market actors restrict access to capital in non-compliant states and incentivize increased compliance. I test this theory through an analysis of the Financial Action Task Force (FATF), an intergovernmental body that issues non-binding recommendations about how states should combat money laundering and the financing of terrorism. I show how the FATF’s public listing of non-compliant jurisdictions has significantly increased the number of states with laws criminalizing terrorist financing. Drawing on quantitative and qualitative evidence, I illustrate the causal mechanism for this process: international banks and investors serve as outside enforcers for the FATF, moving resources away from listed states and raising the costs of continued non-compliance. This finding suggests a new pathway through which institutions influence domestic policy and highlights the power of monitoring in an age where information is a global currency.

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1 Introduction

Many of today's transnational challenges can only be solved through deep and widespread international cooperation. In some issue areas, states might choose to negotiate formal agreements to solve problems, expecting that new rules would influence the conduct of some, but not all, states. But when the problem is a transnational terrorist group or a worldwide health epidemic, non-compliance by a handful of states can create global vulnerabilities. In such circumstances, how can international institutions motivate policy change and incentivize widespread compliance?

Global cooperation on terrorist financing provides significant insight into this question. Following the 9/11 terrorist attacks, several international institutions, most notably the UN Security Council, adopted resolutions calling for the worldwide adoption of domestic laws criminalizing terrorist financing. Despite widespread global outrage over 9/11, the international response was shallow and haphazard. A decade after the attacks, most countries had laws that were weak and ineffective. Common gaps in laws – such as the failure to criminalize the financing of individual terrorists – created major vulnerabilities for transnational counter-terrorism efforts. Over the last five years, however, a non-binding regulatory institution has used a public non-complier list to reverse this trend. Today, more than 100 countries have adopted comprehensive laws on terrorist financing, making it significantly more difficult for terrorists to use the international financial system.

How did one small institution achieve such an effect? It harnessed the power of monitoring to outsource enforcement to market actors. Existing scholarship has highlighted how civil society can pressure governments to comply with international agreements (Dai, 2007; Simmons, 2009; Johns, 2012; Mansfield and Milner, 2012). In such models, domestic actors draw attention to instances of non-compliance in their own states, perhaps punishing leaders through elections. In this paper, I argue that transnational market actors can serve as

outside enforcers, punishing foreign countries that fail to comply with multilateral rules. Every day, international market actors around the globe make decisions about how to allocate their capital. Banks decide whether individuals from high-risk money laundering countries can open savings accounts, investment firms decide whether to buy debt from emerging economies, and consumers decide whether to buy products from places with poor child labor laws. In all of these cases, market actors face severe information asymmetries – they are making decisions about foreign countries that have strong incentives to misrepresent the true state of affairs.

International institutions can fill this gap, providing information about the policy dynamics in different countries so that market actors can decide how to best allocate resources. Due to their multilateral nature, most international institutions have higher credibility as monitors than states acting unilaterally and better access to government policy than civil society actors. Moreover, institutions are often able to develop significant technical expertise, which allows them to provide unique, detailed insight into policy issues in different countries. Because of these advantages, institutional monitoring is likely to be particularly influential in determining how market actors invest, loan money, or make purchasing decisions.

I test this theory through an analysis of global policy change on combating terrorist financing. I highlight the role of the Financial Action Task Force (FATF), an intergovernmental body that makes recommendations about state policies to combat money laundering and terrorist financing, and has been instrumental in driving global compliance on this issue. The FATF is a relatively weak international institution – although it issues global recommendations, it has no permanent charter and only 35 members. Lacking legally-binding authority, the FATF relies in part on a non-complier list to generate policy change in states. Using a new dataset that compiles information about the laws of 179 states, I use a cox proportional hazards model to show that the FATF non-complier list makes states significantly more likely to adopt FATF-compliant laws on terrorist financing. Although the list drives

policy change across states, it has the strongest effect on compliance in countries that are highly integrated into the global economy – specifically, those that sell bonds or treasury bills on the international market. I probe this causal mechanism through a second regression analysis, which analyzes the effect of the non-complier list on the yield spreads for bonds and treasury bills in 40 countries between 2010 and 2014. My results show that listing leads to higher yield spreads (indicating perceptions of increased risk) on both long- and short-term debt. Finally, I illustrate the full causal process through a case study of Thailand, where market actors played an integral role in pushing for policy change following FATF listing in 2010.

2 Institutional Monitoring and Market Enforcement

International institutions use a variety of tools to affect state behavior; in this paper, I highlight the importance of how institutions monitor compliance with institutional rules. When international institutions release credible monitoring reports that assess state-level compliance with rules, these reports provide information about policy implementation to market actors. Banks, investors, or consumers can use the information contained in such reports to reallocate resources away from non-compliant states. Markets thus act as institutional enforcers, punishing non-compliant states and generating incentives for policy change.

2.1 Institutions Outsourcing Enforcement

International institutions regulate many different aspects of state policy, but across issue areas, most institutions lack independent enforcement power. For this reason, the independent effect of institutions on state behavior is often unclear. Institutions establish a baseline for acceptable state conduct, and thus states considering non-compliance must weigh potential damage to their reputations (Keohane, 1984; Simmons, 2000; Simmons and Hopkins, 2005).

But if institutional rules are merely reflections of global power dynamics (Mearsheimer, 1995), then patterns of compliance may largely reflect what states would have done absent any international agreement (Downs, Rocke and Barsoom, 1996; Von Stein, 2005).

Institutions, however, have several ways to influence state behavior, and perhaps their most effective method is to outsource enforcement to other actors. States are often the first source of pressure, working through bilateral channels to punish non-compliance.¹ Civil society actors may also serve as compliance monitors and enforcers (Dai, 2007; Simmons, 2009; Johns, 2012; Mansfield and Milner, 2012). But in today's globalized world, where money flows freely across borders and where the financial fates of countries are interdependent, perhaps no potential enforcer is as powerful as markets.

Every day, market actors around the world decide how to allocate their capital, moving trillions of dollars through banks to purchase stocks, goods, or services. This massive global flow of capital relies on millions of tiny, individual-level decisions, many of which require information about foreign countries. Banks decide whether to allow customers to send remittances home to family in high-risk money laundering jurisdictions. Consumers decide whether to buy products made in places with poor environmental standards. In these cases, and in many others, market actors need information about foreign countries in order to make the best possible financial decisions.

Governments understand that this information asymmetry exists and seek to exploit it, working to cultivate positive reputations to affect the flow of capital (Simmons, 2000; Tomz, 2007; Gray, 2013). Reputation is perhaps most important for governments looking to sell debt on the international market. Tomz (2007) suggests investors lend money based on beliefs about a government's "type." Specifically, investors observe a government's repayment

¹Nuclear weapons states like the United States, for example, have taken coordinated and unilateral steps to prevent violations of the non-proliferation treaty, even by their allies (Ullman, 1989; Sagan, 1996). In recent years, as states have increasingly legalized international dispute settlement, institutions have begun to build in formalized mechanisms for this type of state-to-state enforcement. The World Trade Organization's Dispute Settlement Understanding is a prime example.

record over the course of many years, and take this into account when deciding whether to buy debt. A country's reputation may be affected not just by its government's direct financial decisions, but also by more surprising factors like its membership in international institutions (Gray, 2013).

These theories highlight the interactive nature of a country's policies and global financial flows. Governments know that investors are watching them, and so they adopt policies to signal their intentions. Investors, in turn, reward some governments with increased resources. But how do markets learn about a government's policy? While democratic governments may publicize policies that are designed to attract investors, autocratic governments may calculate that economic transparency increases the risk of regime instability (Hollyer, Rosendorff and Vreeland, 2015). And when market actors need information about *negative* developments or *gaps* in policy coverage, both democratic and autocratic states will have incentives to misrepresent domestic policy. In such circumstances, market actors require alternative sources of information.

2.2 Institutional Monitoring and Market Enforcement

Institutional monitoring can be an influential source of information for three reasons: credibility, technical expertise, and access. In general, international institutions have higher credibility as monitors than states acting unilaterally, since unilateral monitoring may be more favorable to allies (Poe, Carey and Vazquez, 2001). Indeed, states often delegate monitoring responsibilities to international organizations in order to depoliticize the monitoring process and to develop technical expertise (Hawkins et al., 2006). This latter point is particularly important for highly technical issues like nuclear security, or for issue areas like trade where conflicting legal interpretations may generate conflict between states. By delegating monitoring powers, states create an institutional body with the requisite level of expertise to support ongoing cooperation.

Credible and technical monitoring can come from many sources, but international institutions also have a third comparative advantage: access. While non-governmental organizations like Human Rights Watch or private corporations like the Political Risk Services Group may be able to provide policy information through on-the-ground informants, certain types of issues require direct access to governments. If institutions regulate domestic policies that are not easy to observe – which is often the case with economic or security issues – they may only be able to monitor compliance with involvement from member states. For this reason, many institutions rely on interactive evaluation systems, where monitoring procedures include a combination of government reporting, direct evaluation, and final written assessments. The Organization for Economic Cooperation and Development (OECD), for example, conducts economic surveys to report on whether states follow its recommended best practices. This lengthy monitoring process includes a detailed country questionnaire, two staff team visits to the country, and several draft reports, with a final report adopted in the OECD plenary. The entire process “is motivated by peer review and peer pressure” (Schäfer, 2006)[74].

Given this combination of credibility, technical expertise, and access, institutional monitoring is likely to be particularly influential in determining how market actors invest, loan money, or make purchasing decisions. When an international institution monitors a policy issue that is relevant for other non-state actors – be they other international institutions, financial markets, or consumers – its reports may influence how these third parties allocate resources to states. The World Bank’s Ease of Doing Business Index, for example, may drive foreign direct investment, pushing it toward better business climates, while the International Monetary Fund’s (IMF) reporting on financial reforms may affect investor willingness to purchase sovereign debt. Although some international institutions construct monitoring schemes with this type of market enforcement in mind, it may also be unintentional. During the SARS epidemic, for example, a World Health Organization (WHO) report about unsafe

conditions in several Chinese cities and in Toronto, Canada reduced tourism in these cities, hurting local businesses (Koppell, 2010). While the WHO may have anticipated this effect, its intention in releasing the report was unrelated to such consequences.

Of course, market enforcement may not be the only way that institutional monitoring influences state conduct. Existing scholarship has highlighted how monitoring can reduce ambiguity about policy implementation (Chayes and Chayes, 1993; Mitchell, 1998), and may be a source of public shame and reputational damage (Keck and Sikkink, 1998; Lebovic and Voeten, 2006; Hafner-Burton, 2008). But when rule implementation is politically or financially costly, these mechanisms are often insufficient to create widespread policy change. In such cases, market enforcement provides an alternative tool for institutions to influence states, particularly those that are least willing to comply.

