Mission Accomplished? Evaluating the Effectiveness of the Financial Action Task Force's War on Terrorist Financing

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Abstract

The Financial Action Task Force (FATF), an intergovernmental body accountable to the Finance Ministers from its member states, has been at the forefront of the war to counter terrorist financing (CTF). It has issued nine recommendations and "named and shamed" those who have failed to comply. While this strategy has convinced all states or countries, except North Korea, to cooperate, the effectiveness of the recommendations still remains unclear. This article seeks to answer the question: is compliance with the FATF recommendations associated with a) fewer terrorist attacks and b) a lower proportion of attacks using expensive weaponry? Through analysis of 138 countries' records of FATF compliance and terror attacks, this article finds neither a statistically significant relationship between compliance and the number of attacks nor between compliance and the cost of attacks. These results cast doubt upon the FATF recommendations' effectiveness recommendations and the global war on terrorist financing.

Keywords

Counter-Terrorism; Financial Regulation; International Organizations; Terrorism; War on Terror

Introduction

As American troops mobilized to enter Afghanistan, the United States (U.S.) opened a financial front in the Global War on Terror. By emphasizing, "money is the lifeblood of terrorist organizations," President George W. Bush froze the assets of "suspected Islamic terrorist groups" with Executive Order 13224 (Kahn and Sanger, 2001). The Bush Administration then sought to internationalize this effort (Hayes, 2012). Ratification of the International Convention for the Suppression of Terrorist Financing (ICSTF), a 1999 treaty that criminalized terrorist financing, became a top priority for American diplomats (Hayes, 2012). Responding to American pressure, the International Monetary Fund (IMF) and the World Bank (WB) accelerated the efforts to incorporate counter terrorist financing (CTF) into their work (Hayes, 2012). However, the global war on terrorist financing centered on a little-known (or uncommon) intergovernmental organization, called the Financial Action Task Force (FATF).

The Finance Ministers attending the July 1989 G-7 Summit in Paris initially created the FATF to continue the Summit's mission to counter money-laundering (FATF, 2017a). In April 1990, the FATF released a list of 40 recommendations, which focused on laws that countries could adopt to combat money laundering (FATF, 2017b). By 1992, the FATF grew to 28 members (Hayes, 2012). Membership has been based on compliance with the recommendations and "strategic importance," as determined by GDP, financial sector size, and other factors (FATF, 2017c).

In the effort to internationalize American CTF policies, the FATF offered several advantages comparing with the IMF, the WB or the United Nations (UN). Although IMF and WB loans could include CTF provisions, countries would first need to approach those organizations. Similarly, ratifying additional treaties would be voluntary and slow. Once ratified, enforcement would pose a problem. G-7 countries tried to use these channels to combat terrorist financing in the 1990s, and the Bush Administration learned from the shortcomings of these efforts (Hayes, 2012). In contrast, the FATF centralized "rule" making in the hands of a few countries while ensuring nearly universal cooperation.

The FATF considers itself as a "policy-making body that works to generate necessary political will to bring about national legislative and regulatory reforms in these areas" (2017a). It generates political will through a blacklist. The FATF or one of its regional affiliates evaluates whether countries are compliant, largely compliant, partially compliant, or not compliant with each recommendation (FATF, 2016). The evaluations are public, and a poor evaluation can undercut a country's status in the global financial sector. Then the organization "names and shames" those who fail to comply with a substantial portion of the recommendations or cooperate with the FATF in a public statement on "high risk and non-cooperative jurisdictions," better known as the blacklist

(FATF, 2016). The FATF instructs its members and other co-operative non-members to enhance due to diligence measures when dealing with blacklisted countries (FATF, 2016). As a result, international trading partners face higher costs when dealing with blacklisted countries and may stop trading with them (FATF, 2016). If these negative economic consequences fail to induce cooperation, the FATF calls for its members - and non-members - to apply "counter-measures," a financial quarantine tied to economic sanctions (FATF, 2016). In order to be removed from the list, a country must develop a FATF-approved plan of action with support at the ministerial level to become compliant (FATF, 2016).

The Bush Administration noted the immediate impact of the first blacklist published in June 2000 (Hayes, 2012). The member states could make a decision, leverage their financial influence, and present all other states with the option: comply or be isolated from the world's largest economies. The efficient decision-making process and global impact of the blacklist distinguished the FATF as the ideal organization to internationalize CTF measures. Faced with pressure from the Bush Administration, the 2001 FATF meeting in Washington, D.C. revised the organization's mandate to include CTF and adopted eight new recommendations within the scope of that new mission (FATF, 2017b). In October 2004, the FATF added a ninth special recommendation (FATF, 2017b).

With 198 countries publicly committed to implementing the recommendations, it is hard to question the success of the strategy to use the FATF as a platform to internationalize the war on terrorist financing (FATF, 2016). The FATF Executive Secretary David Lewis boasts that within the 53 countries named and shamed since 2007, "43 of these countries have made the necessary reforms" (FATF, 2016). Today, only two countries - North Korea and Iran - remain on the blacklist, but Iran has adopted a plan of action (FATF, 2016).

The FATF's success in inducing cooperation and some compliance; however, it does not necessarily equate to eliminating the financial resources of terrorist organizations. To date, policymakers and academic experts know surprisingly little about whether the special recommendations have achieved their ultimate aim, including reduce the prevalence and lethality of terrorism. The failure to evaluate the FATF's special recommendations represents a critical deficiency in the global war on terrorist financing. An evaluation indicating that the special recommendations were ineffective would likely provoke changes to the recommendations. In the long run, this process of evaluation and reform would increase the probability that the FATF's CTF efforts would cripple the operations of terrorist organizations. Some scholars also question the cost-effectiveness of the measures recommended. For example, Ben Hayes (2012) notes that the FATF evaluation process reduces the sovereignty of non-FATF members and legitimizes strict financial controls on non-governmental organizations in non-democratic countries. These costs raise a crucial question: is compliance with the FATF special recommendations associated with a) fewer terrorist attacks and b) a lower proportion of attacks using expensive weaponry?

This article represents the first attempt to rigorously and quantitatively answer that question. To that end, the remainder of this article is divided into four sections. Section 2 surveys past research on the FATF's CTF recommendations. Section 3 describes the quantitative, comparative methodology used to analyze the special recommendations' effectiveness. Section 4 discusses the results of the regressions conducted. Based on those results, Section 5 notes this article's limitations and argues that there is no evidence suggesting the recommendations are effective. The section calls on the FATF to conduct an in-house evaluation on the CTF recommendations' impact on terrorism as well as adopt two new CTF recommendations.

Literature Review

The literature examining the effectiveness of the FATF's CTF recommendations is scant and generally critical of the recommendations. Most critical articles focus on countries' low compliance rates with the recommendations or the FATF's inability to regulate transactions in informal or crypto-currency markets. However, Peter Neumann's *Foreign Affairs* article takes a clear position on the impact of the special recommendations. The critical articles with a more positive bent emphasize the number of countries cooperating. In addition, the responses to Neumann's article on *Foreign Affairs* rely on a few concrete examples in an effort to refute Neumann's arguments.

From the critical literature, there is a clear consensus that compliance is low. This trend began with an article by IMF staffers Jean-François Thony and Cheong-Ann Png (2007: 160) who conclude that the recommendations "are slow to be implemented effectively". The following year, Jackie Johnson (2008: 47) analyzes compliance before and after the FATF adopted the nine special recommendations, and she finds that the worthy has decreased since 2003. Three years later, Png (2011: 110) looks at compliance among members of the Asian Development Bank (ADB) and determines, "the general level of compliance is quite limited". Verdugo Yepes (2011: 1) indicates in an IMF working paper, "overall compliance is low". Most recently, King Kwang Choo (2013) summarizes the compliance record of countries as of 2013 and similarly notes the low compliance.

