

Appendix for “Blacklists, Market Enforcement, and
the Global Regime to Combat Terrorist Financing”

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, 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 conducted numerous interviews with officials from listed governments, IOs, and the banking sector. Most of these people declined to be interviewed “on the record” due to the sensitivities of this issue area and, in some cases, specific bureaucratic guidelines that do not allow them to make statements for publication. Where possible, I have relied on quotes from individuals who agreed to be interviewed on the record, or have used direct quotes from interviews without specific attribution. 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 compliance executive, top-five US bank, 28 August 2015
- Interview with Jeff Soloman, Financial and Risk Sales Specialist, Thomson Reuters, 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-style regional body, 30 June 2016
- Interview with Gordon Hook, Executive Director of the Asia/Pacific Group on Money Laundering, 30 June 2016
- Participant Observation of Asia-Pacific Group Plenary, 6-8 September 2016
- Interview with Thai banking official, 9 March 2017
- Interview with former FATF President Antonio Gustavo Rodrigues, 29 March 2017
- Participant Observation of MONEYVAL Plenary, 30 May - 1 June 2017
- Interview with Chip Poncy, Head of US government delegation to FATF (2011 - 2013), Senior delegation member (2002 - 2011), 7 February 2018
- Interview with Daniel Glaser, Assistant Secretary for Terrorist Financing (2011 - 2017), Deputy Assistant Secretary for Terrorist Financing (2004 - 2011), US Government, 12 February 2018

Un-cited:

- 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 Gordon Hook, Executive Director of the Asia/Pacific Group on Money Laundering, 16 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
- Interview with Gordon Hook, Executive Director of the Asia/Pacific Group on Money Laundering, 28 January 2018

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 Included in Survival Analysis

Countries Included in All Models				
Algeria	Argentina	Austria	Bahrain	Bangladesh
Belarus	Belgium	Bolivia	Botswana	Brazil
Bulgaria	Burkina Faso	Chile	Cote d'Ivoire	Croatia
Cyprus	Czech Republic	Dominican Republic	Ecuador	Egypt
El Salvador	Estonia	Finland	Gambia	Germany
Ghana	Greece	Guatemala	Guyana	Haiti
Honduras	Hungary	India	Indonesia	Iraq
Ireland	Japan	Jordan	Kazakhstan	Kenya
Korea	Kuwait	Latvia	Lebanon	Lithuania
Mali	Mexico	Mongolia	Morocco	Mozambique
Namibia	Netherlands	Nicaragua	Niger	Nigeria
Norway	Oman	Pakistan	Panama	Paraguay
Peru	Philippines	Poland	Portugal	Qatar
Romania	Saudi Arabia	Senegal	Sierra Leone	Slovenia
Spain	Sri Lanka	Sudan	Suriname	Sweden
Switzerland	Tanzania	Thailand	Togo	Tunisia
Turkey	Uganda	United Arab Emirates	Uruguay	Venezuela
Yemen	Zambia			

Countries Included Only in Models 1, 2, and 3				
Bahamas	Brunei Darussalam	Guinea	Guinea-Bissau	Iceland
Liberia	Malta	Serbia	Vietnam	

Countries Included Only in Models 1 and 2				
Afghanistan	Belize	Benin	Cambodia	Cabo Verde
Comoros	Dominica	Fiji	Grenada	Kyrgyzstan
Lao PDR	Lesotho	Macedonia	Maldives	Mauritania
Mauritius	Nepal	Samoa	Seychelles	St. Lucia
St. Vincent	Swaziland	Tajikistan	Tonga	

Countries Included Only in Model 1				
Angola	Antigua and Barbuda	Barbados	East Timor	Moldova
Myanmar	Nauru	Sao Tome and Principe	Syria	Turkmenistan
Vanuatu	Zimbabwe			