When is institutional monitoring most likely to lead to market enforcement? The form of monitoring will affect its impact on market actors. Recent research has highlighted how global rankings and performance indicators can be influential tools of social pressure (Kelley and Simmons, 2015; Cooley and Snyder, 2015). Although performance indicators come in many forms, blacklists are likely to be particularly effective at driving policy change because they intensify reputational damage and facilitate outsourced enforcement.² While being publicly identified as non-compliant may always create costs, blacklists enhance these costs through a peer effect (Gray, 2013; Brooks, Cunha and Mosley, 2014), whereby countries are judged not just for issue non-compliance but also by the other countries that are also included on the blacklist. Brooks, Cunha and Mosley (2014) find evidence of such an effect in how investors evaluate sovereign risk, where countries benefit or lose out in sovereign debt markets by being included in different categories. For many governments, being placed on a list with high corruption, low rule-of-law countries like Afghanistan or Cambodia may be

²I use the colloquial term “blacklist” to describe any type of list of countries or actors that have failed to meet some established criteria.

much more worrisome than being simply rated non-compliant.

Of course, for institutional monitoring to generate market enforcement, financial actors must care about the content of monitoring reports. This is not always the case. In many issue areas, banks, investment firms, and even consumers have little reason to be interested in country-level non-compliance. Even if a small number of actors are driven to make policy decisions based on monitoring reports, the size or financial power of this group may be insufficient to drive policy change. In such cases, however, government action can expand demand for institutional monitoring. When even a few countries adopt regulations that reinforce institutional policies, these regulatory shifts change the incentives of domestic market actors, increasing demand for institutional monitoring. If new regulations are adopted by economically-powerful countries, such shifts can have ripple effects across the global economy as a whole. Importantly, however, while regulatory action by large economies can increase demand for information, it is institutional monitoring that allows market actors to enforce against non-compliant states.

3 Regulating Global Finance

The FATF is an informal intergovernmental body that was created in 1989 in response to growing concern over money laundering. Founding members included the G-7 countries,³ the European Commission, and eight other European states.⁴ Today, the FATF has 35 member jurisdictions and eight associated regional bodies that assess compliance in more than 170 countries.⁵

In some ways, the FATF is a “hard test” for a theory that predicts international institutions have a major impact on state policy. From a legalization perspective, the FATF is

³Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

⁴Australia, Austria, Belgium, Italy, Luxembourg, Netherlands, Spain, and Switzerland.

⁵A full list of FATF members and the eight regional bodies is available in Appendix A.

weaker than many existing international organizations. It does not have a standing charter; instead, member states periodically extend its mandate (the current one runs through 2020).⁶ It has a comparatively small Secretariat, with fewer than 20 officials, and as a result, most of its monitoring efforts are run in coordination with bureaucrats from member states. Moreover, there are reasons to question its legitimacy, given it is composed of mostly Western, developed states yet makes rules for all countries in the world.⁷ However, the FATF has two major strengths that make it likely to generate market enforcement: it has credible, technical monitoring with unique access to government policy, and it regulates an issue of particular interest to market actors.

3.1 Rules and Monitoring

The FATF issues recommendations on how states should combat the problems of money laundering and terrorist financing through legal and regulatory action. Recommendations include legal changes, preventive measures relating to how banks evaluate customer risk and keep records, and improved international cooperation.⁸ Although rule formulation may seem a weak policy tool, the FATF’s formulation of global standards has been crucial for fighting money laundering and terrorist financing. For many years, countries disagreed significantly about the nature of both crimes – what constituted money laundering or terrorist financing in one jurisdiction was entirely different from how another country defined these crimes. These legal differences created significant problems for the bureaucratic offices responsible for enforcing and regulating anti-money laundering and anti-terrorist financing policies. Rule

⁶FATF members fund the FATF on a temporary basis with specific goals and projects articulated in its mandate. The most recent mandate is for eight years and was approved in 2012 (FATF-GAFI, 2012*b*).

⁷In making this point, I am relying on the definition of institutional legitimacy as “right to rule,” laid out in Buchanan and Keohane (2006).

⁸Although all recommendations combat money laundering and terrorist financing, the FATF has identified 16 as “key and core” – essentially, the most important recommendations for states to implement (Interview by author, 27 January 2015). A complete list of these 16 most important recommendations is available in Appendix B.

conflicts also provided opportunities for jurisdictional arbitrage, whereby criminals could take advantage of multiple rules and conflicting agreements (Unger and Busuioc, 2007). By formulating global standards, the FATF has helped states coordinate definitions of money laundering and terrorist financing, producing greater legal harmonization and facilitating policy implementation.

The FATF also has an impact on state policy through its monitoring and evaluation system, which has evaluated compliance in more than 170 countries. FATF assessments are conducted by a small team of evaluators made up of legal and financial experts drawn from peer countries, FATF Secretariat officials, and often bureaucrats from the IMF or the World Bank. This team of assessors rates a country's level of compliance on each recommendation based on the following scale: compliant, largely compliant, partially compliant, non-compliant, or not applicable.⁹ The evaluation process is lengthy, often taking more than a year, and technical, and as a result, each country is assessed approximately once per decade. The FATF did not make the first or second round of evaluations public; however, since the start of the third round of evaluations in 2004, the FATF has posted its mutual evaluation reports on its website. The FATF began a fourth round of mutual evaluations in 2015.¹⁰

Although reports are drafted by an assessment team in accordance with a detailed methodology, the final reports are adopted in the FATF or in regional body meetings through a consensus procedure. During these sessions, evaluated countries may argue against portions of the draft report, advocating for rating changes (Nakagawa, 2011). In practice, however, such rating upgrades are difficult to achieve because of the consensus decision procedure – an evaluated country must convince all other member countries to support an upgrade. This is often a difficult task; indeed, a FATF regional body official suggested that reports

⁹This latter category is rarely used.

¹⁰For a detailed discussion of the FATF's early evaluation process, see Nakagawa (2011, 311-316).

are frequently adopted over objections from the evaluated states (Interview by author, 7 January 2015). Even G-7 countries like the United States, Japan, and Canada received non-compliant ratings in the third round of evaluations.¹¹

3.2 The Non-Complier List

Since February 2010, the FATF has publicly identified 57 countries under the auspices of its non-complier list.¹² This list is published on the FATF website and identifies countries with significant gaps in laws or policies to combat money laundering and terrorist financing. To select countries for inclusion on the list, the FATF conducts an initial review of all countries that receive failing ratings on 10 or more of the 16 most important FATF recommendations.¹³ Figure 1 shows the distribution of compliance across countries, comparing the number of non-listed (light blue, bottom of stacked bars) and listed (dark blue, top of stacked bars) countries by the number of failing recommendations.

Countries with 10 or more failing recommendations have a year to demonstrate their commitment to remedying deficiencies before the FATF makes a listing decision. Governments work with the FATF to develop an action plan, and countries that are slow to implement this plan are more likely to be listed. The FATF makes listing decisions using a “risk-based approach,” whereby countries with larger financial sectors or a greater risk of money laundering or terrorist financing are more likely to be listed (FATF-GAFI, 2009).¹⁴ Descriptive statistics comparing listed and non-listed countries with 10 or more failing recommendations

¹¹The USA was rated non-compliant on 4 recommendations (FATF-GAFI, 2006), while Japan and Canada were rated non-compliant on 10 and 11 recommendations respectively (FATF-GAFI, 2008 *c, b*).

¹²The FATF “non-complier list” is formally known as the International Cooperation Review Group (ICRG) process. Prior to the ICRG process, FATF used the “Non-Cooperative Countries and Territories” process to identify jurisdictions with money laundering deficiencies and force them to change their laws (Sharman, 2008). This process, however, did not address deficiencies related to combating terrorist financing nor did it encompass significant changes made to the FATF’s recommendations in 2004.

¹³Failing ratings are ratings of non-compliant or partially compliant.

¹⁴The FATF also takes into consideration factors like a country’s current legal framework, its responses to requests for international cooperation, its requests for technical assistance, and whether it is involved in a follow up process with the FATF or a regional affiliate (FATF-GAFI, 2009).

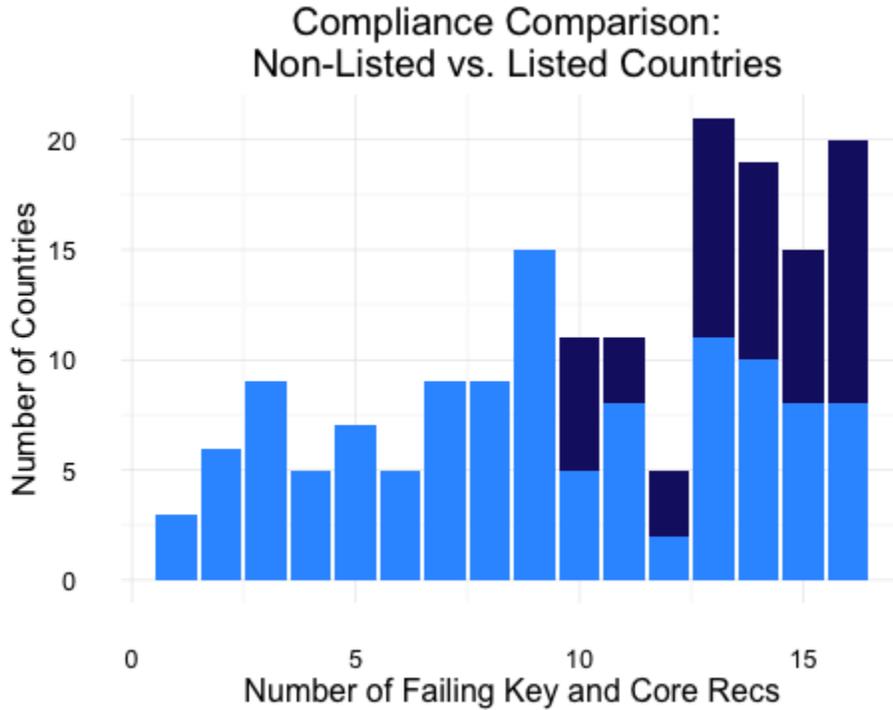


Figure 1: The figure shows the number of non-listed countries (light blue, bottom of stacked bars) and the number of countries included on the non-complier list (dark blue, top of stacked bars) by the total number of failing ratings, based on the FATF’s third round mutual evaluation reports.

indicate that listed countries tend to have a higher risk of terrorism and larger financial sectors. Figure 2 shows financial account and GDP per capita data for all countries above the 10 recommendation threshold. Table E3 in the Appendix identifies all listed and non-listed countries that received scores of 10 or more failing recommendations.