Some scholars, however, strike a more positive perspective on the FATF's recommendations by focusing on cooperation rather than compliance. Kathryn Gardner's (2007: 325) article on "Fighting Terrorism the FATF Way" stresses the number of countries cooperating, "the FATF has become adaptive, facilitating transnational effectiveness in the fight to counter terrorist financing". Similarly, Kenneth Abbott and Duncan Snidal (2000: 440) note the number of countries cooperating and argue that the FATF has manufactured "a significant degree of convergence" by permitting national diversity, creating an expectation of political costs for non-compliance, and legitimizing its work through legal discourse. Gardner, Abbott, and Snidal rely less on quantitative data than their peers criticizing compliance rates and fail to address the point that cooperation with low compliance impedes an effective CTF regime.

The newest approach in the literature criticizes the FATF's inability to respond to the rapidly changing nature of financial transactions. William Vleck (2018: 260) argues that the FATF's work has pushed terrorist financing into the informal economy and the FATF's "rule-based approach lacks the flexibility necessary for dealing with the nature of an informal economy". Malcolm Campbell-Verduyn (2018) finds that the FATF guidance on countering money laundering and terrorist financing via crypto-currency is insufficient and relies too heavily on self-regulation by the private sector. All of these works; however, do not mention about the effectiveness of the CTF recommendations.

One cannot say the same thing about Peter Neumann's article in *Foreign Affairs*. His conclusion is clear: the war on terrorist financing has been a failure (Neumann, 2017). His key point compares the size of budget for the Islamic State of Iraq and as-Sham (ISIS) and the quantity of money frozen in CTF efforts (Neumann, 2017). According to estimates from King's College and Ernst and Young, ISIS had a budget of $1 billion in 2016 and $1.9 billion 2014 and the total terrorist assets frozen in 2017 amounted to $60 million (Heißer et al, 2017). Therefore, international CTF efforts have not stopped terrorist organizations from amassing large amounts of money (Neumann, 2017). Then he explains why CTF efforts do not affect ISIS's main streams of revenue: raiding local banks, taxing those living under its banner, maintaining a monopoly on oil production in its territory, and ransoming individuals (Neumann, 2017). Noting the costs of compliance with the FATF recommendations, Neumann (2017) calls for policymakers to rethink the financial front in the War on Terror.

Neumann's article provoked a wave of responses in the next issue of *Foreign Affairs,* primarily from former senior civil servants involved in CTF efforts who defended CTF as part of a multipronged strategy. Among the responses, Matthew Levitt and Katherine Bauer provide concrete, albeit anecdotal evidence, in response to Neumann. They mention how financial intelligence allowed authorities to track down the mastermind of the 2002 Bali bombing and foil plots in the United Kingdom and Germany (Bauer and Levitt, 2017). They also cite Al-Qaeda's finance chief, Mustafa Abu al-Yazid, in a propaganda video complaining about the lack of funds to achieve its goals. (Bauer and Levitt, 2017). Although these responses do not mention the FATF, this debate raises a simple question: who is right?

Compliance is clearly low, but what is the advantage of compliance? Does it actually reduce terrorism? There are well-articulated responses for and against, but the quantitative evidence to support each argument is minimal. This review of past research on the effectiveness of the FATF's recommendations underscores the need for quantitative, comparative analysis on the subject.

Theory and Methodology

The FATF special recommendations aim to combat terrorism by reducing the funding available to terrorists and their ability to move that funding internationally. With funding reduction, terrorists would have less money to pay subordinates. Although ideology drives terrorists, some still need financial motives as Peter Neumann (2013: 67) analyzed in his book *Radicalized*. If the groups did not have the finance to pay competitive wages, Neumann's research indicates that these groups would lose the opportunists who join for livelihood. Since attacks require individuals to shoot, set or detonate explosives, or take other actions, fewer fighters translate to a reduced capacity to carry out attacks. That reduced capacity – all else remaining constant – should lead to fewer attacks. With reduced funding, terrorist groups would also have less money to buy or make weapons. As a result, these groups would resort to cheaper weapons, which are typically less lethal. While some groups may capture expensive weapons, not all groups would be able to and the captured weapons are unlikely to arm every fighter in a group. If the recommendations reduce terrorism by reducing their funds, one should observe two negative correlations: one between recommendation compliance and the number of attacks and another between recommendation compliance and the cost of weaponry used. One should be able to observe these correlations globally and within a given country over time.

The state-centric approach of this theory has limitations in a world increasingly plagued by transnational terrorism. Nevertheless, many terrorist groups remain clustered in one country or have branches in different countries that do not pool resources. Furthermore, if compliance with the recommendations decreases funding for terrorist groups, Country A's weak compliance record would not erase the impact of Country B's strong compliance record. If the recommendations achieve their goal and a group operates in both countries, Country B's compliance would reduce the group's short-term budget in Country B and its overall budget. Unless the group replenishes the funds lost in Country B with funds from its branch in Country A, the group's long-term budget in country B would decrease, and its number of attacks should reflect that. Furthermore, the recommendations seek to stop terrorist groups from transferring funds internationally. If the recommendations are effective, the group should struggle to shift substantial funds from Country A to B. Thus, it remains unlikely that the compliance of one country, if the recommendations were effective, would eliminate a statistically significant effect of compliance in another country.

Similarly, porous borders between countries could allow expensive weaponry to pass from Country A to Country B, and that possibility constrains the conclusions from this article. However, the Special Recommendation 9 outlines measures to detect the physical cross-border transportation of currency and seize the money if related to terrorist financing. If a country complies with the recommendation, it is reasonable to assume that a country can detect and stop the cross-border transportation of most expensive weapons, especially considering that the FATF considers enforcement as part of compliance. Given that link between stopping the physical transportation of weapons and funds, the weak compliance record or ability to counter terrorism of one country would not necessarily lead to weapons flowing into a country with a strong compliance record. Therefore, the limitations of this state-centric approach are not crippling.

To operationalize this theory, this article examines compliance with the FATF's CTF recommendations, the number of terror attacks between 2004 and 2016, and the financial cost of the attacks between 2004 and 2016 in 138 countries. In the 33 countries with two publicly accessible mutual evaluations, this article also examines the change in compliance, the change in the number of attacks, and the change in the weaponry used. The start and end years reflect the adoption of the last CTF recommendation in 2004 and the last update in the terrorism data used for this article.

Countries

The 138 countries analyzed for this article met two criteria. First, they were subjects to a mutual evaluation by the FATF or a regional body. Second, they must have suffered at least one terror attack between October 2004 and the end of 2016 as defined by the University of Maryland's National Consortium for the Study of Terrorism and Responses to Terrorism (START). If a country has not suffered a terrorist attack in that twelve-year timespan, it is reasonable for that country to consider terrorism as a distant threat and to dismiss the importance of CTF compliance. These criteria are as inclusive as possible to reduce the impact of geographic and cultural factors and improve the statistical power of the analysis. While the countries analyzed are not a random sample, a given country's mutual evaluation score does not affect another country's score, and different staff are used to carry out each evaluation (FATF, 2012). Hence, there is little possibility of correlated measurement error that could bias the independent variable.

The thirty-three countries with two mutual evaluations examined in the secondary analysis are a subset of the original 138 countries. Here, the independent variable is the change in compliance over time. This variable in one country does not affect the change in another country. As with the full set of 138 countries, the two evaluations in one country do not affect the two evaluations in another country, and most of the staffs conducting the evaluations are different. While a country's first score likely affects its second score and a country's compliance could influence another country's compliance over time, the possibility of correlated measurement error that could bias the independent variable is negligible.

