

Testing the Effectiveness of Targeted Financial Sanctions on Russia: Law or War?

Michael G. Findley, University of Texas at Austin - mikefindley@utexas.edu

Daniel L. Nielson, University of Texas at Austin - dan.nielson@utexas.edu

J. C. Sharman, University of Cambridge - jcs207@cam.ac.uk

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Abstract

This study conducted audits and field experiments to test the effectiveness of targeted sanctions designed to exclude specified Russian government officials from the international financial system. Researchers impersonated sanctioned individuals and made email solicitations to intermediary firms to establish shell companies and set up corporate bank accounts. Results of responses to the sanctioned names are compared to equivalent solicitations from non-sanctioned individuals in an innocuous placebo condition. If sanctions are effective, private-sector intermediaries should be much less willing to do business with the sanctioned individuals relative to the low-risk placebo names, and they should also conduct stricter due diligence. The first round of the experiment was implemented in November of 2019 through December of 2020 and concluded more than one year before the Russian invasion of Ukraine. The second round occurred in May of 2022, a few months after the invasion began. In the pre-invasion round approaches from sanctioned names could get access to the financial system and evade the rules almost as easily as the low-risk unsanctioned individuals. This result suggests that the sanctions were ineffective. In contrast, in the post-invasion round solicitations from sanctioned names were far less likely to receive a response than those from low-risk unsanctioned individuals, suggesting that even though the relevant sanctions law had not changed, the sanctions had become much more effective. The post-invasion treatment effects for sanctioned names were substantively and statistically significantly greater in countries with Magnitsky sanctions laws than without them. The results suggest that sanctions laws against targeted Russians may function only under substantial international scrutiny, such as that occasioned by war.

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Introduction

While their use dates back at least as far as the League of Nations in the inter-War period, since the end of the Cold War sanctions have become the main tool of international coercion short of war. The most significant current use of sanctions is against Russia in response to the 2022 invasion of Ukraine. This study tests the effectiveness of financial sanctions applied against individual Russian officials via a two-stage field experiment before and after the February 2022 invasion.

The experiment is based on impersonating individual Russian officials named in sanctions lists to learn whether such individuals can access the international financial system in defiance of sanctions by setting up shell companies and opening bank accounts. The logic is that if the sanctions were effective, solicitations from high-risk sanctioned names (the treatment) should gain access to the financial system less often and less easily than equivalent solicitations from innocuous low-risk names not on any international sanctions list (the placebo).

This field experiment and audit study represent a novel method for testing the effectiveness of sanctions as a key tool of contemporary statecraft for two reasons. First and most important, existing scholarship almost always relies on observational data and statistical

correlation rather than causal inference through direct experimental evidence produced by random assignment. Given the realism of these audits and experimental interventions, conducted on firms that did not know they were being observed and obtained in the field rather than in a laboratory or through self-reported surveys, confidence increases that results reflect a valid and robust picture of the causal effect of sanctions (i.e. high external and internal validity). Second, existing studies of sanctions focus on state-to-state interactions concerning trade, even though sanctions are increasingly enforced (or not) by private firms in the financial sector rather than governments and they increasingly target individuals rather than states. To the best of our knowledge this is the first field experiment testing the effects of economic sanctions on the relevant population of private firms.

Scholarly and Policy Context

Economic sanctions typically withdraw customary trade or financial relations from targeted countries (Hufbauer et al. 2007). Prior research generally focuses on the effectiveness or ineffectiveness of sanctions in achieving the stated policy goals of causing targeted governments to desist from undesired actions (Whang et al. 2013, Whang and Kim 2015, Walentek et al. 2021, Peterson 2020). Studies typically measure sanctions and outcomes at the aggregated level of nation states. And econometric analysis estimating the effects of sanctions on target-government capitulation suggest general ineffectiveness, especially as investors and trading partners continue to engage – or even increase commerce – with sanctioned countries (Early, 2009, 2012; Lektzian and Biglaiser 2013; Barry and Kleinberg 2015). Such findings have resulted in general pessimism about sanctions as a tool of

diplomacy. However, if sanctions efficacy is modulated to measure partial as well as full target-country compliance with demands, researchers assess that sanctions prove effective more than one third of the time, which suggests an arguable, albeit modest, level of success (Hufbauer et al. 2007; Morgan et al. 2014).