The FATF’s non-complier list is actually composed of four separate lists. Three times a year, the FATF publishes two public announcements listing countries that are not in compliance with key FATF recommendations. Most states are only listed at the lowest level (the “grey” list), which identifies countries that have strategic deficiencies but have made a “written high-level commitment” to improve relevant laws.¹⁵ Subsequent levels include a

¹⁵This list is issued as part of the FATF’s “Improving Global AML/CFT Compliance” statement.

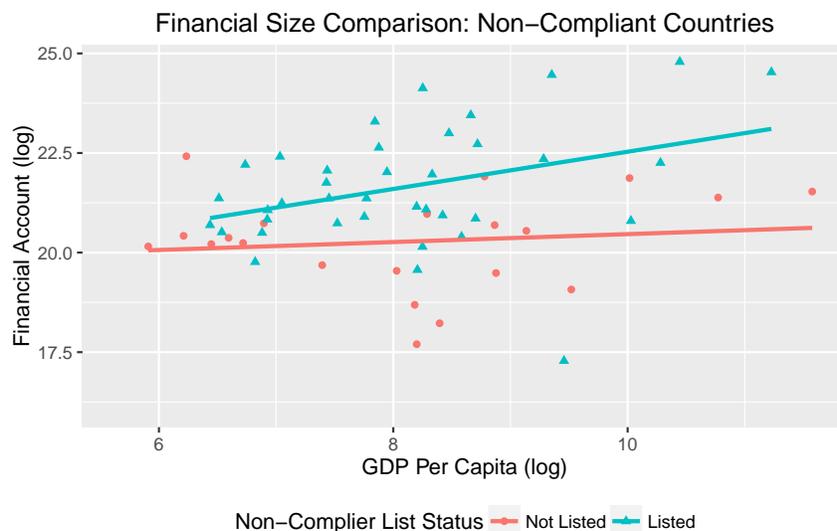


Figure 2: The scatterplot shows 2015 financial account and GDP per capita data for countries with 10 or more failing recommendations. Turquoise triangles show values for countries listed by the FATF and orange circles show values for countries not listed by the FATF. Lines estimate the average effects for each sub-population.

warning list that identifies jurisdictions not making enough progress (the “dark grey” list) and an enhanced due diligence list that identifies countries failing to make progress or failing to commit to an FATF action plan (the unofficial “black” list). The highest level is the FATF’s counter-measures list, which has only ever included two states: Iran and North Korea.¹⁶

This four-tier list introduces a high level of differentiation into the non-complier list. By maintaining a list of cooperative countries working to address their deficiencies, the FATF has a lower threshold for listing than if the list exclusively targeted non-cooperative, high-risk jurisdictions. From a political standpoint, this may make the list more palatable for a wider set of states. During interviews, officials from financial intelligence units¹⁷ in several formerly

¹⁶Even when other states have had long-term strategic deficiencies, the FATF has never moved these countries up to the counter-measures list. Ecuador, for example, was on the non-complier list from February 2010 until July 2015, but was never put on the counter-measures list.

¹⁷FATF recommendation 29 requires all countries to establish financial intelligence units to serve as na-

listed countries were quick to point out that their countries were never on the “blacklist” (Interview by author, 9 February 2016; Interview by author, 14 February 2016). But the effect of the “grey list” cannot be disentangled from the other lists since even at this lowest level, countries that are part of the non-complier list are aware that if they do not make enough progress, the FATF may move them up to one of the higher lists. Indeed, a Citigroup official described the FATF’s lowest list as a “scare tactic” designed to put pressure on listed jurisdictions (Interview by author, 28 August 2015).

3.3 Consequences of Listing

The non-complier list itself has little enforcement power. The two lowest levels of lists stipulate no consequences for listed states, and even the enhanced due diligence list (the unofficial “black” list) merely calls on FATF members to “consider the risks arising from the deficiencies associated with each jurisdiction.”¹⁸ This requirement is mild and not legally binding. While the FATF’s counter-measures list has stronger language (“the FATF calls on its members and other jurisdictions to apply counter-measures to protect the international financial system”), such language is also not legally binding. Moreover, FATF members have been reluctant to add other countries beyond North Korea and Iran to the countermeasures list because they believe it would dilute the list’s impact and effectiveness (Interview by author of FATF regional body official, 30 June 2016). For this reason, it is unclear whether the FATF could use the counter-measures list as a credible threat against continued non-compliance.

Market actors, however, are very interested in the contents of the non-complier list and use it as guidance for reallocating resources among states. There are three reasons for this

tional centers for the receipt and analysis of suspicious transaction reports and other information related to money laundering and terrorist financing.

¹⁸The full text of the FATF public statements are available at: [http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc\(fatf_releasedate\)](http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc(fatf_releasedate))

effect. First, because the FATF issues recommendations designed to protect the integrity of the financial system, some market actors implement the recommendations simply as best practice,¹⁹ and the non-complier list provides important information in this regard. Banks, corporate service providers, remittance services, and lawyers, for example, are supposed to maintain “customer due diligence procedures,” taking measures to verify customer identities or beneficial owners using a risk-based approach. To meet this requirement, market actors essentially determine whether customers are low, medium, or high risk based on a number of country-specific risk factors, including whether a country is on the non-complier list. Individuals from high-risk countries typically find it more difficult to borrow money or conduct transactions in the international arena.

While some market actors adopt customer due diligence procedures as best practice, many others implement these procedures in order to comply with domestic regulation. In the United States, for example, the US government requires US-based financial institutions to verify the identity and assess the risk of all individuals seeking to open bank accounts or establish shell companies. Importantly, the United States does not mandate that banks or investment firms treat countries on the non-complier list as “high risk.” Instead, it requires only that market actors have country risk systems in place that take into account a number of different risk factors. But while the US government allows for the flexible implementation of these regulations, it follows up by assessing compliance. The financial penalties for such a violation can be enormous. In 2012, for example, the US Government fined HSBC 1.256 billion US dollars for “failing to maintain an effective anti-money laundering program and to conduct appropriate due diligence on its foreign correspondent account holders” (US Department of Justice, 2012).

The final reason why market actors are interested in the non-complier list is that large

¹⁹Fiji, for example, has implemented the FATF recommendations through non-enforceable regulations, but its banks treat the regulations as though they are enforceable (Interview with FATF regional body official, 30 June 2016).

financial players are likely to face significant reputational damage if they are involved in a money laundering scandal or in the financing of terrorism. In many cases, reputational damage leads to financial costs, or at the most extreme, complete collapse. The US government's discovery, for example, that Riggs Banks was helping several dictators launder money, resulted in relatively small financial penalties (fines totaling 59 million US dollars), but led to the bank's demise. In a period of eight months, share prices dropped 20 percent, equivalent to approximately 130 million US dollars (Jamieson, 2006). Given this stark example, it is perhaps unsurprising that bank officials are concerned about reputational effects. As one Citibank official described it, "no firm wants the reputational damage of having been used as a vehicle for criminal activity, or worse, as a channel for financing terrorism" (Interview by author of Citibank official, 28 August 2015). Indeed, damage to reputation is often used as a way to sell risk management systems to financial actors, many of whom view reputational damage and regulatory issues as equally important (Interview by author of Thomson Reuters' World-Check official, 28 September 2015).

If market actors rely on the non-complier list to reallocate resources, then listed countries should have stronger incentives to comply with the FATF recommendations. On average, listed countries should implement FATF recommendations more quickly so that they can be removed from the non-complier list and undo the negative effects of listing.

- Market Enforcement Hypothesis: When countries are included in the FATF non-complier list, they should be more likely to comply with the FATF's recommendations.

While the FATF non-complier list may rely on market enforcement to drive policy change for most countries, the actual process of market enforcement occurs through several pathways.²⁰ Banks may refuse to allow transactions from certain countries, as happened to Afghanistan in May 2014 when banks in the United States, Europe, Germany, and Turkey

²⁰For a more detailed discussion of market enforcement theory and additional empirical tests, please see (Morse, 2016).

stopped dealing with certain Afghan commercial banks (Donati, 2014). By June, the cost of money transfers had gone up 80 percent, in part due to the shortage of dollars coming in from foreign banks (Carberry, 2014). This process of “de-risking,” whereby banks terminate or restrict business relationships with clients in order to avoid risk, surely contributes to the power of the non-complier list, yet it is difficult to measure.²¹

One likely moderator for the effect of the non-complier list on compliance is the degree to which a country is integrated into international markets. Countries that are more open to transnational financial flows should be particularly concerned about and responsive to the non-complier list. While there are many ways to measure financial integration, one possible proxy for this concept is whether countries sell sovereign debt on the international market. Tomz (2007) and Gray (2013) show that investors consider a country’s reputation when deciding whether to purchase debt for foreign countries. If international market actors like multinational banks and investment firms allocate resources differently based on FATF non-complier list announcements, then countries that sell bonds or treasury bills are likely to be particularly vulnerable to market enforcement. As a result, the FATF non-complier list should have the strongest effect on compliance in these countries.

- Market Integration Hypothesis: Listed countries that sell sovereign debt should be more likely to comply with the FATF recommendations than listed countries that do not sell sovereign debt.

4 FATF Rules on Terrorist Financing

Although the FATF issues 40 recommendations, this paper focuses on one specific indicator of compliance: the criminalization of terrorist financing. The FATF considers the criminal-

²¹This unintended financial exclusion process tends to isolate underserved and vulnerable populations from the formal financial sector and may pose long-term humanitarian and security risks (Durner and Shetret, 2015). For more on de-risking, see: <http://www.fatf-gafi.org/documents/news/rba-and-de-risking.html>.

ization of terrorist financing to be a top priority and one of the six building blocks of the combating money laundering and terrorist financing regime. One official from a FATF-style regional affiliate went so far as to say that without the top six recommendations, “anything else would be pointless” (Interview by author, 27 January 2015). Compliance with this recommendation is also a clear indication of policy change. The FATF did not adopt the criminalization of terrorist financing as a recommendation until 2001, and prior to that time, only a handful of states had any type of law criminalizing terrorist financing.²²

The requirement to criminalize terrorist financing is broad and far-reaching. States must criminalize terrorist financing in line with the Convention on the Suppression of the Financing of Terrorism, extending the terrorist financing offense to any person who willfully provides or collects funds by any means with the intention that they will be used to carry out a terrorist act, by a terrorist organization, or by an individual terrorist. Laws must define “funds” as including assets of any kind from legitimate and illegitimate sources. Moreover, per FATF guidelines, laws should stipulate that funds provided to terrorists do not actually have to be linked to any specific terrorist act.