Compliance Score

The number of the nine CTF recommendations with which a country is compliant or largely compliant in their most recent mutual evaluation determines compliance score. The FATF or one of its nine regional affiliates determines compliance with each recommendation and summarizes the results in the first table of every mutual evaluation report. Largely compliant signifies that a country has followed the majority of guidelines for a particular recommendation (FATF, 2012). The two other ratings, non-compliant and partially compliant, will be categorized as non-compliant. While partial compliance can signify that a country followed a substantial minority of the guidelines to follow a recommendation, it also includes minimal effort towards compliance. For the subset of thirty-three countries, the change in compliance will be measured between each country's most recent and second most recent evaluations. The first approach is ultimately non-binary with a maximum score of nine and a minimum score of zero. The second approach has a maximum score of plus nine and a minimum score of negative nine. While the compliance score is not an interval scale given the nature of the recommendations, the recommendations are similar in scope and content with each one suggesting a concrete legislative action in a particular area. Each recommendation also has the same goal, approach, and creator, so compliance with a recommendation is a comparable qualitative measurement. There; however, is one important exception.

The nine "special" recommendations, specifically addressing CTF, were re-numbered in 2012 and integrated into the broader forty recommendations on money laundering for the most recent round of evaluations (FATF, 2012). The harmonization of the recommendations is summarized below:

Chart 1. FATF's CTF Recommendations

Recommendations (Rounds 1-3)	Recommendations (Round 4)
Special Recommendation 1 – Ratify international CTF instruments **Recommendation 35** – Ratify international instruments on money laundering	**Recommendation 36** – Ratify international instruments on money laundering and CTF
Special Recommendation 2 – Criminalize terrorist financing	**Recommendation 5** – Criminalize terrorist financing
Special Recommendation 3 – Allow authorities to seize terrorist assets	**Recommendation 6** – Allow authorities to seize terrorist assets

Special Recommendation 4 – Require reporting suspicious transactions related to terrorism **Recommendation 13** – Require reporting suspicious transactions related to money laundering	**Recommendation 20** – Require reporting suspicious transactions related to terrorism and money laundering
Special Recommendation 5 – Provide legal assistance to other countries on CTF **Recommendation 36** – Provide legal assistance to other countries on money laundering	**Recommendation 37** – Provide legal assistance to other countries on money laundering and CTF
Special Recommendation 6 – Require a license and CTF compliance for money transfer services	**Recommendation 14** – Require a license and CTF compliance for money transfer services
Special Recommendation 7 – Mandate due diligence for wire transfers	**Recommendation 16** – Mandate due diligence for wire transfers
Special Recommendation 8 – Oversee non-profit funding	**Recommendation 8** – Oversee non-profit funding
Special Recommendation 9 – Detect cross-border cash couriers and stop funds for terrorists	**Recommendation 32** – Detect cross-border cash couriers and stop funds for terrorists

Source: FATF, 2012

In the process, the content of three CTF recommendations has changed. Special Recommendation 1, requiring the "ratification and implementation of UN instruments" on CTF, including the UN Convention for the Suppression of the Financing of Terrorism and UN Security Council Resolution 1373, was combined with elements of Recommendation 35, which called for the ratification of several anti-money laundering treaties, to produce Recommendation 36. Special Recommendation 4, requiring financial institutions to report suspicious transactions possibly connected to terrorism, was combined with Recommendation 13, requiring financial institutions to report suspicious transactions possibly connected to money laundering, to create Recommendation 20. Special Recommendation 5, calling for mutual legal assistance on CTF, was fused with Recommendation 36, encouraging mutual legal assistance to counter money laundering, to create Recommendation 37. These changes complicate the variable of compliance.

For this article, recommendations 5, 6, 8, 14, 16, 20, 32, 36, and 37 determine the compliance score for fourth round evaluations whereas Special Recommendations 1 through 9 determine the compliance score for the previous rounds. Other recommendations fused with the special recommendations for the 4th round are excluded from compliance scores for earlier rounds in order to maintain equivalent maximum and minimum scores for all rounds. While the fourth round changes limit the ability to precisely compare mutual evaluations from this round with prior evaluations, there is only Special Recommendation 1's content significantly changed with the addition of other international conventions. The other two changes – to Special Recommendations 4 and 5 – only added anti-money laundering to the existing content on terrorist financing. While anti-money laundering efforts address the source of funds and CTF efforts address the use of funds, those efforts sometimes overlap. With the second change on suspicious transactions, reporting suspicious transactions for money laundering and reporting suspicious transactions for terrorist financing both require scrutinizing the transactions based on similar criteria and reporting them to the same financial intelligence unit (FATF, 2012: 17). It is reasonable to assume that compliance with the money laundering reporting recommendation often coincides with compliance with the CTF reporting recommendation. With the third change, mutual legal assistance on money laundering and CTF requires laws enabling international co-operation on financial crimes, removing possible impediments like secrecy laws, and creating similar institutions to act as vehicles for co-operation (FATF, 2012: 25). If a country has complied with the CTF recommendation, it likely has complied with the money laundering recommendation because the laws and institutions for that assistance are already in place. Considering the limited nature of these changes, this approach is preferable to a) assessing only countries evaluated in the fourth round, which would constitute a very small dataset, and to b) assessing countries evaluated before 2012 and thereby ignoring the most recent data.

Terrorism

The University of Maryland's (START) Global Terrorism Database provided this article's data on the number of attacks and the weaponry used (START, 2017). The data for each country spans from the start of the year before its evaluation was released until the end of the year when the evaluation was released. This timeframe mirrors the evaluation period, which takes approximately two years. The evaluations do not indicate the day they began, precluding a more specific timeframe for terrorism attack data. For countries evaluated in 2017, there is not corresponding START data as of this writing, so 2015-2016 will be used to keep a consistent two-year timeframe for all countries.

This article uses START's three criteria for defining a terrorist attack:

1. The violent act was aimed at attaining a political, economic, religious, or social goal;
2. The violent act included evidence of an intention to coerce, intimidate, or convey some other message to a larger audience (or audiences) other than the immediate victims; and

3. The violent act was outside the precepts of International Humanitarian Law (START, 2016).

While START directly indicates the number of attacks in a given period, the cost of the weaponry comes from the START database's weapon-type variable, which categorizes weapons as biological, chemical, radiological, nuclear, firearms, explosives/bombs/dynamite, fake weapons, incendiary (a Molotov cocktail or gasoline), melee (non-projectile weapon like a club or knife), vehicle (without explosives), sabotage equipment, other, and unknown. This article codes biological weapons, chemical weapons, radiological weapons, nuclear weapons, firearms and explosives/bombs/dynamite as expensive weapons and all other weapons as inexpensive weapons. While some cheaper explosives are possible to produce, the START categorization does not allow for a more precise distinction based on the cost of explosives. While firearms are cheaper than the other "expensive" weapons, they still cost significantly more than fake weapons, gasoline, knives, or rented vehicles. If multiple weapons are used, the attack is coded as expensive if any "expensive" weapon was used. While the proliferation of weapons like firearms and explosives in some countries has reduced their price in those places, the lack of accurate, public black market prices for weapons in every country precludes a country-specific categorization of weapons as expensive or not expensive.