Table E3: Countries Included in Survival Analysis

Appendix F Criminalization of Terrorist Financing: Imputed Data

	<i>Dependent variable: Criminalization of Terrorist Financing</i>			
	(1)	(2)	(3)	(4)
Listing	9.050*** (0.327)	9.833*** (0.379)	9.712*** (0.389)	9.639*** (0.391)
Market Integration		1.037 (0.057)	1.034 (0.061)	1.034 (0.061)
Listing * Market Integration		1.184** (0.091)	1.180** (0.093)	1.178** (0.093)
FATF Member	1.137 (0.409)	0.797 (0.491)	0.788 (0.497)	0.757 (0.521)
Previous Terrorist Fin Law	1.302 (0.280)	1.247 (0.285)	1.240 (0.288)	1.212 (0.303)
Diffusion	1.056*** (0.012)	1.058*** (0.013)	1.058*** (0.013)	1.059*** (0.013)
Eligible for Listing	0.916 (0.378)	1.000 (0.450)	1.005 (0.451)	1.008 (0.453)
US Ally	3.988 (1.390)	3.530 (1.409)	3.504 (1.410)	3.478 (1.409)
Private Sector Credit		1.044 (0.164)	1.054 (0.178)	1.047 (0.181)
Capacity		1.062 (0.269)	1.059 (0.270)	1.073 (0.275)
Terrorism			0.976 (0.180)	0.961 (0.190)
Democracy				1.007 (0.027)
Observations	7,617	7,617	7,617	7,617
Countries	137	137	137	137
Events	74	74	74	74

Note:

*p<0.1; **p<0.05; ***p<0.01

Table F4: *Listing, Market Enforcement, and Criminalization: Cox Proportional Hazards Models for Full Sample with imputed data* - Hazards ratios for cox proportional hazards models, replicates models for Table 1. Values over 1 indicate a positive effect; values below 1 indicate a negative effect. Standard errors are clustered by country and shown in parentheses. All models include a log-time interaction for US ally.

Appendix G Results without Log-Time Interaction

	<i>Dependent variable: Criminalization of Terrorist Financing</i>			
	(1)	(2)	(3)	(4)
Listing	8.770*** (0.331)	8.122*** (0.454)	5.816*** (0.523)	8.338*** (0.565)
Market Integration		1.005 (0.067)	1.000 (0.097)	1.020 (0.106)
Listing * Market Integration		1.209** (0.108)	1.319** (0.144)	1.352** (0.150)
FATF Member	1.021 (0.412)	0.638 (0.613)	0.696 (0.632)	0.987 (0.734)
Previous Terrorist Fin Law	1.370 (0.285)	1.056 (0.355)	0.915 (0.398)	0.865 (0.446)
Diffusion	1.061*** (0.013)	1.061*** (0.017)	1.074*** (0.020)	1.080*** (0.021)
Eligible for Listing	0.864 (0.375)	1.155 (0.554)	1.104 (0.606)	0.963 (0.611)
US Ally	1.046 (0.294)	0.934 (0.343)	0.664 (0.382)	0.642 (0.428)
Private Sector Credit		1.009 (0.181)	0.919 (0.236)	1.106 (0.257)
Capacity		1.162 (0.293)	1.206 (0.319)	0.850 (0.372)
Terrorism			1.063 (0.255)	1.430 (0.314)
Democracy				0.943 (0.039)
Observations	7,262	5,828	4,613	4,114
Countries	132	120	96	87
Events	72	52	43	39

Note:

*p<0.1; **p<0.05; ***p<0.01

Table G5: *Listing, Market Enforcement, and Criminalization: Cox Proportional Hazards Models for Full Sample without log-time interaction for US ally* - Hazards ratios for cox proportional hazards models, replicates models for Table 1. Values over 1 indicate a positive effect; values below 1 indicate a negative effect. Standard errors are clustered by country and shown in parentheses.

Appendix H Conditional Marginal Effect: Additional Tests

Hainmueller et al. (Forthcoming) recommend two estimation strategies to estimate the conditional marginal effect of a variable (in this case, the FATF non-complier list) on the outcome (compliance) across values of the moderator (market integration). The first approach involves breaking a continuous moderator into several bins, represented by dummy variables, and interacting these dummy variables with the treatment. The results of this test are presented in figure H1. The second approach is a kernel smoothing estimator of the marginal effect; the results of this test are presented in figure H2. Both tests support the linearity assumption imposed by a standard multiplicative interaction model, although the estimated effect at high levels of market integration in H1 is imprecise due to the small sample size for listing at this value.