To determine whether a country has criminalized terrorist financing in line with FATF guidelines, I collected data on the month and year in which each country adopted FATF-compliant legislation that criminalizes terrorist financing. I coded this variable based on information contained in FATF mutual evaluation reports and follow-up reports, non-complier list announcements, and the results of the FATF’s terrorist fact-finding initiative. In my coding, for a law to be considered FATF-compliant, it has to extend to any person who willfully provides or collects funds with the intention or knowledge that they are to be used to carry out a terrorist attack, by a terrorist organization, or by an individual terrorist.²³

²²This variable is, at best, a partial measure of compliance; legal and institutional changes cannot address whether countries are actually implementing key policies, as is clearly demonstrated by Findley, Nielson and Sharman (2014). Similarly, legal compliance and even policy implementation cannot prove that the institution has reduced money laundering or terrorist financing. While these are important issues, they are outside the scope of this study.

²³This language is in line with section 2 of the FATF Interpretive Note to Recommendation 5 (Terrorist

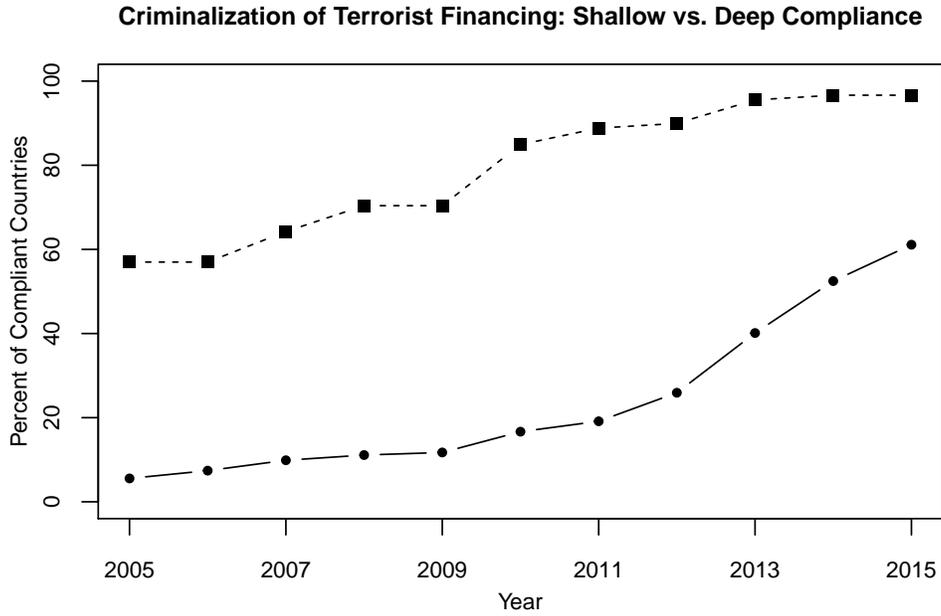


Figure 3: The figure compares two different metrics for laws criminalizing terrorist financing. The dashed line (squares) indicates the percent of countries with any type of terrorist financing law, based on State Department International Narcotics Control Strategy Reports. The solid line (circles) indicates the percent of countries with FATF-compliant terrorist financing laws.

One of the challenges in studying compliance is that countries may adopt weak or relatively meaningless laws and still claim compliance. The FATF monitoring process, however, works against this type of cosmetic policy change by identifying technical deficiencies with existing laws. For this reason, I rely on a deep measure of compliance that reflects not only a country’s interest in passing a law, but also the degree to which a country understands and implements its obligations. Comparing this deep measure of compliance to a simple indicator of whether a country has any law on terrorist financing reveals an important trend – while the percentage of countries criminalizing terrorist financing has clearly risen over time, the depth of these laws has significantly increased since the start of the non-complier list in 2010. Figure 3 compares these trends.

Financing Offence) (FATF-GAFI, 2012*a*).

Countries adopt non-FATF compliant laws on terrorist financing for a number of reasons. Governments are often confused about their exact obligations, in part because the FATF requires countries to go further than other international obligations, such as UN Security Council resolution 1373 or the International Convention for the Suppression of the Financing of Terrorism (Interview with Executive Director of an FATF regional body, 30 June 2016). For example, many countries have laws that criminalize financing when linked to a terrorist act, but do not criminalize the financing of individuals or terrorist organizations in the absence of this link (FATF-GAFI, 2015). This gap, however, is substantively meaningful; funds are clearly fungible, and while terrorist organizations need relatively little money to mount an attack, they require significant resources to sustain recruitment, propaganda, and legitimization activities (FATF-GAFI, 2008*a*). Non-compliance may also arise when countries adopt a too-narrow definition of terrorism, failing to cover all of the conventions on terrorism as required by the FATF.

While initial non-compliance may occur because of confusion or capacity issues, in the long run, non-compliance tends to reflect a lack of political will, or in some cases, strong political opposition.²⁴ The FATF has clarified its requirements through guidelines and monitoring reports, and a significant amount of technical assistance is available from the FATF, its regional affiliates, the UN Office of Drugs and Crime, and the US State Department. Indeed, many of the countries with non-compliant laws today are actually FATF members.²⁵ One FATF regional body official explained this surprising trend, highlighting that “Countries that you would expect to have legislation may not have it for political reasons” (Interview by author, 30 June 2016). For this reason, long-term non-compliance with the FATF rec-

²⁴Germany, for example, which only made terrorist financing an independent offense in 2015, faced significant domestic opposition over its law, with opposition leaders questioning its constitutionality and anticipating a civil rights complaint at the German Constitutional Court (Tost, 2015).

²⁵Close to a third of FATF members have non-compliant laws on terrorist financing. While most of the gaps are due to the failure to criminalize the financing of individual terrorists without a link to a terrorist act, FATF-member Brazil is one of the few countries in the world without any law on terrorist financing.

ommendation is, at a minimum, an indication of low political will, and in some cases, may even point to political controversy.

4.1 Patterns of Compliance

There are several indications that compliance with the FATF recommendations has increased over time, due at least in part to the non-complier list. Perhaps the simplest measure of the effectiveness of the non-complier list is the number of countries that are no longer listed. Since 2010, the FATF has listed 57 countries, 46 of which have been removed from FATF monitoring following significant improvements in their laws.²⁶ For countries to be removed from the non-complier list, they must adopt and implement mechanisms to address specific deficiencies identified by the FATF (FATF-GAFI, 2009). Additionally, a team of FATF evaluators often travels to the listed jurisdiction to verify that a full reform and implementation process is underway prior to removing the state from the list.²⁷

Qualitative evidence also indicates the non-complier list pushes governments to pass new measures to combat money laundering and terrorist financing. Kenya, which was listed from 2010 to 2014, passed three separate pieces of legislation to establish a legal framework for prosecuting acts of terrorism and amended existing legislation to strengthen the criminalization of terrorist financing (US Department of State, 2013). Nepal, listed from 2012 to 2014, had to overcome significant domestic opposition in order to pass the necessary legislation; as a stopgap measure, the Nepali government considered endorsing the bills through executive ordinance and implemented an FATF recommendation on asset freezes through a directive to government agencies and NGOs (The Economist Intelligence Unit, 2012). In Turkey, the main opposition party spent two years opposing the passage of new laws on terrorist financing due to fears that they would be used to wrongly label people as terrorists (Ozbilgin

²⁶Appendix D provides a list of all countries listed as part of the non-complier list, listing dates, and graduation dates (where applicable).

²⁷See, for example, the the FATF's statement on Yemen, contained in FATF-GAFI (2014).

and Burch, 2013), yet the ruling party was eventually successful in pushing the legislation through, approximately ten days prior to the FATF plenary session (Coskun, 2013).

Descriptive statistics support the idea that the non-complier list has increased the probability that countries criminalize terrorist financing. Figure 4 shows the percent of countries that have criminalized the financing of terrorism, separated by whether a country is eventually included on one of the non-complier lists (red dashed line) or has never been part of the non-complier list (black solid line). As of late 2008, seven years after the issuance of the FATF recommendations on combating terrorist financing, only 12 percent of all countries had FATF-compliant laws on terrorist financing. As expected, given the FATF's criteria for inclusion in the non-complier list, the gap between states that would later be listed and states that would not be listed was significant. Since the announcement of the new non-complier list, however, this gap has reversed – as of 2015, nearly 90 percent of countries that participated in the non-complier list have FATF-compliant laws, while only about 50 percent of non-listed states have similarly compliant laws.

5 Empirical Approach

My analysis examines how the FATF non-complier list affects state behavior. I focus on a key indicator of compliance with the FATF standards – the criminalization of terrorist financing (FATF Special Recommendation II) – and analyze how being included on the non-complier list has affected the length of time it takes for a country to criminalize terrorist financing in line with FATF standards. I begin the analysis in February 2010 because that is start of the current non-complier list, and my data goes through December 2015. Data on country listing status is drawn from FATF non-complier list announcements (published online in February, June, and October every year).

I test my theory using a Cox Proportional Hazards model, which analyzes how variables

Compliance with FATF Standards: Criminalization of Terrorist Financing

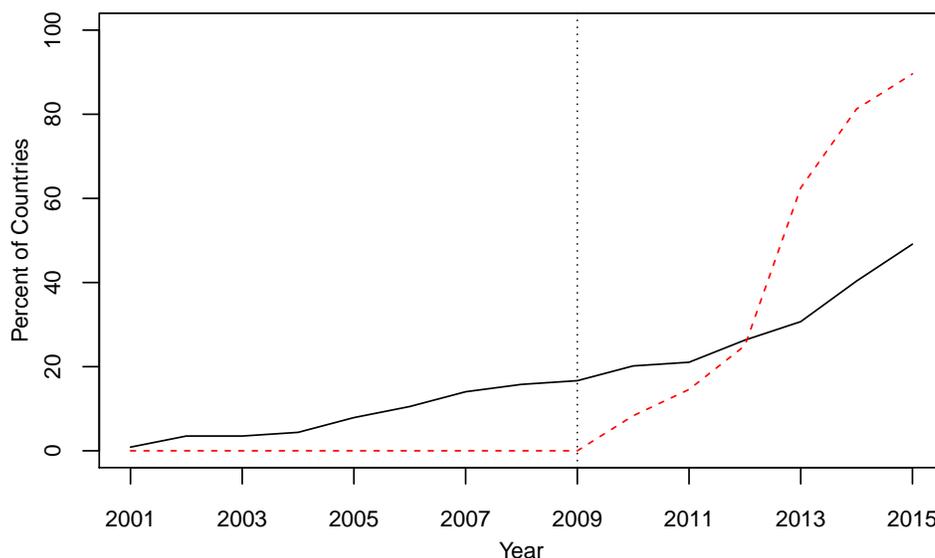


Figure 4: The figure shows the percent of never-listed countries (solid black line) and listed post-2009 countries (red dashed line) that have FATF-compliant laws on terrorist financing in each year. The dotted vertical line indicates the 2009 announcement of the revamped FATF non-complier process that issued its first non-complier list in February 2010.

affect the length of time in months it takes for a country to criminalize terrorist financing in line with the FATF recommendation. This model is appropriate given the unidimensional nature of the data – once a country has fully criminalized terrorist financing, it is unlikely to repeal its law. Due to this approach, however, countries that criminalized terrorist financing in line with FATF guidelines prior to February 2010 are excluded from the analysis.