Hypotheses

With this data and methodology, this paper considers four null and alternative hypotheses in an effort to determine the effectiveness of the special recommendations. Those are summarized below:

Chart 2 – Hypotheses

Null Hypotheses	**Alternative Hypotheses**
H1: No association between compliance score and number of attacks	HA1: Association between compliance score and number of attacks
H2: No association between compliance score and proportion of attacks using expensive weaponry	HA2: Association between compliance score and proportion of attacks using expensive weaponry
H3: No association between change in compliance and change in the number of attacks	HA3: Association between change in compliance and change in the number of attacks

H4: No association between change in compliance and change in proportion of attacks with expensive weaponry	HA4: Association between change in compliance and change in proportion of attacks with expensive weaponry

Source: Author

Considering the many factors impacting terrorist activity and this article's limitations, rejecting these null hypotheses would not prove a causal relationship between compliance and terrorism; however, if there were a causal link, one would expect to see associations between these variables. Thus, the article cannot show a causal relationship but it can suggest the lack of one.

These hypotheses test both components of the theory: that complying with effective recommendations would a) reduce the number of attacks in a given country and b) reduce the proportion of attacks with expensive weapons. The two approaches, looking at compliance and change in compliance, take into consideration that the recommendations might take time to have an effect. A mutual evaluation soon after the implementation of the recommendations may not reflect their impact on terrorist financing, but examining change in compliance should reflect it. However, the FATF has not yet evaluated many countries twice, so the global approach incorporates more data to improve statistical power. The two approaches allow this article to leverage the comparative advantages of each approach.

While the initial components of compliance score are binary, the score itself and the change in score have nine and nineteen levels, respectively. Given the nature of these variables, regressions represent the best tool to analyze the statistical relationship between the two variables. This article will use negative binomial regression analysis to evaluate the first hypothesis,[1] a logistic regression to evaluate the second hypothesis, and simple linear regressions to evaluate the third and fourth hypotheses.

Results

This section summarizes the data collected and assesses the article's four hypotheses. In terms of compliance, only Armenia and Malaysia received a perfect 9 for compliance. There are fifty countries, which had compliance scores of zero, and the median compliance score was 2. The number of terrorist attacks ranged from one attack for eleven countries to 21,863 in Iraq with a median of 17 attacks. The median proportion of attacks with expensive weapons was .8. Although overall compliance appears low, compliance increased by a median of one special recommendation from the first evaluation to the second evaluation for the subset of thirty-three countries. Likewise,

[1] After using Poisson regression analysis, it became clear that the data was over-dispersed. A negative binomial regression is the appropriate correction for over-dispersion.

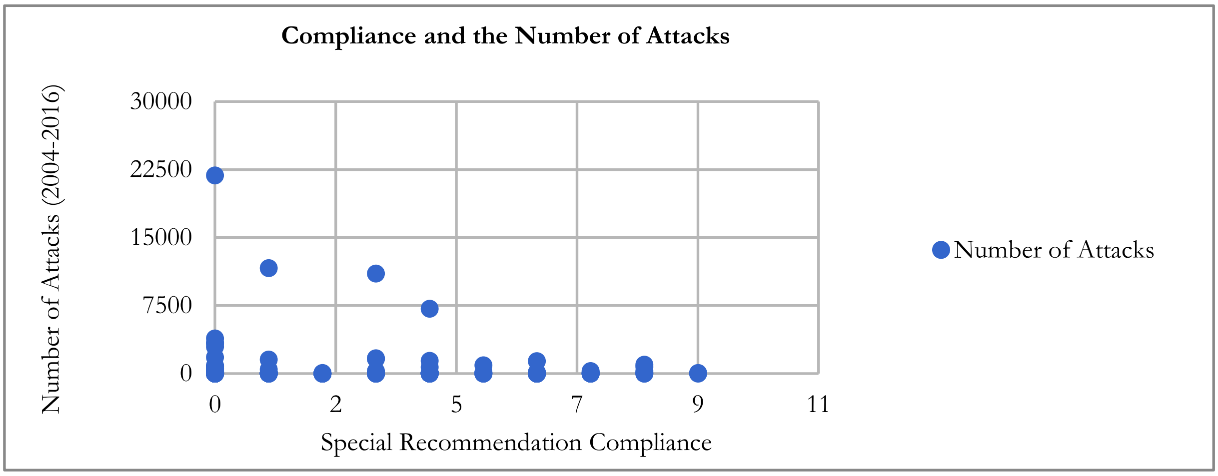
the number of attacks increased by a median of one attack for that subset. In contrast, the median change in the proportion of attacks with expensive weapons was zero.

Chart 3 – Summary Data

	Median (198 countries)	Median Change (33 countries)
Compliance	2	1
Number of Attacks	17	1
Proportion with Expensive Weapons	0.8	0

Source: Author

Chart 4 – Compliance and the Number of Attacks



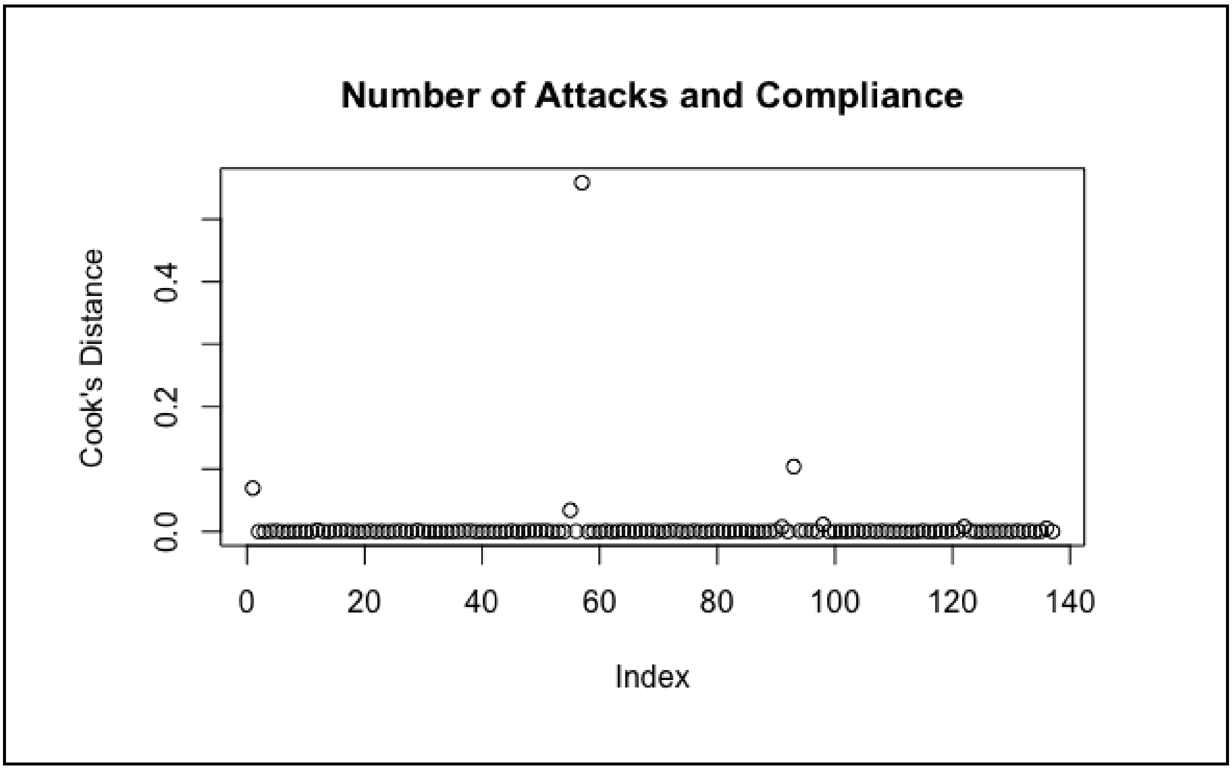
Source: Author

The negative binomial regression conducted with H1 indicates a statistically significant regression coefficient between compliance and the number of attacks of -0.2239 with a p-value of 0.000345. Chart 4 graphs this relationship. Chart 5, however, identifies three outliers – Afghanistan (1), Iraq (57), and Pakistan (93). At the time of their mutual evaluations, Afghanistan, Iraq, and Pakistan's Waziristan region were active war zones where multiple jihadist groups were operating.[2] These factors underscore the unique situation in these countries and necessitate additional regression analysis without these three outliers. After removing these three countries from the database, the correlation coefficient shrank to -0.09986 with a p-value of 0.087. Using a p=0.05 threshold for

[2] The FATF published evaluations for Pakistan in 2009, Afghanistan in 2011, and Iraq in 2012. Syria's last evaluation, in 2006, and Yemen's last evaluation, in 2008, preceded their civil wars. Libya has yet to be evaluated.

significance, this coefficient is not statistically significant. Therefore, I fail to reject the first null hypothesis (H1).