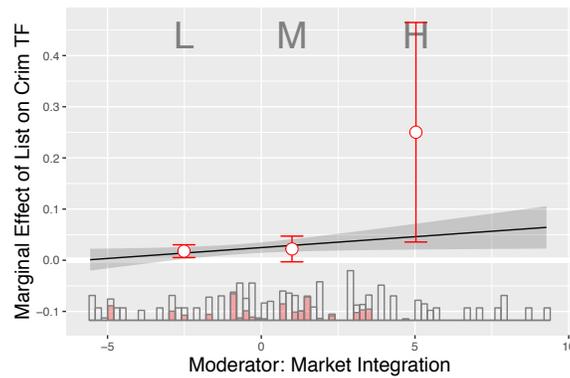


Figure H1: The figure shows the results of binning the variable "Market Integration" into three terciles – low, medium, and high – and estimating the conditional marginal effect at the median value of each tercile.

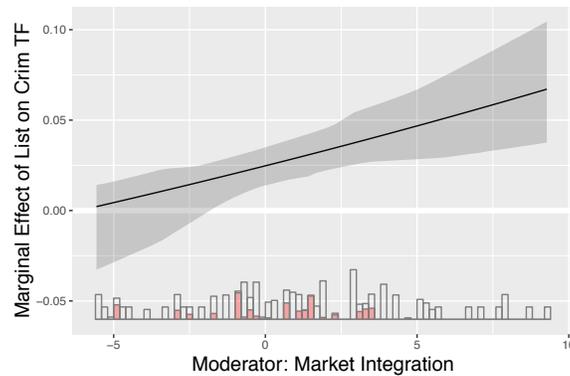


Figure H2: The figure shows the results of a kernel smoothing estimator of the marginal effect of listing on compliance, moderated by market integration.

Appendix I Listing as an Ordinal Variable

The FATF’s non-complier list is actually composed of four separate lists. 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. Subsequent levels include a 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 is excluded from this analysis because it has only ever included two states: Iran and North Korea.

To analyze whether the effect of listing depends on the strength of listing, I create an ordered categorical variable which ranges from “no listing” to a country being on the “blacklist.” I replicate Models 1 and 4 from Table 1 with this variable. Table I6 shows the results of this analysis.

<i>Dependent variable: Criminalization of Terrorist Financing</i>		
	(1)	(2)
List Level - Linear	6.469*** (0.316)	11.050*** (0.535)
List Level - Quadratic	0.467** (0.384)	0.737 (0.563)
List Level - Cubic	1.579 (0.447)	1.552 (0.663)
Market Integration		1.025 (0.139)
FATF	0.955 (0.408)	1.467 (0.801)
Previous Terrorist Fin Law	1.530 (0.297)	1.088 (0.478)
Diffusion	1.059*** (0.013)	1.082*** (0.022)
Eligible for Listing	0.840 (0.378)	0.911 (0.644)
US Ally	3.469 (1.390)	1.144 (1.898)
Private Sector Credit		1.209 (0.288)
Capacity		0.738 (0.410)
Terrorism Risk		1.516 (0.336)
Democracy		0.932 (0.042)
List Level - Linear * Market Integration		0.784 (0.214)
List Level - Quadratic * Market Integration		0.621** (0.237)
List Level - Cubic * Market Integration		1.125 (0.213)
Observations	7,308	4,114
Countries	132	87
Events	72	39
<i>Note:</i>		*p<0.1; **p<0.05; ***p<0.01

Table I6: *List Level, Market Enforcement, and Criminalization: Cox Proportional Hazards Models for Full Sample* - Hazards ratios for cox proportional hazards models, replicates Models 1 and 4 in Table 1. Values over 1 indicate a positive effect; values below 1 indicate a negative effect. Standard errors are clustered by country and shown in parentheses. All models include log-time interaction for US ally.

Appendix J Details on Matching

To assemble a matched sample, I subset the data to period 1 (February 2010), and assemble a dataset of all countries with complete information for model variables. I then use the R package ‘MatchIt’ and use nearest neighbor matching to build a matched sample based on six covariates that could affect a country’s probability of being listed. This matched sample includes 12 listed countries and 12 non-listed countries. I then expand the analysis to included data for this set of 24 countries for the full time period (2010 to 2015).

Table J7 shows the improvement in balance generated by this matched sample. Specifically, it provides the mean value for all variables included in the matching model, comparing listed and non-listed countries in the full sample and in the matched value. Averages are for the year 2010.