My simplest model includes data for 141 countries, including 48 of the 57 countries listed as part of the non-complier list. As I add covariates, the sample drops to 134 countries (44 listed) and 106 (37 listed). My unit of observation is country-month. In the simplest model, this equates to 7789 observations and 79 events (instances where a country criminalizes terrorist financing in line with FATF guidelines), while the most comprehensive model includes 5178 observations and 46 events.

Selection into the non-complier list is clearly non-random. If the FATF lists countries that are less likely to criminalize terrorist financing (strong non-compliers), this should attenuate my results. If, on the other hand, the FATF lists countries that are already likely to criminalize terrorist financing (weak non-compliers), then selection effects would create a false positive. I probe the direction of selection effects by examining differences in the percentage of listed and non-listed countries that had a non-FATF-compliant law criminalizing terrorist financing as of 2009.²⁸ This analysis assumes that a country's previous legislative action on terrorist financing is a good proxy for its future intent to adopt additional legislation. Of the 93 non-listed countries in the data set, 67 had some kind of law on this subject, while 29 of the 48 listed countries had laws.²⁹ The differences in percentages (72 compared to 60) suggests that if anything, non-listed countries were more likely to adopt fully compliant laws, although this difference is not statistically significant (p-value: 0.18). Nevertheless, I account for selection effects in the analysis by including control variables that proxy for the FATF's specific listing criteria.

5.1 Independent Variables

If the non-complier list incentivizes policy change in states, then listed states should be more likely to pass laws criminalizing terrorist financing. As such, the independent variable of interest is whether, at a given point in time, a country is on one of the non-complier lists. I operationalize this variable in two ways. First, I create a dichotomous variable LISTING, which indicates whether a country is on the non-complier list at any level (grey, dark grey, black, or counter-measures) in a given month. Operationalizing listing as a dichotomous measure makes sense in part because the nuance of different levels of listing is often lost in media coverage. Ukraine and Argentina, for example, were only on the grey list, yet when

²⁸This measure is drawn from the 2010 State Department International Narcotics Control Strategy Report.

²⁹A complete list of the 93 non-listed countries in the data set is available in Appendix E.

Ukraine was removed from the FATF monitoring process, the Wall Street Journal headline read “FATF Removes Ukraine from Blacklist, Updates on Argentina” (Rubinfeld, Samuel, 2011). In the dichotomous coding, the variable is equal to 1 if a country is listed at any level and 0 otherwise. In the largest version of the data, approximately 17 percent of observations are coded as 1’s.

The effect of listing, however, might also depend on the specific level of listing; therefore, I also operationalize the non-complier list as an ordinal variable LISTING STRENGTH. This variable ranges from 0 (no list) to 3 (enhanced due diligence).³⁰ When the data is differentiated in this way, 12 percent of observations are on the “grey” list, 1 percent of observations are on the “dark grey” list, and 4 percent of observations are on the “black” list.

To test my market integration hypothesis, I include in my sample the variable MARKET, which is a dichotomous indicator of whether a country sells bonds or treasury bills in a given year. Sovereign debt is a useful proxy for market integration because in many listed countries, the Central Bank played an important role in pushing for increased compliance. In Ethiopia, for example, the Central Bank was preparing to issue its first-ever Euro bond while the country was still under the non-complier list. The Central Bank worked to push through changes to Ethiopia’s laws over opposition from domestic banks. Ethiopia finally issued its bond about six months after the country was removed from the non-complier list (Interview by author of official from an Ethiopian bank, 11 February 2016). Data on sovereign debt is drawn from the IMF’s International Financial Statistics. 77 of the 141 countries in my data set sell some kind of long- or short-term debt. Of the 48 listed countries in the data, however, only 24 sell bonds or treasury bills. I interact the variable market with listing in dichotomous models and listing strength in ordinal models to test whether countries with

³⁰This variable would go up to 4 (counter-measures) but because Iran and North Korea are dropped from the analysis (due to a lack of information about terrorist financing laws), it stops at 3.

high levels of market integration are more likely to criminalize terrorist financing in response to listing.

5.2 Controlling for Selection

My empirical analysis includes control variables likely to influence both the probability that a country is listed and its compliance with FATF recommendations.

Non-Complier List Selection Criteria

The FATF has articulated very clear guidelines for the non-complier list. As discussed earlier, the FATF builds a pool of potential listed countries based on the following criteria:

- (a) country receives 10 or more failing ratings on the 16 most important recommendations;
- (b) country fails to participate in the FATF or a regional affiliate and its concomitant evaluation process; or,
- (c) country is nominated by the FATF or a regional affiliate for listing consideration (FATF-GAFI, 2009).

To account for this selection process, I include 10+ FAILING RECS, an indicator of whether a country received 10 or more failing ratings on the 16 most important recommendations in its third-round mutual evaluation report. In general, the FATF and its regional bodies only evaluate a country once per cycle, so for most countries, the number of failing recommendations does not change across the data set.³¹ Because even the possibility of being included on the non-complier list is likely to drive policy change, the underlying baseline rate of adoption for countries with 10 or more failing recommendations is likely to be different from the baseline rate of adoption for countries with less than 10 failing recommendations (which do not face the threat of listing). For this reason, I model 10+ failing

³¹Countries belonging to the Council of Europe's MONEYVAL are a notable exception to this trend.

recommendations as a distinct stratum rather than a control variable.³²

I also include the variables `FATF MEMBER` and `FATF REGIONAL MEMBER` to account for whether a country is a member of FATF or a FATF regional body in a given year. I do not include a control for listing nomination; according to an interview with a FATF regional body Executive Director, only one country has ever been nominated for listing consideration, and this country was not subsequently included in the non-complier list (Interview by author, 30 June 2016).

Listing Criteria

Once countries enter into the pool of possible listed countries, the FATF makes decisions about whether to list on the basis of several factors.³³ One key determinant is the size of a country's financial sector – in particular, the percentage and total assets held in non-resident accounts (FATF-GAFI, 2009). As a proxy for this factor, I include `NET FINANCIAL ACCOUNT`, which is drawn from the IMF Balance of Payment Statistics and shows the net acquisition and disposal of financial assets and liabilities. Specifically, this variable encompasses net inflows and outflows related to direct investment, portfolio investment, other investment, and reserve assets.³⁴ In 2015, Germany had the largest positive net financial account of any country in the data set (324 billion US dollars) and Brazil had the largest negative value (-100 billion US dollars). Because large positive or negative values equate to larger financial sectors, I take the absolute value of this variable, and then log it to address the highly skewed distribution.

Countries may also be listed by the FATF if they fail to criminalize money laundering or terrorist financing. For this reason, I include `PREVIOUS TERRORIST FINANCING LAW`,

³²Log-rank tests comparing the time to criminalize terrorist financing for countries with 10 or more failing recommendations and countries with 9 or fewer failing recommendations confirm that stratification is appropriate.

³³Additional factors not included in my model include the risk of money laundering or terrorist financing, not adequately responding to requests for international cooperation, and the degree to which the country has demonstrated a willingness to address its deficiencies (FATF-GAFI, 2009).

³⁴For more on this measure, please see <https://www.imf.org/external/np/sta/bop/BOPman.pdf>.

a variable that indicates whether a country had some type of law on terrorist financing as of the end of 2009 (two months before the start of the non-complier list). Since my design requires excluding all countries that had FATF-compliant laws on terrorist financing as of February 2010, this variable is coded 1 if a country has taken steps to criminalize terrorist financing but the existing legal framework is insufficient. Of the 141 countries included in the analysis, 96 (68 percent) had adopted some type of law by the end of 2009.

Technical Assistance and Policy Diffusion

When deciding whether to list a country, the FATF also considers the extent to which a country has sought and implemented technical assistance and the degree to which a country is involved in a follow up process. Typically, the FATF and the eight FATF-style regional bodies provide the majority of technical assistance to member states, and also conduct their own independent follow up processes. The FATF and its regional bodies do not release detailed information on technical assistance; however, the provision of such assistance is likely correlated with the degree of policy diffusion within each institution. Scholars have demonstrated the processes of policy diffusion affect democratization (Gleditsch and Ward, 2006), bilateral investment treaties (Elkins, Guzman and Simmons, 2006), and liberal economic policies (Simmons and Elkins, 2004). In the context of the FATF, Sharman (2008) argues that diffusion has affected the adoption of anti-money laundering policies throughout the developing world.

Many scholars examine diffusion based on geographic proximity; however, the most likely diffusion process for FATF standards is through technical assistance provided by the FATF and the FATF-style regional bodies. Although the FATF has only 35 members, close to 150 non-FATF countries are members of FATF-affiliated regional organizations. If a particular institution is providing effective technical assistance, member states of this organization should be increasingly likely to adopt FATF-compliant laws on terrorist financing, and less likely to be listed. I account for this possibility with the variable DIFFUSION. This variable

ranges from 0 to 1 and for each country, represents the percentage of member states in the country’s FATF regional affiliate that have adopted FATF-compliant laws on terrorist financing.³⁵ Germany, for example, is a FATF member, so for Germany, this variable represents the percentage of all FATF countries with compliant laws at a given point in time. Thailand is a member of the Asia Pacific Group (APG), a FATF regional body, so for Thailand, diffusion is the percentage of all APG members with compliant laws in a particular month.

5.3 Alternative Explanations

There are several alternative explanations for why countries might adopt FATF-compliant laws on terrorist financing. Scholars of the “managerial” school typically highlight the role of state capacity in predicting whether a country violates an agreement (Chayes and Chayes, 1993). Following previous studies (Horn, Mavroidis and Nordström, 1999; Guzman and Simmons, 2005; Blankenship, N.d.), I control for CAPACITY using gross domestic product (GDP) per capita, under the theory that this variable is a strong proxy for human capital, which should affect a government’s ability to understand and implement FATF guidelines. This variable is drawn from the World Bank World Development Indicators, and is standardized in 2010 US dollars. Due to the skewed distribution and for ease of interpretability, I transform the variable by adding 1 and taking the log.