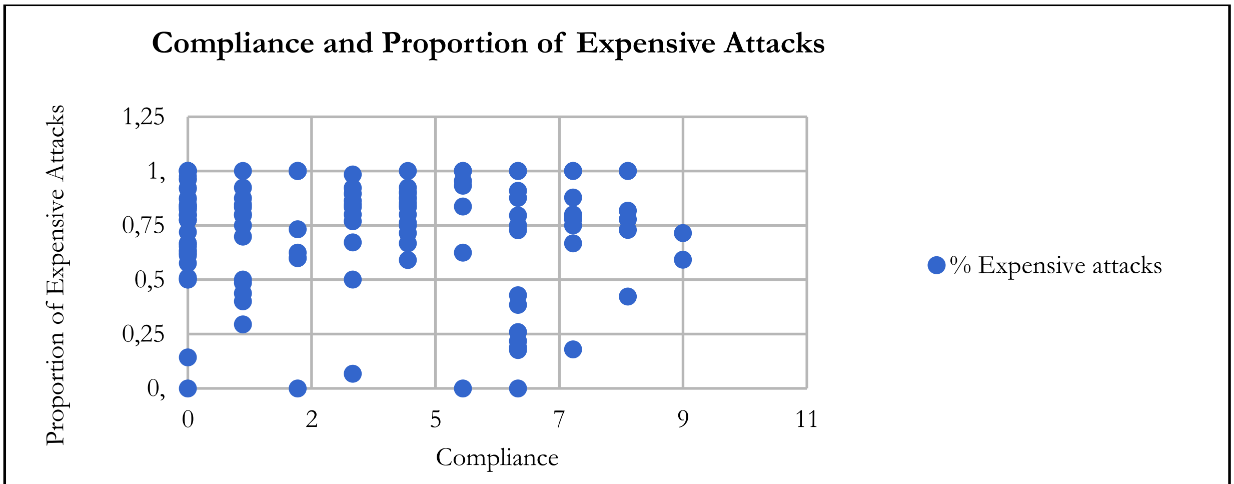
Chart 5 – Outliers for Compliance and the Number of Attacks



Source: Author

Moving to H2, binomial regression for compliance scores and the proportion of attacks with expensive weaponry indicates a regression coefficient of -0.04588 with a p-value of 0.2487. Chart 6, below, plots these variables and shows no clear linear relationship. Using the same threshold for significance, I fail to reject H2.

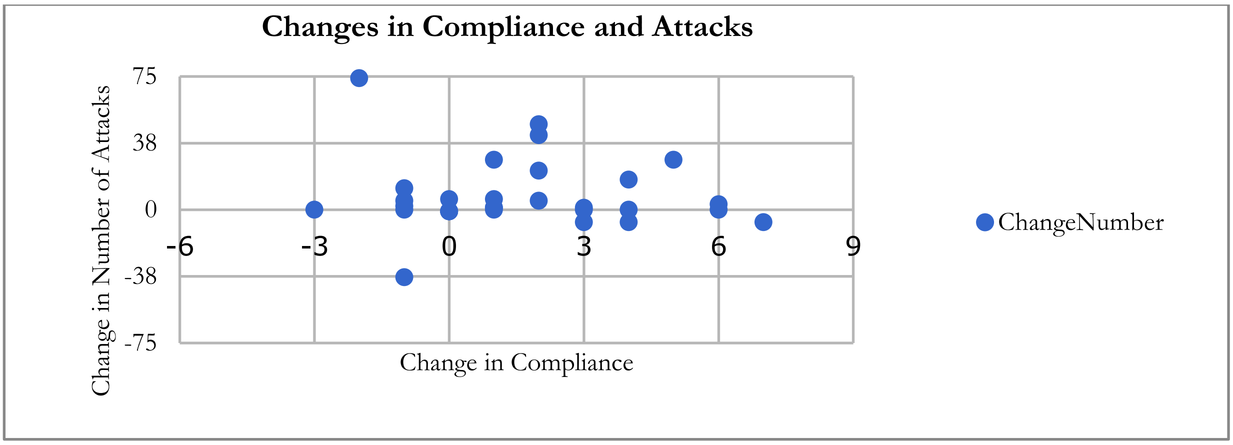
Chart 6 – Compliance and Weapons Used



Source: Author

Simple linear regression for the change in compliance and the change in the number of attacks yields a regression coefficient of 9.932 with a p-value of 0.166. Chart 7,plots the two variables. As shown in Appendix A, the conditions of linearity, homoscedasticity, and a nearly normal distribution of residuals are not satisfied. As the regression coefficient is not statistically significant and the conditions are not met, I fail to reject H3.

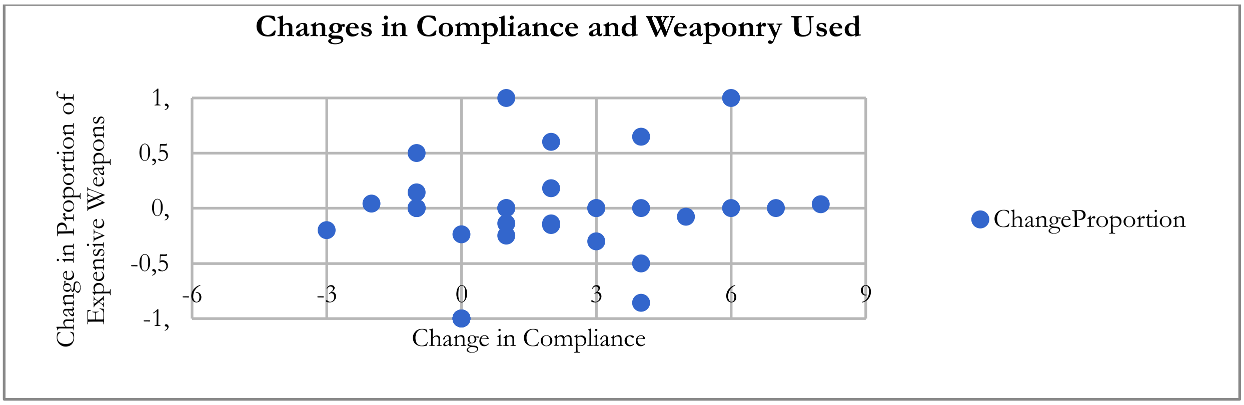
Chart 7 – Changes in Compliance and Number of Attacks



Source: Author

With H4, the regression coefficient between the change in compliance and the change in the proportion of attacks using expensive weaponry is 0.0162 with a p-value of 0.667. Appendix B shows that the conditions for linear regression of linearity (top left), homoscedasticity (top right, bottom right), and nearly normal distribution of residuals (bottom left) are not met. In light of this information, I fail to reject H4.

Chart 8 – Changes in Compliance and Weapons Used



Source: Author

The hypotheses and the corresponding result are summarized in Chart 9.