Recency bias may have augmented the perceived effectiveness of sanctions beyond what the empirical record can support. Leading government officials and analysts have viewed the economic sanctions against Iran's pursuit of nuclear technology as broadly effective in forcing Iran to agree to curb its nuclear program. The perceived success of sanctions vis-à-vis Iran has persisted in the face of notable sanctions failure against other countries, such as North Korea. The optimism stemming from the Iran case has infused new energy into sanctions as the main tool of non-violent statecraft, and it has prompted the search for novel, tailored sanctions tools (Peksen 2019, 635).

Concerned governments have increasingly moved toward a model of regulation in which they attempt to leverage market pressures to enforce sanctions at the individual level of firms and other private economic actors (Carrigan and Coglianese 2011, Van Wingerde and Bisschop 2022). Governments as such do not apply financial sanctions, especially when they target individual government elites or their allies whose behavior generates the greatest international disquiet. Instead, governments mandate that for-profit firms apply the sanctions. Thus, the "last mile" of financial sanctions rests with private for-profit companies, not governments. Called "smart" sanctions, such measures have been increasingly applied through the financial system, typically by attempting to exclude perpetrating government

officials, their allies, other known criminals, and the companies they use as financial vehicles from international financial networks. This contrasts with the earlier exclusive focus on limiting the cross-border trade in physical goods. Some senior policy-makers have referred to this new strategy as “financial warfare” (Zarate 2013). Sanctions are thus increasingly micro, mediated, and financial.

However, the challenge in assessing the effectiveness of this turn toward the “new governance” model through the use of smart sanctions is amplified by data gaps and the preponderance of researchers’ focus on the country level of analysis (Peksen 2019). While targeted measures focusing on firms and individuals have grown in preponderance, relatively little evidence suggests that such targeting has proven particularly effective (Tostensen and Bull 2002; Drezner 2011; Biersteker, Eckert, and Tourinho 2016). Nevertheless, such determinations are difficult to make given the state of the data and the focus of conventional research efforts on data aggregated at the level of countries. As Dursun Peksen writes in his comprehensive review of the sanctions literature,

Further, though non-state groups have become regular targets of sanctions in recent years, we still know little about to what degree sanctions disrupt their often illicit and clandestine activities to induce compliance. More research into the strategies pursued by those groups to survive sanctions would be particularly useful to make better sense of the relatively low success record of targeted sanctions. It is a challenging task to collect data on illicit groups due to the clandestine nature of their activities, which partially explains the lack of thorough studies on non-state groups. Still, the lack of enough research in this area is also because of the continued dominance of the state-centric approach in the literature. Using official data and other secondary sources, the data collection efforts focusing on completed sanctions episodes involving

individuals, corporations, and other non-state entities would help advance the literature in understanding the sanctioning process and the nature of interactions between state actors and non-state actors (Peksen 2019, 642).

Prior research has thus largely neglected data collection and analysis at the level where the sanctions take place: individuals and companies. This is especially true for recent sanctions intended to alter the behavior of pariah governments seen to disrupt the international system. In addition to Russian officials and their allies implicated in corruption and violence in the former Soviet region, the U.S. government in particular has applied new smart sanctions to individuals and specific companies in countries such as Iran and North Korea.

Despite the popularity of such measures, however, the anecdotal evidence suggests that smart sanctions are broadly ignored and that sanctions busting is common at the highest levels. Repeated scandals have seen Western financial institutions, including many of the world's largest banks, penalized with hundreds of millions or even billions of dollars in fines for assisting sanctioned individuals in secretly accessing the international financial system (see U.S. Treasury 2022). Understandably, for-profit private firms have seemed reluctant to turn away profitable business or to act as unpaid police. Given these recurrent scandals, and the structural incentives for private firms, this brings us back to the question at the heart of this study: how effective are these new smart sanctions?