A second possibility is that countries with close ties to the United States should be more likely to criminalize terrorist financing in line with FATF recommendations. Since its inception, the US government has often used the FATF as a tool for achieving foreign policy goals (Jakobi, 2013). The US government views international cooperation on combating terrorist financing as integral to forestalling terrorist attacks;³⁶ for this reason, it is possible

³⁵For comparability across institutions, the variable is scaled by rounding to nearest 0.1 value in the regression.

³⁶See, for example, the staff report of the 9/11 Commission (Roth, John and Greenburg, Douglas and Wille, Serena, 2004) or the remarks of then Under Secretary for Terrorism and Financing Intelligence David S. Cohen, delivered to the Carnegie Endowment for International Peace (Cohen, 2014).

the US may put pressure on its allies to comply with the FATF guidelines. To probe this possibility, I include the variable US ALLY, which is drawn from the Correlates of War project and indicates whether a country has a defense pact, entente, or neutrality agreement with the United States in a given year (Gibler, 2009). Because the United States may directly pressure allies to adopt comprehensive laws, regardless of FATF listing status, the underlying baseline rate of adoption for US allies is likely to be different from the baseline rate of adoption for non-allies. For this reason, I model US allies as a distinct stratum rather than a control variable.³⁷

A country's political system may also impact its ability to comply with FATF recommendations. A significant body of literature has posited a relationship between regime type and propensity to comply.³⁸ Proponents of this view generally highlight the importance of electoral constraints – democratic publics can hold leaders accountable for meeting international commitments (Martin, 2000; Mansfield, Milner and Rosendorff, 2002). This mechanism has been used to explain why democratic states typically enjoy better credit access and lower interest rates (Schultz and Weingast, 2003) and higher levels of foreign direct investment (Jensen, 2008). To account for the possibility that democratic states may be more likely to comply with FATF standards, I include POLITY IV, which is drawn from the Center of Systemic Peace.³⁹ I supplement this data with information drawn from Gleditsch (2013). Because Polity data is not available for 2014 or 2015, I extend the values for 2013 to 2014 and 2015.

A final possibility is that countries may be more likely to adopt strict laws on terrorist financing if they face a significant risk of terrorism. Following the 9/11 terrorist attacks, countries throughout the world adopted new counter-terrorism laws.⁴⁰ To the extent that

³⁷Log-rank tests comparing the time to criminalize terrorist financing for US allies and non-allies confirm that stratification is appropriate.

³⁸See, for example, Raustiala and Victor (1998), Helfer and Slaughter (1997), or Hathaway (2002).

³⁹Available at: <http://www.systemicpeace.org/inscrdata.html>

⁴⁰On the spread of global counter-terrorism laws during this period, see Birkland (2006), Foot (2007), and

institutional rules and guidelines reflect a desire by states to solve a functional problem (Korremenos, Lipson and Snidal, 2001), it is plausible that the countries most likely to adopt FATF-compliant laws on terrorist are those that face significant challenges from terrorism themselves. For this reason, I include the variable `TERRORISM RISK`, coded by the International Crisis Risk Group, which compiles monthly data on political risk in 150 countries. This variable ranges from 0, representing the lowest risk of terrorism to 3, representing the highest risk of terrorism.⁴¹

6 Findings

The results provide strong support for both hypotheses. When the FATF places countries on the non-complier list, these countries are more likely to criminalize terrorist financing in line with FATF standards. Market integration, as proxied by sovereign debt, appears to moderate this effect – listed countries that sell debt are more likely to criminalize terrorist financing in line with FATF standards, compared to listed countries that do not sell bonds or treasury bills. Table 1 shows the effect of listing (measured dichotomously) on the time it takes for a country to criminalize terrorist financing in line with FATF standards. Model 1 tests the effect of listing on compliance, and includes control variables that are likely to affect the FATF’s decision about whether or not to include a country on the non-complier list. Model 2 tests the effect of listing with an additional control for financial account, as well as controls for three alternative explanations related to capacity, democracy, and terrorism risk. Model 3 tests the effect of listing and market integration (proxied with sovereign debt) on compliance, including an interaction term to estimate the differential effect of listing on countries with high market integration. In all three models, listing has a positive and

Scheppele (2010).

⁴¹The original variable scales from 1 (highest risk) to 4 (lowest risk). For ease of interpretability, I have inverted the variable and set the minimum value at 0.

	<i>Dependent variable:</i>		
	Time to Full Criminalization		
	(1)	(2)	(3)
Listed	9.220*** (0.304)	6.125*** (0.460)	6.636*** (0.484)
Listed * Market			3.541** (0.743)
High Market Integration			0.717 (0.430)
FATF Member	1.788 (0.533)	1.039 (0.765)	1.109 (0.769)
FATF Regional Member	2.068 (0.590)	1.828 (0.683)	1.651 (0.695)
Previous TF Law	1.223 (0.277)	1.068 (0.426)	1.001 (0.442)
Diffusion	1.734*** (0.122)	1.891*** (0.192)	2.050*** (0.199)
Net Financial Account		1.213 (0.127)	1.247* (0.131)
Capacity		1.011 (0.193)	0.980 (0.203)
Democracy		0.992 (0.036)	1.001 (0.036)
Terrorism Risk		1.064 (0.215)	0.999 (0.224)
Observations	7,789	4,634	4,634
Countries	141	88	88
Events	79	50	50
<i>Note:</i>		* p<0.1; ** p<0.05; *** p<0.01	

Table 1: *Listing, Market Enforcement, and Criminalization: Cox Proportional Hazards Models* - Hazards ratios for cox proportional hazards models. Values over 1 indicate a positive effect; values below 1 indicate a negative effect. Standard errors are clustered by country and shown in parentheses. Models stratified by 10+ FAILING RECS and US ALLY.

significant effect on compliance, increasing the likelihood that countries criminalize terrorist financing. Compared to countries that are not on the non-complier list, listed states are about 6 times as likely to criminalize terrorist financing in line with FATF standards. Policy diffusion also has a strong effect. As more states within an organization criminalize terrorist financing, states that have yet to pass FATF-compliant laws are increasingly likely to adopt new laws in line with FATF standards.

Model 3 suggests the effect of listing is strongest on countries with high market integration, proxied here as those that sell bonds or treasury bills on the international market. Specifically, high market integration listed countries are 3.5 times as likely to criminalize terrorist financing in line with FATF standards, compared to listed countries with low mar-

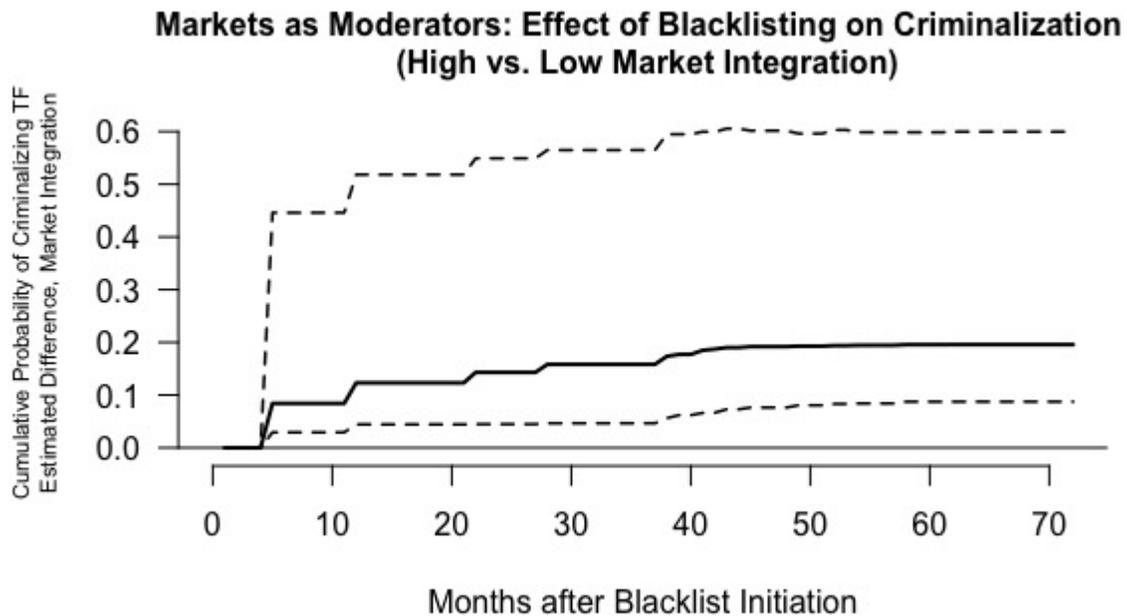


Figure 5: The figure shows the change in the cumulative probability of criminalizing terrorist financing in line with FATF guidelines, comparing listed, high market integration countries with listed, low market integration countries. First difference calculations estimated using the results of a cox proportional hazards model (Model 3 in Table 1). Dotted lines show the 95 percent confidence interval, calculated using a Monte Carlo simulation sampling over 1000 iterations.

ket integration. Figure 5 shows this differential effect, comparing the change in predicted probability of compliance for listed countries that are highly integrated into the international market with listed countries that have low levels of market integration. Because the model is stratified and estimates different baseline hazards for different subpopulations, the plot compares the effect of listing and market integration among countries that are not US allies and have 10 or more failing recommendations. Among this group of countries, countries that are listed and also sell long- or short-term bonds are, over time, about 20 percent more likely to adopt laws criminalizing terrorist financing in line with FATF standards, compared to listed countries that do not sell international debt.

Listing continues to have a significant effect on compliance when it is measured as an

ordinal variable, capturing the different levels of listing. Not surprisingly, the non-complier list appears to have the strongest effect on compliance when countries are listed at higher levels (on the black list or dark gray list, rather than the gray list). Table 2 shows the effect of listing strength on the time it takes for a country to adopt FATF-compliant laws on terrorist financing. Model 1 tests the effect of listing strength on the duration to criminalization, and includes control variables that are likely to affect selection into the non-complier list. Model 2 tests the effect of listing strength with additional controls for financial account, capacity, democracy, and terrorism risk. Model 3 adds an interaction term for market integration, proxied with sovereign debt. Across all three models, listing strength increases the likelihood that countries criminalize terrorist financing. Compared to countries that are not on the non-complier list, countries on the grey list are about 2.5 times as likely to criminalize terrorist financing in line with FATF standards. This effect intensifies as listing strength increases; countries included on the FATF black list (the enhanced due diligence list) are 5 times as likely to criminalize terrorist financing as countries on the grey list, and 7.5 times as likely as non-listed countries.