Chart 9 – Summary of Hypotheses and Results

Null Hypotheses	Results
H1: No association between compliance score and the number of attacks	Failed to reject the null hypothesis
H2: No association between compliance score and proportion of attacks that use expensive weaponry	Failed to reject the null hypothesis
H3: No association between change in compliance and change in attacks	Failed to reject the null hypothesis
H4: No association between change in compliance and proportion of attacks that use expensive weaponry	Failed to reject the null hypothesis

Source: Author

Conclusions, Limitations, and Recommendations

The methodology and results have six limitations. First, not all of the evaluations were carried out and published simultaneously. However, unless the FATF begins to do so, any form of comparative analysis will have to accept this limitation. Second, the fourth round recommendations had several differences compared to earlier rounds. As mentioned in the methodology section, assessing the round data along with previous rounds is preferable to using data solely from the 4th round or from earlier rounds. Third, there is not 2017 terrorism data from START as of this writing yet. Consequently, this article uses 2015-2016 data as the terrorism data for countries evaluated in 2017. The updated data can eliminate these last two limitations. Fourth, it was not possible to precisely assess the cost of weapons. All bombs or guns do not cost the same and prices vary by country, but there was no way to incorporate that nuance into the article's methodology with the START statistics. Additionally, the article's state-centric approach does not completely account for the possibility that terrorist groups could transfer funds and weapons across borders. Last but not least, this paper's approach has looked for statistical associations and not pretended to assert a causal relationship, given the complicated nature of terrorism and these limitations. In contrast, it has relied upon the logic that whether a causal relationship between compliance and reduced terrorism exists, a statistically significant relationship should be discernible.

While tempered by these limitations, the logic and the results of this paper lead to a clear conclusion. After failing to reject all four null hypotheses, this paper found no evidence indicating that the FATF recommendations are effective. When considering in conjunction with the literature, there is nothing beyond anecdotal evidence suggesting that the FATF's special recommendations ultimately reduce terrorism. With this evidence in mind, the FATF's special recommendations do not appear to have accomplished their goal in reducing terrorism. These results should alarm the FATF and warrant further study.

For far too long, cooperation and compliance have served as the lone metrics of the FATF's effectiveness. It is ironic that an organization conducting hundreds of compliance evaluations does not evaluate the special recommendations. There are some recent indications that the FATF understands this irony. With the most recent evaluations, the organization has started to add intermediate effectiveness measures (FATF, 2013). At present, the two CTF effectiveness measures are whether CTF offenses are investigated and prosecuted and whether terrorist organizations cannot raise money in the country (FATF, 2013). These measures, however, still fail to analyze the impact of the recommendations on terrorism itself. Without this analysis, the international community does not know whether the centerpiece of the global war on terrorist financing is working.

To remedy the critical deficiency, the FATF should develop its own methods for evaluating the impact of the special recommendations on terrorism. To do so, it can adopt the two strategies used in this paper: examine the global relationship between compliance and the prevalence of terrorism or the relationship between changes in compliance and terrorism. If this evaluation arrives at a similar conclusion to the one reached in this article, the FATF should consider adopting two new special recommendations.

The first special recommendation would evaluate the financial resources in a given country to enforce the FATF-recommended legal infrastructure on CTF. To date, FATF recommendations only address legal infrastructure. However, if a country's authorities do not have the financial resources necessary to conduct thorough investigations, that legal infrastructure will do little to reduce terrorist financing. Thus, this new recommendation would specifically examine funding for a country's financial intelligence unit or other law enforcement entities targeting CTF.

The second special recommendation would evaluate compliance with UN Security Council Resolution 2133 (2014) on ransom payments to terrorists. David Cohen, the U.S. Treasury Department's top CTF official under President Obama, stated that ransom payments are the principal source of terrorist financing (Callimachi, 2014). Al-Qaeda's second in command claimed that ransoms provide half of the organization's funding (Callimachi, 2014). Similarly, the New York Times, citing the U.S. Treasury, calculated that European governments paid at least $165 million in ransom payments to terrorist groups between 2008 and 2014, including $125 million to Al-Qaeda and its affiliates (Callimachi, 2014). UNSC Resolution 2133 was adopted precisely in response to this trend "calling upon all Member States" to not pay ransoms to terrorist groups and prevent their citizens from doing so (United Nations, 2014). Compliance, however, remains low. If past is precedent, FATF's blacklist could pressure governments around the world to end ransom payments and eliminate a major source of terrorist funding. These two recommendations represent common sense steps that are widely supported by the international community and could turn the tide in the global war on terrorist financing.