Variable	<i>Pre-Processing</i>			<i>Matched</i>		
	Means List	Means No List	Diff	Means List	Means No List	Diff
Distance	0.280	0.154	0.126	0.280	0.278	0.002
Diffusion	-18.092	-17.854	-0.238	-18.092	-17.259	-0.833
US Ally	-0.0598	-0.006	-0.054	-0.060	0.024	-0.083
Private Sector Credit	-0.885	-0.335	-0.551	-0.885	-1.626	0.741
Capacity	-0.369	-0.152	-0.218	-0.369	-0.910	0.541
Polity IV	-2.385	-0.843	-1.542	-2.385	-2.302	-0.083
Risk of Terrorism	-0.752	0.063	-0.815	-0.752	-0.711	-0.042
Countries	27	41		12	12	

Table J7: *Balance Comparison*: Balance comparison of matched vs. unmatched (pre-processing) sample. Each variable is centered around its mean value, such that positive values indicate values above the mean and negative values indicate values below the mean.

Appendix K Listing and Cross-Border Liabilities (Inclusion of Trade Balance)

	<i>Dependent variable: Cross-border Liabilities (log)</i>			
	(1)	(2)	(3)	(4)
Listing	-0.287*** (0.055)	-0.280*** (0.055)	-0.288*** (0.056)	-0.265*** (0.054)
Inflation	0.009*** (0.002)	0.010*** (0.002)	0.009*** (0.003)	0.009*** (0.002)
GDP Growth (Percent Change)	-0.002 (0.004)	0.002 (0.004)	-0.006 (0.006)	0.002 (0.006)
Balance of Trade	-0.000** (0.000)	-0.000** (0.000)	-0.000* (0.000)	-0.000** (0.000)
Credit-to-GDP Ratio	-0.007*** (0.001)	-0.006*** (0.001)	-0.007*** (0.002)	-0.006*** (0.002)
Debt-to-GDP Ratio	-0.010*** (0.001)	-0.011*** (0.001)	-0.007** (0.003)	-0.015*** (0.003)
Time		0.021*** (0.007)		0.057*** (0.009)
Money Supply			0.001 (0.001)	0.002* (0.001)
Interest Rate Spread			-0.010 (0.006)	-0.002 (0.006)
Observations	836	836	500	500
Countries	57	57	33	35
Country Fixed Effects	Y	Y	Y	Y
Time Polynomial	N	Y	N	Y

Note:

*p<0.1; **p<0.05; ***p<0.01

Table K8: *The Effect of Listing on Cross-Border Liabilities* - Dependent variable is logged cross-border liabilities. OLS regression with country-fixed effects, with robust clustered standard errors shown in parentheses. Quarterly observations for 2010 to 2015.

Appendix L Placebo Test

	<i>Dependent variable: Cross-border Liabilities (log)</i>			
	(1)	(2)	(3)	(4)
Placebo Listing	0.192 (0.150)	0.171 (0.145)	0.064 (0.202)	0.098 (0.195)
Inflation	-0.040*** (0.008)	0.015 (0.014)	-0.008 (0.037)	0.011 (0.036)
GDP Growth (Percent Change)	0.016** (0.008)	0.011 (0.007)	0.071*** (0.027)	0.036 (0.029)
Real Exchange Rate	0.002 (0.002)	0.003** (0.002)	0.008*** (0.002)	0.008*** (0.002)
Credit-to-GDP Ratio	0.006* (0.003)	0.016*** (0.004)	-0.010 (0.009)	-0.005 (0.008)
Debt-to-GDP Ratio	-0.005 (0.003)	0.001 (0.003)	-0.002 (0.006)	-0.001 (0.005)
Money Supply			-0.003 (0.006)	0.001 (0.006)
Interest Rate Spread			0.016 (0.030)	0.083** (0.037)
Observations	360	360	108	108
Countries	50	50	14	14
Country Fixed Effects	Y	Y	Y	Y
Time Polynomial	N	Y	N	Y

Note:

*p<0.1; **p<0.05; ***p<0.01

Table L9: *The Effect of Listing on Bank-to-Bank Lending (Placebo Test)*- Dependent variable is logged cross-border liabilities. OLS regression with country-fixed effects, with robust clustered standard errors shown in parentheses. Quarterly observations for 2006 to 2008. Listing data is from 2010 to 2012.