There is less support for the market integration hypothesis when listing is measured as an ordinal variable. Although listing continues to have the strongest effect on high market integration countries, this effect is positive but not statistically significant when listing is measured as an ordinal variable (p-value: 0.12). Interpreted broadly, this result could suggest that market actors may not differentiate between different levels of listing when reallocating resources. However, since market integration here is proxied in only one way (with sovereign debt sales), it is also possible that the results are unique to investor-led market enforcement, and that other types of market actors (like banks) may care more about the different levels of listing.

	<i>Dependent variable:</i>		
	Time to Full Criminalization		
	(1)	(2)	(3)
Listing Strength	2.442*** (0.121)	2.576*** (0.208)	2.413*** (0.211)
Listing Strength * Market			1.633 (0.344)
High Market Integration			0.667 (0.415)
FATF Member	1.725 (0.528)	0.770 (0.765)	0.766 (0.762)
FATF Regional Member	2.505* (0.590)	1.806 (0.696)	1.577 (0.703)
Previous TF Law	1.618 (0.287)	0.952 (0.438)	0.843 (0.453)
Diffusion	1.726*** (0.121)	2.052*** (0.189)	2.162*** (0.198)
Net Financial Account		1.327** (0.124)	1.374*** (0.130)
Capacity		0.931 (0.193)	0.954 (0.200)
Democracy		0.983 (0.036)	0.994 (0.037)
Terrorism Risk		0.840 (0.245)	0.857 (0.244)
Observations	7,789	4,634	4,634
Countries	141	88	88
Events	79	50	50

Note: *p<0.1; **p<0.05; ***p<0.01

Table 2: *Listing Strength, Market Enforcement, and Criminalization: Cox Proportional Hazards Models* - Hazards ratios for cox proportional hazards models. Values over 1 indicate a positive effect; values below 1 indicate a negative effect. Standard errors are clustered by country and shown in parentheses. Models stratified by 10+ FAILING RECS and US ALLY.

6.1 Sovereign Debt and Market Enforcement

The results of the cox proportional hazards models suggest countries that sell sovereign debt may be more susceptible to market enforcement. If international market actors like multinational banks and investment firms allocate resources differently based on FATF non-complier list announcements, then these actors are likely to charge a risk premium for debt from listed countries. I test this causal mechanism by examining how listing affects perceptions of country risk. Following Gray (2013), I proxy risk perceptions using government bond spreads. Yield spreads reflect the gap in interest rates between what investors charge for a particular country’s debt and what investors charge the United States, and are effectively a “risk

premium” – when investors view a country as a riskier prospect, they will demand higher relative yields. Because risk varies significantly between bonds, which are long-term investments, and treasury bills, which have time horizons of under one year, I calculate separate yield spreads for bonds and treasury bills. The yield spread for bonds is based on a comparison to the monthly yield for US 10-year bonds. The yield spread for treasury bills is based on a comparison to the monthly yield for US 3-month treasury bills. For both bonds and treasury bills, the yield spread is highly skewed; as a result, I log both dependent variables.⁴²

Economists use a variety of different models to estimate yield spreads, particularly as they pertain to emerging markets. While factors like a country’s economic growth and the size of its debt (relative to its GDP) are generally included in most models, scholars disagree about the relevance of issue size, inflation, or default history.⁴³ Given this disagreement, I run two different bond models to estimate yield spreads. My first model includes a dichotomous indicator of listing plus four core variables: the economic growth rate,⁴⁴ the debt-to-GDP ratio, the reserves-to-GDP ratio, and the debt-to-exports ratio.⁴⁵ I also run a second expanded model that includes inflation and the annual exchange rate (local currency to US dollars) to account for domestic economic fluctuations that might affect the influx of capital.⁴⁶

The data for my models is drawn from the IMF’s International Financial Statistics and the Economist Intelligence Unit. The majority of bonds or treasury bills included in the

⁴²The yield spread on bonds ranges from 0 to 17.2; I add 1 to all values and take the log. For treasury bills, the yield spread ranges from -46.3 to 1889.00. This wide range occurs because several countries have negative interest rates during this period, and because the interest rates on US treasury bills are extremely low (minimum value of 0.012 in the data set). To account for these negative interest rates, I shift all yield spreads above zero by adding 47.3 to the entire data set, and then taking the log.

⁴³See, for example, Eichengreen and Mody (1998), Duffie, Pedersen and Singleton (2003), and Mody (2009).

⁴⁴I measure economic growth as the percent change in GDP from year t-1 to year t. The results are robust to including percent change in purchasing power parity converted GDP instead of percent change in GDP as an alternative measure of global business cycle.

⁴⁵I base this specification on an analysis by Rowland and Torres (2004).

⁴⁶Although some models of sovereign debt yields include the US interest rate, I am unable to include this variable because it does not vary during the time period of analysis (2010 to 2015). (The US Federal Reserve lowered the interest rate to 0.25 in December 2008 and raised it to 0.5 in December 2015.)

data set are denominated in foreign currency. Certain variables, such as debt-to-GDP ratio and debt-to-exports ratio, are only available for a small number of countries; as a result, the sample is limited and does not include all countries that sell debt on the international market. My bond analysis includes 17 countries, 3 of which were on the non-complier list, while my treasury bill analysis includes 23 countries, 7 of which were listed. Although these samples are very small, it is important to show that listing has an effect using standard yield spread models, since these variables are the most likely alternative explanations.

I evaluate the effect of listing on bond and treasury bill yield spreads between 2010 and 2014, where the unit of observation is country-month. I use an ordinary least squares regression with country fixed effects; as a result, the unit of comparison is within country over time. I also include a time polynomial and lag all explanatory variables by one year to account for the possibility of simultaneity.

Table 3 shows the estimated effect of listing on yield spreads for bonds and treasury bills. In line with the theory, investors consider listing an indication of increased country risk, and charge a premium for debt from these countries. Models 1 and 2 show the effect of listing on bond yield spreads, while Models 3 and 4 show the effect of listing on treasury bill spreads. Listing has a positive effect (signaling increased risk) across all four models, and is significant across models 1, 2, and 4. The lack of significance in Model 3 may be due to the short-term, higher volatility nature of treasury bills and the failure to include controls that account for domestic sources of changing yield spreads.

6.2 Case Study of Thailand

Thailand's experience with the FATF's listing process illustrates how the non-complier list's impact on compliance is moderated by financial markets. Thailand's economic and security environment make it representative of many of the middle power countries that were listed by the FATF. Thailand is highly integrated into the global economy (Shinohara, Naoyuki, 2012),

	<i>Dependent variable:</i>			
	Bonds - Yield Spreads (Log)		T-Bills - Yield Spreads (Log)	
	(1)	(2)	(3)	(4)
Listing	0.251*** (0.043)	0.292*** (0.041)	0.049 (0.076)	0.180** (0.078)
GDP Growth (Percent Change)	-0.005 (0.005)	0.009* (0.005)	0.025** (0.010)	0.013 (0.010)
Debt/GDP (log)	-0.100 (0.077)	-0.206*** (0.075)	0.703*** (0.185)	0.784*** (0.182)
Reserves/GDP (log)	-4.520*** (1.063)	-3.405*** (1.027)	-0.375 (4.032)	-0.899 (3.959)
Debt Service/Exports (log)	-0.150*** (0.047)	-0.102** (0.046)	0.189** (0.092)	0.273*** (0.091)
Inflation		0.039*** (0.006)		-0.049*** (0.011)
Exchange Rate		-0.004*** (0.001)		-0.001*** (0.0002)
Time	-0.061*** (0.006)	-0.038*** (0.007)	-0.015 (0.016)	-0.042** (0.017)
Observations	628	616	916	916

Note: *p<0.1; **p<0.05; ***p<0.01

Table 3: *The Effect of Listing on Yield Spreads* - Dependent variable is logged spreads on sovereign debt. OLS regression with country-fixed effects, with standard errors shown in parentheses. Monthly observations for 2010 to 2014.

and is also susceptible to money laundering and terrorist financing, due to the frequency of cash transactions, its large informal sector (including an illegal economy that is estimated to be up to 13 percent of GDP), and a history of corruption (IMF, 2007, 24). Fighting terrorism is also an important security priority for the Thai government – Thai authorities estimated that there were 873 terrorist incidents in the southern provinces in 2004, and that annually, terrorists in the south receive 5-10 million baht (132,000 - 264,000 US dollars) for carrying out terrorist attacks (IMF, 2007, 20).

Despite the size of its economy and the risk of terrorism and criminal activity, the Thai government has not typically prioritized compliance with the FATF recommendations. Although Thailand has close to 20 years of experience with anti-money laundering efforts due

to its participation in the Asia/Pacific Group on Money Laundering (APG), the APG's 2007 monitoring report rated Thailand as fully compliant with only 2 of the FATF recommendations. Indeed, Thailand received non-compliant or partially compliant ratings on more than half of the recommendations, including all nine of the recommendations on combating terrorist financing.

When the APG published Thailand's evaluation in 2007, the FATF had very few tools in place to deal with non-compliant jurisdictions. As a result, the repercussions of non-compliance were minimal – Thailand only had to submit follow-up reports to the APG. In 2009, however, the FATF revitalized its process for dealing with non-compliant jurisdictions. When the FATF issued its first non-complier list in February 2010, Thailand was one of 20 countries listed at the lowest level. In its first statement, the FATF called on Thailand to criminalize terrorist financing, establish and implement procedures to freeze terrorist assets, and strengthen supervision of relevant laws.

Initially, the impact of the non-complier list on Thailand was negligible. Since the list was so new, it received very little media attention; indeed, *The Wall Street Journal* did not publish a single article about the FATF list in the six months following its creation.⁴⁷ Additionally, because the non-complier list included several different lists, it was difficult for outside observers like banks or even other countries to know how to interpret the meaning of a country's inclusion on one of the lists.

By 2011, however, the FATF had issued three listing announcements, each of which described ongoing compliance problems in listed countries. As such, third-party observers like banks and investors began to realize that many countries would require significant legal changes before the FATF would remove them from the list; market actors adjusted risk appraisals accordingly. For Thailand, a country with an economy heavily dependent on

⁴⁷This lack of media attention is notable compared to 2014 and 2015, when *The Wall Street Journal* published approximately 5-6 articles per year mentioning the FATF non-complier list.

trade and investment, the response from markets was crucial for driving policy change. Although the domestic public was aware of the non-complier list early on, due to a heavy information campaign by the Thai Anti-Money Laundering Office (Email interview with Thai government official, 14 February 2016), public concern was insufficient for pushing through major policy change. By the end of 2010, Thailand had only approved a national anti-money laundering/combating the financing of terrorism strategy and drafted a proposed law to criminalize terrorist financing (US Department of State, 2011), but made no other improvements.