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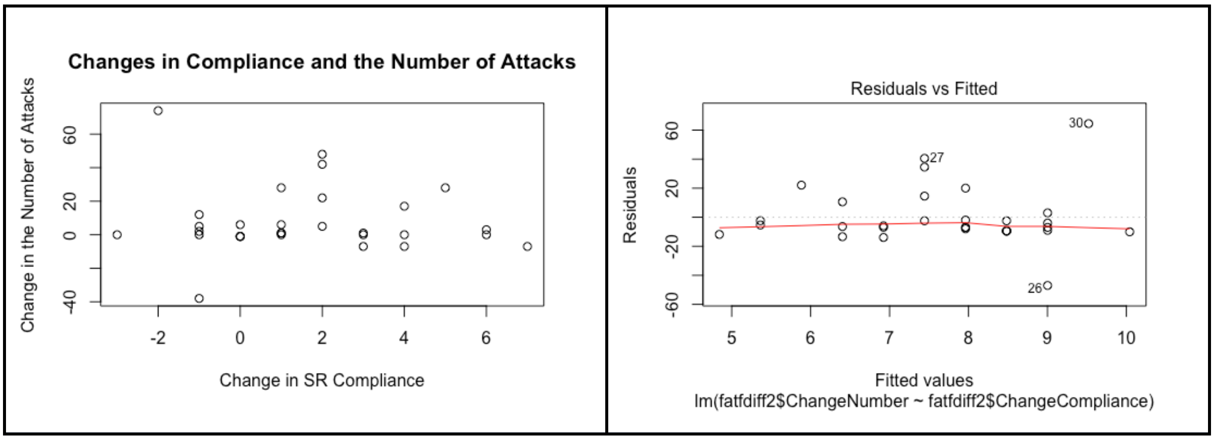
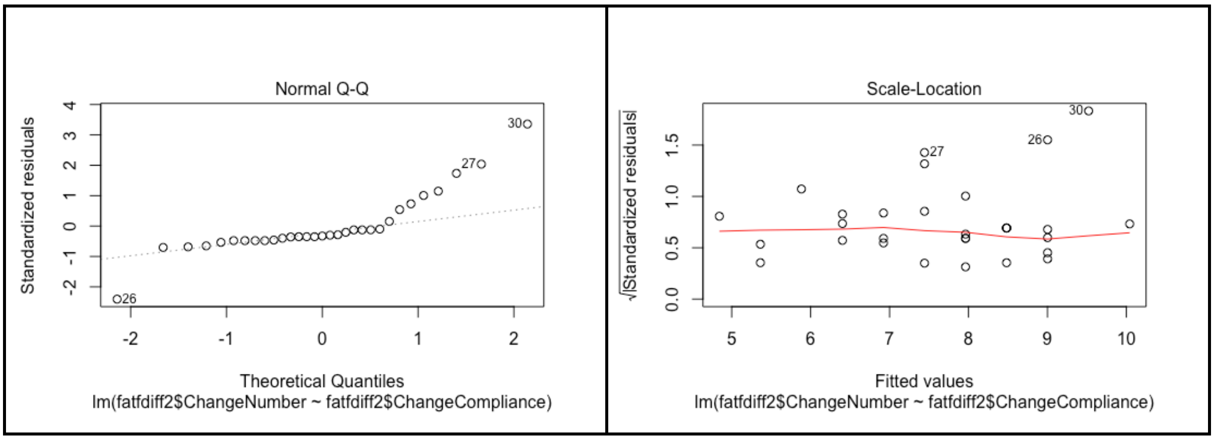
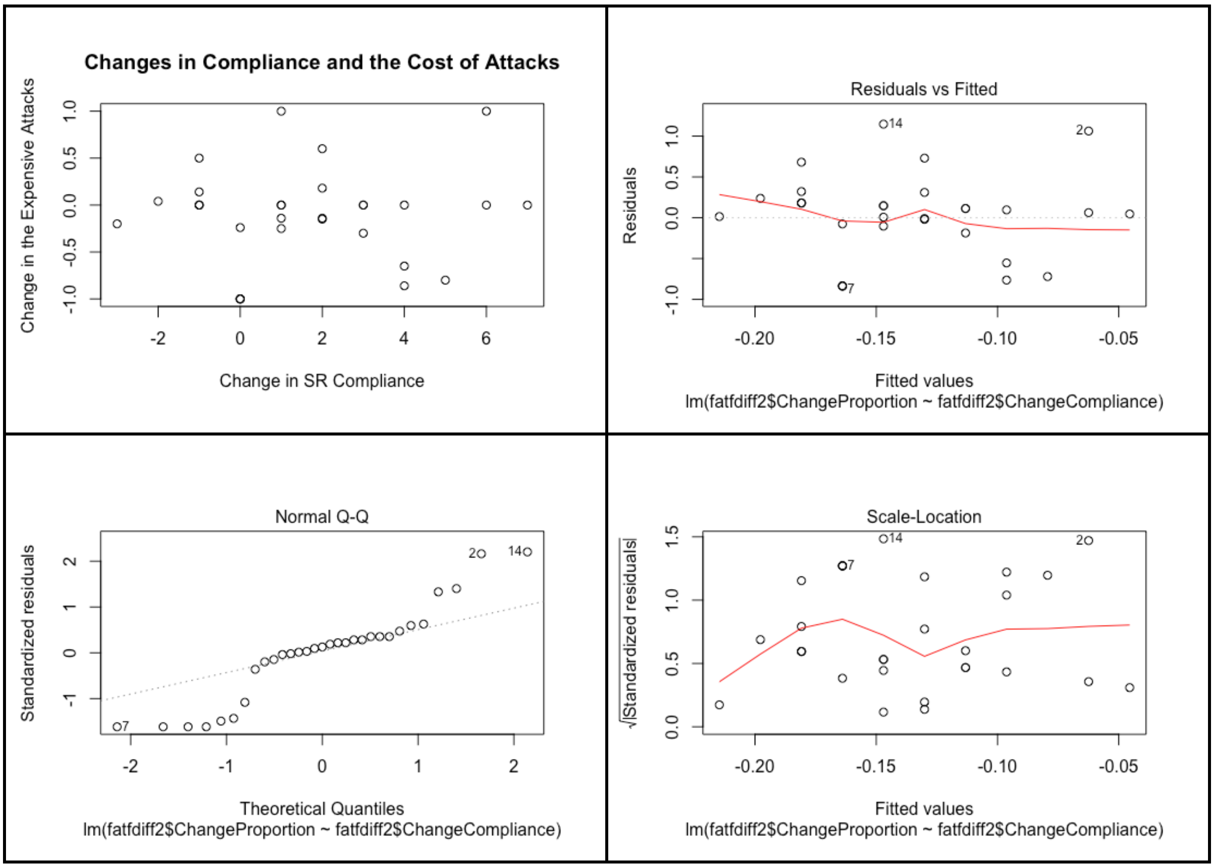
Appendices

Appendix 1 – Hypothesis 3 – Conditions for Linear Regression





Appendix 2 – Hypothesis 4 – Conditions for Linear Regression



Appendix 3 – Compliance, Number of Attacks and % Expensive Attacks

Country	SR Compliance	Number of Attacks	Country	SR Compliance	% Expensive attacks
Afghanistan	3	11016	Afghanistan	3	0.922839506
Albania	4	10	Albania	4	0.9
Algeria	0	878	Algeria	0	0.962414579
Angola	1	5	Angola	1	0.4
Argentina	0	17	Argentina	0	0.823529412
Armenia	9	7	Armenia	9	0.714285714
Australia	7	39	Australia	7	0.179487179
Austria	6	17	Austria	6	0.176470588
Azerbaijan	2	10	Azerbaijan	2	0.6

Bahamas	7	1	Bahamas	7	1
Bahrain	3	146	Bahrain	3	0.671232877
Bangladesh	8	990	Bangladesh	8	0.729292929
Belarus	2	8	Belarus	2	0.625
Belgium	6	11	Belgium	6	0.727272727
Belize	0	1	Belize	0	1
Benin	0	6	Benin	0	1
Bolivia	0	8	Bolivia	0	0.875
Bosnia & Herzegovina	4	21	Bosnia & Herzegovina	4	0.761904762
Brazil	4	16	Brazil	4	0.875
Bulgaria	3	13	Bulgaria	3	0.769230769
Burkina Faso	0	17	Burkina Faso	0	0.823529412
Cambodia	6	4	Cambodia	6	1
Cameroon	0	215	Cameroon	0	0.651162791
Canada	7	36	Canada	7	0.777777778
Central African Republic	0	224	Central African Republic	0	0.799107143
Chad	0	63	Chad	0	0.619047619
Chile	1	73	Chile	1	0.698630137
China	4	110	China	4	0.590909091
Colombia	6	1368	Colombia	6	0.877192982
Croatia	2	6	Croatia	2	1
Cuba	8	1	Cuba	8	1
Cyprus	5	22	Cyprus	5	0.954545455
Czech Republic	5	16	Czech Republic	5	0.625
Democratic Republic of the Congo	0	599	Democratic Republic of the Congo	0	0.50918197
Denmark	6	8	Denmark	6	0.75
Ecuador	1	12	Ecuador	1	0.833333333
Egypt	3	1690	Egypt	3	0.984615385
Equatorial Guinea	0	1	Equatorial Guinea	0	1
Estonia	7	3	Estonia	7	0.666666667
Ethiopia	4	68	Ethiopia	4	0.852941176
Finland	3	15	Finland	3	0.066666667
France	8	280	France	8	0.817857143
Georgia	4	92	Georgia	4	0.902173913
Germany	6	151	Germany	6	0.258278146
Ghana	0	2	Ghana	0	1
Greece	1	439	Greece	1	0.437357631
Guatemala	5	13	Guatemala	5	1
Guinea	0	6	Guinea	0	0.833333333
Guinea-Bissau	0	7	Guinea-Bissau	0	1
Guyana	0	6	Guyana	0	1
Haiti	0	9	Haiti	0	1
Honduras	8	14	Honduras	8	1
Hungary	4	6	Hungary	4	0.833333333
Iceland	3	2	Iceland	3	0.5
India	4	7146	India	4	0.840610132
Indonesia	0	255	Indonesia	0	0.843137255
Iraq	0	21863	Iraq	0	0.975117779
Ireland	5	147	Ireland	5	0.836734694
Israel	5	930	Israel	5	0.932258065
Italy	8	72	Italy	8	0.777777778
Ivory Coast	0	42	Ivory Coast	0	0.833333333
Jamaica	6	2	Jamaica	6	1
Japan	2	20	Japan	2	0.6
Jordan	0	26	Jordan	0	0.923076923
Kazakhstan	1	17	Kazakhstan	1	0.294117647
Kenya	0	489	Kenya	0	0.842535787

Kuwait	0	6	Kuwait	0	0.833333333
Kyrgyzstan	1	16	Kyrgyzstan	1	0.75
Laos	0	7	Laos	0	1
Latvia	5	1	Latvia	5	1
Lebanon	0	555	Lebanon	0	0.918918919
Lesotho	0	3	Lesotho	0	0.666666667
Liberia	0	3	Liberia	0	0.666666667
Macedonia	3	22	Macedonia	3	0.863636364
Malaysia	9	54	Malaysia	9	0.592592593
Maldives	0	18	Maldives	0	0.611111111
Mali	0	384	Mali	0	0.776041667
Malta	7	2	Malta	7	1
Mauritania	1	13	Mauritania	1	0.846153846
Mexico	0	88	Mexico	0	0.795454545
Moldova	2	4	Moldova	2	1
Montenegro	4	4	Montenegro	4	0.75
Morocco	1	8	Morocco	1	0.875
Mozambique	0	128	Mozambique	0	0.71875
Myanmar	0	222	Myanmar	0	0.774774775
Nepal	0	795	Nepal	0	0.657861635
Netherlands	6	16	Netherlands	6	0.1875
New Zealand	4	7	New Zealand	4	0.714285714
Nicaragua	1	2	Nicaragua	1	1
Niger	0	99	Niger	0	0.505050505
Nigeria	0	3311	Nigeria	0	0.634249471
Norway	7	5	Norway	7	0.8
Pakistan	1	11640	Pakistan	1	0.92362543
Panama	0	2	Panama	0	1
Papua New Guinea	0	1	Papua New Guinea	0	1
Paraguay	0	69	Paraguay	0	0.623188406
Peru	2	56	Peru	2	0.732142857
Philippines	0	3887	Philippines	0	0.844095704
Poland	4	2	Poland	4	1
Portugal	6	2	Portugal	6	0
Qatar	1	2	Qatar	1	0.5
Romania	5	1	Romania	5	0
Russian Federation	4	1392	Russian Federation	4	0.924568966
Rwanda	0	26	Rwanda	0	0.961538462
Saudi Arabia	3	280	Saudi Arabia	3	0.896428571
Senegal	0	31	Senegal	0	0.774193548
Serbia	6	11	Serbia	6	0.909090909
Sierra Leone	0	1	Sierra Leone	0	1
Slovak Republic	2	1	Slovak Republic	2	1
South Africa	4	72	South Africa	4	0.666666667
South Korea	2	3	South Korea	2	0
Spain	7	164	Spain	7	0.792682927
Sri Lanka	4	701	Sri Lanka	4	0.87446505
Sudan	0	756	Sudan	0	0.575396825
Swaziland	0	4	Swaziland	0	0.5
Sweden	6	69	Sweden	6	0.217391304
Switzerland	7	8	Switzerland	7	0.75
Syria	0	1803	Syria	0	0.799223516
Taiwan	3	6	Taiwan	3	0.833333333
Tajikistan	0	14	Tajikistan	0	0.142857143
Tanzania	0	38	Tanzania	0	0.631578947
Thailand	0	3406	Thailand	0	0.871109806
Togo	0	1	Togo	0	0
Trinidad & Tobago	6	7	Trinidad & Tobago	6	0.428571429
Tunisia	6	88	Tunisia	6	0.795454545

Turkey	1	1539	Turkey	1	0.796621183
Turkmenistan	2	1	Turkmenistan	2	1
Uganda	1	72	Uganda	1	0.486111111
Ukraine	3	1619	Ukraine	3	0.844966028
United Arab Emirates	3	5	United Arab Emirates	3	0.8
United Kingdom	8	733	United Kingdom	8	0.422919509
United States of America	7	264	United States of America	7	0.878787879
Uruguay	0	2	Uruguay	0	0.5
Uzbekistan	4	10	Uzbekistan	4	0.8
Venezuela	1	20	Venezuela	1	0.8
Yemen	0	2970	Yemen	0	0.798316498
Zimbabwe	6	13	Zimbabwe	6	0.384615385

Appendix 4 – Years and Changes in Compliance

Country	Compliance1	Compliance2	ChangeCompliance	Year1	Year2
Argentina	1	0	-1	2004	2010
Armenia	3	9	6	2009	2016
Australia	5	7	2	2005	2015
Austria	3	6	3	2009	2016
Bahamas	4	7	3	2007	2017
Bangladesh	0	8	8	2009	2016
Belgium	7	6	-1	2005	2015
Bolivia	0	0	0	2006	2011
Brazil	4	4	0	2004	2010
Canada	7	7	0	2008	2016
Cambodia	0	6	6	2007	2017
Chile	2	1	-1	2006	2010
Colombia	1	6	5	2004	2008
Denmark	4	6	2	2006	2017
Ecuador	0	1	1	2007	2011
Guatemala	5	5	0	2012	2017
Honduras	1	8	7	2009	2016
Hungary	3	4	1	2010	2016
Ireland	3	5	2	2006	2017
Italy	7	8	1	2006	2016
Jamaica	5	6	1	2005	2017
Malaysia	5	9	4	2007	2015
Norway	3	7	4	2005	2014
Paraguay	1	0	-1	2005	2008
Peru	5	2	-3	2005	2008
Serbia	2	6	4	2009	2016
Spain	8	7	-1	2006	2014
Sri Lanka	0	4	4	2006	2015
Sweden	4	6	2	2006	2017
Switzerland	4	7	3	2005	2016
Tunisia	5	6	1	2007	2016
United States	9	7	-2	2006	2016
Uruguay	0	0	0	2006	2008

Appendix 5 – Change in the Number of Attacks and Proportion of Attacks Using Expensive Weaponry

Country	Compliance1	Compliance2	ChangeCompliance	Year1	Year2	Country
Argentina	1	0	-1	2004	2010	Argentina
Armenia	3	9	6	2009	2016	Armenia
Australia	5	7	2	2005	2015	Australia
Austria	3	6	3	2009	2016	Austria

Bahamas	4	7	3	2007	2017	Bahamas
Bangladesh	0	8	8	2009	2016	Bangladesh
Belgium	7	6	-1	2005	2015	Belgium
Bolivia	0	0	0	2006	2011	Bolivia
Brazil	4	4	0	2004	2010	Brazil
Canada	7	7	0	2008	2016	Canada
Cambodia	0	6	6	2007	2017	Cambodia
Chile	2	1	-1	2006	2010	Chile
Colombia	1	6	5	2004	2008	Colombia
Denmark	4	6	2	2006	2017	Denmark
Ecuador	0	1	1	2007	2011	Ecuador
Guatemala	5	5	0	2012	2017	Guatemala
Honduras	1	8	7	2009	2016	Honduras
Hungary	3	4	1	2010	2016	Hungary
Ireland	3	5	2	2006	2017	Ireland
Italy	7	8	1	2006	2016	Italy
Jamaica	5	6	1	2005	2017	Jamaica
Malaysia	5	9	4	2007	2015	Malaysia
Norway	3	7	4	2005	2014	Norway
Paraguay	1	0	-1	2005	2008	Paraguay
Peru	5	2	-3	2005	2008	Peru
Serbia	2	6	4	2009	2016	Serbia
Spain	8	7	-1	2006	2014	Spain
Sri Lanka	0	4	4	2006	2015	Sri Lanka
Sweden	4	6	2	2006	2017	Sweden
Switzerland	4	7	3	2005	2016	Switzerland
Tunisia	5	6	1	2007	2016	Tunisia
United States	9	7	-2	2006	2016	United States
Uruguay	0	0	0	2006	2008	Uruguay