As time passed, however, the impact of the non-complier list became more pronounced as banks in Western countries began to conduct enhanced due diligence procedures on customers in Thailand. The Thai business sector was particularly concerned about this process, since it meant transactions took longer and were more costly than before (Interview with Thai government official, 14 February 2016). Despite these costs, Thailand failed to make significant changes to its legal framework in 2011, due partly to domestic political unrest.⁴⁸ As a result, in October 2011 the FATF placed Thailand on a list of countries not making enough progress, and bumped Thailand up to the “black” list in February 2012.

The higher listing level intensified the costs to Thailand’s financial sector and increased pressure on the government to change its laws. Thai banks reported difficulties obtaining permits to open branches in EU countries, and a bank in the EU even contemplated scrapping a deal to lend money to Thai banks (Email Interview with Thai government official, 14 February 2016). The Thai business sector, and in particular, Thai banks, began to pressure the government for the swift enactment of new laws to combat money laundering and terrorist financing (Interview with Thai government official, 14 February 2016). The chief executive of CIMB - Thai Bank, one of the top ten largest banks in Thailand, described new laws

⁴⁸According to a State Department assessment “Political and civil unrest in Thailand in mid-2010, followed by catastrophic flooding, the dissolution of Parliament and subsequent general election in July 2011, have impeded Thailand’s implementation of its AML/CFT action plan” (US Department of State, 2012, 171).

premium for long-term debt. Figure 6 shows the yield spread for 10-year bonds sold by the Thai government between 2009 and 2015. In the two years following Thailand's listing, the spread rose from 1.1 to 2.2, as investors viewed Thailand as an increasingly risky investment prospect. While it is true that Thailand experienced a number of challenges during this time, such as massive floods and political unrest, these events do not appear to correlate with bond spreads. For example, in the latter part of 2011, Thailand had major flooding, leading to billions of dollars in economic damages (Quadir, 2012), yet the yield spread was already increasing prior to flooding and increased more after the floods ended. During the period of massive political turmoil in late 2013, the yield spread was actually decreasing. While the figure does not provide definitive evidence of a causal link between the non-complier list and bond yields, it suggests that the non-complier list and yield spreads are correlated.

7 Conclusion

In today's globalized world, institutionalized cooperation is essential for addressing transnational threats. While most international institutions continue to lack formal enforcement power, this gap should not suggest that such institutions are weak or ineffective. Instead, the same processes of interdependence that generate new threats also expand opportunities for institutions to drive policy change. When institutions design monitoring procedures that harness multilateral advantages – credibility, technical expertise, and access – institutional monitoring can become a valuable source of information for market actors. Institutional monitoring can then generate compliance via market enforcement, as banks, investors, or consumers shift resources away from non-compliant states. While an institutional blacklist may drive some policy change through social pressure, governments are much more likely to implement new policies when non-compliance becomes economically costly.

This article highlights the power of monitoring in an age where information is a global

currency. As a study of an informal institution, it also has implications for the literature on global governance. The shift in some issue areas away from formal, treaty-based institutions to smaller, informal institutions does not necessarily portend a decline in global cooperation. Instead, newer institutions may more deftly maneuver through the current information-heavy environment, carving new pathways to compliance.

Appendix A FATF Members and Associate Members

Members	Associate Members: FATF-Style Regional Bodies
Argentina	Asia/Pacific Group on Money Laundering (APG)
Australia	Caribbean Financial Action Task Force (CFATF)
Austria	MONEYVAL (Council of Europe)
Belgium	Eurasian Group (EAG)
Canada	Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)
China	Financial Action Task Force of Latin America (GAFILAT)
Denmark	Inter Governmental Action Group against Money Laundering in West Africa (GIABA)
<i>European Commission</i>	Middle East and North Africa Financial Action Task Force (MENAFATF)
Finland	Task Force on Money Laundering in Central Africa (GABAC)
France	
Germany	
Greece	
<i>Gulf Cooperation Council</i>	
Hong Kong, China	
Iceland	
India	
Ireland	
Italy	
Japan	
Korea	
Luxembourg	
Malaysia	
Mexico	
Netherlands	
New Zealand	
Norway	
Portugal	
Russia	
Singapore	
South Africa	
Spain	
Sweden	
Switzerland	
Turkey	
United Kingdom	
United States	

Table A1: The table shows FATF members and associate members. Italicized members are regional organizations. Most member states belonging to FATF-style regional bodies are not FATF members.

Appendix B FATF 16 Key & Core Recommendations

The FATF has identified 16 of its “40+9” recommendations on combating money laundering and terrorist financing as being the highest priority recommendations for states. In an interview, a FATF regional body official described the core recommendations as the “building blocks of the AML/CFT regime, without which anything else would be pointless,” while the key recommendations are “extremely important, but to a lesser extent” (Interview by author, 27 January 2015). The general topics covered by these 16 key and core recommendations are given below.

Core Recommendations

- Criminalization of money laundering and terrorist financing (Recommendation 1, Special Recommendation II)
- Customer identification/record-keeping requirements (Recommendations 5 and 10)
- Suspicious transaction reports reporting (Recommendation 13, Special Recommendation IV)

Key Recommendations

- International cooperation and mutual legal assistance (Recommendations 35, 36, 40, Special Recommendations I and V)
- Freezing and confiscation (Recommendation 3, Special Recommendation III)
- Financial secrecy (Recommendation 4)
- Adequate regulation and supervision (Recommendation 23)
- Functional financial intelligence unit (Recommendation 26)

Appendix C Interviews by Author

I have conducted numerous interviews over the course of this project, many of which informed my analysis but were not directly cited in this paper. A list of all interviews, both cited and un-cited, is provided below.

Cited:

- Interview with UNODC official, 8 May 2014
- Interview with official from a FATF regional body, 27 January 2015
- Interview with Citibank official, 28 August 2015
- Interview with official from Thomson-Reuters World-Check, 28 September 2015
- Interview with official from Thomson-Reuters Country-Check, 29 September 2015
- Interview with official from formerly listed country, 9 February 2016
- Interview with official from a private bank in Ethiopia, 11 February 2016
- Interview with Thai government official, 14 February 2016
- Interview with official from FATF regional body, 30 June 2016
- Interview with Executive Director of a FATF regional body, 30 June 2016

Un-cited:

- Interview with FATF official, 6 May 2014
- Interview with FATF official, 6 May 2014
- Interview with UNODC official, 7 May 2014
- Interview with UNODC official, 8 May 2014
- Interview with Executive Director of a FATF regional body, 10 December 2014
- Interview with official from FATF regional body, 17 February 2015
- Interview with official from compliance company, 22 September 2015
- Interview with official from compliance company, 24 September 2015
- Interview with MSCI official, 25 September 2015
- Interview with Credit Agricole CIB official, 25 September 2015

- Interview with investment firm official, 8 February 2016
- Interview with official from an international development bank, 7 April 2016
- Participant Observation of Asia-Pacific Group Plenary, 6-8 September 2016

Appendix D FATF Non-Complier List Countries

Country	Listed	Graduated
Afghanistan	2012	–
Albania	2012	2015
Algeria	2011	2016
Angola	2010	2016
Antigua and Barbuda	2010	2014
Argentina	2011	2014
Azerbaijan	2010	2010
Bangladesh	2010	2014
Bolivia	2010	2013
Bosnia-Herzegovina	2015	–
Brunei Darussalam	2011	2013
Cambodia	2011	2015
Cuba	2011	2014
DPRK	2007	–
Ecuador	2010	2015
Ethiopia	2010	2014
Ghana	2010	2013
Greece	2010	2011
Guyana	2014	–
Honduras	2010	2012
Indonesia	2010	2015
Iran	2007	–
Iraq	2013	–
Kenya	2010	2014
Kuwait	2012	2015
Kyrgyzstan	2011	2014
Lao PDR	2013	–
Mongolia	2011	2014
Morocco	2010	2013
Myanmar	2010	2016
Namibia	2011	2015
Nepal	2010	2014
Nicaragua	2011	2015
Nigeria	2010	2013
Pakistan	2010	2015
Panama	2014	2016
Papua New Guinea	2014	2016
Paraguay	2010	2012
Philippines	2010	2013
Qatar	2010	2010
Sao Tome and Principe	2010	2013
Sri Lanka	2010	2013
Sudan	2010	2015
Syria	2010	–
Tajikistan	2011	2014
Tanzania	2010	2014
Thailand	2010	2013
Trinidad and Tobago	2010	2012
Turkey	2010	2014
Turkmenistan	2010	2012
Uganda	2014	–
Ukraine	2010	2011
Vanuatu	2016	–
Venezuela	2010	2013
Vietnam	2010	2014
Yemen	2010	–
Zimbabwe	2011	2015
Total	57	46

Table D2: *Countries listed by the FATF (Feb 2010 - June 2016)* - Table shows the countries included on the non-complier list, the year of listing, and the year of graduation (where relevant). Countries that graduate are removed from FATF monitoring due to significant policy change (with the exception of Sao Tome and Principe, which the FATF decided was a low threat and no longer needed monitoring).

Appendix E Countries with 10+ Failing Recs

Listed Countries		Non-Listed Countries	
Afghanistan	Nepal	Austria	Mauritania
Albania	Nicaragua	Bahrain	Mozambique
Algeria	Nigeria	Belize	Nauru
Angola	Pakistan	Benin	Niger
Antigua and Barbuda	Panama	Botswana	Palau
Argentina	Papua New Guinea	Burkina Faso	Samoa
Azerbaijan	Paraguay	Cameroon	Seychelles
Bangladesh	Philippines	Cape Verde	Sierra Leone
Bolivia	Qatar	CAR	St. Kitts-Nevis
Brunei Darussalam	Sao Tome and Principe	Comoros	St. Lucia
Cambodia	Sri Lanka	Cote d'Ivoire	Suriname
Ecuador	Sudan	Dominica	Swaziland
Ghana	Syria	Dominican Republic	Timor-Leste
Greece	Tajikistan	Fiji	Togo
Guyana	Tanzania	Gabon	Tonga
Honduras	Thailand	Gambia	Zambia
Indonesia	Trinidad and Tobago	Grenada	
Iraq	Turkey	Guinea	
Kenya	Turkmenistan	Guinea-Bissau	
Kuwait	Uganda	Haiti	
Kyrgyzstan	Ukraine	Jordan	
Lao PDR	Venezuela	Lesotho	
Mongolia	Vietnam	Liberia	
Morocco	Yemen	Luxembourg	
Myanmar	Zimbabwe	Maldives	
Namibia		Mali	
Total	51		43

Table E3: *Above-the-Threshold Countries* - Table shows all listed and non-listed countries that received 10 or more failing ratings in their FATF mutual evaluation reports. The FATF evaluates all countries that receive 10 or more failing ratings, and uses a risk-based approach to determine which countries to include on the non-complier list.

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