Research Design and Ethics

This study's tests align closely with the micro (individual), mediated (indirect), and financial character of modern sanctions. Furthermore, its experimental design provides more robust causal inferences compared with dominant observational methods. The subject pool is composed of business law firms, accountancies, and stand-alone incorporation services. Their main business is setting up shell companies and opening bank accounts for clients (we did not approach banks, because to do so in a deceptive manner is a criminal offense in the relevant jurisdictions). According to the international Know Your Customer rule, these intermediary firms have a legal duty to identify their customers. Those intermediaries in countries with Magnitsky legislation have a further duty to exclude would-be customers listed under the sanctions laws. Firms that fail to identify customers by definition cannot screen out sanctioned individuals. The pool was compiled using internet searches employing a standard set of terms in conjunction with the name of every country and financial jurisdiction in the world. This produced a set of 6,068 firms used for the study that were contacted in multiple rounds.

In making our more than 10,000 email solicitations we adapted the names of six Russian officials targeted by Magnitsky Act sanctions – changing only the middle initial – to serve as the treatment condition in comparison to the placebo approaches from individuals who hail from innocuous Western countries and are not on sanctions lists. The Magnitsky legislation was passed in 2012 in the United States, and later adopted by the European Union, Canada, and Britain. It is named in memory of the Russian lawyer and anti-corruption investigator Sergei Magnitsky, murdered in 2009 while imprisoned in Moscow by corrupt state officials.

The purpose of these sanctions, which have since been expanded to target individuals from many other countries beyond Russia, is to prevent named individuals from accessing the international financial system. These laws command private firms not to do business with named individuals, and they build on prior laws that firms must check the identity of their customers (the “Know Your Customer” rule).

Online searches indicated that these six names were unambiguously associated with Magnitsky sanctions. For example, on the first page of the Google search result for each name, every single result makes the link to the Magnitsky case and/or the resulting sanctions. Thus, even the most perfunctory due diligence by those receiving the treatment solicitation – due diligence that is required by law – should raise the conspicuous sanctions risk. The penalty for doing business with listed individuals can involve long jail terms and fines running into the billions of dollars. In combination, this should mean that the risk is easy to detect and involves potentially severe consequences.

Our placebo email solicitations were substantively the same as the treatment emails in asking for either a shell company or a bank account. In requesting company formation, the key difference in the placebo was in the deployment of innocuous names (the most common male names in the respective countries not associated with famous people) from Australia, New Zealand, and the United Kingdom – jurisdictions that are not on any sanctions lists. In asking intermediaries for corporate bank accounts, the study differentiated the Magnitsky treatment names from placebo identities using the real names of research assistants who represented legally incorporated companies based in Australia, New Zealand, and the United Kingdom.

Proof of identity usually means a copy of the picture page of the individual's passport, perhaps supplemented with utility bills and/or bank references. Unless intermediary gatekeeper firms have such proof of identity, the companies and bank accounts they provide are essentially anonymous and untraceable, and they create a key point of vulnerability to evade sanctions (as well as to break other laws on tax evasion and money laundering). For example, oligarchs' yachts, mansions, and private jets are seldom registered in their own names, but rather are owned in the name of shell companies they control. The same is true of their bank accounts. In both cases, unless it is possible to "look through" the "corporate veil" to find the real person in control, targeted individuals cannot be excluded from the financial system, and sanctions therefore fail.

Two independent research assistants read each response and marked each as refusal, compliant, or non-compliant. Refusal responses indicated that the subject firm did not wish to do business with the requester for any reason. Compliant responses required photo identification documentation for or an in-person meeting with the beneficial owner or controlling shareholder(s) of the company. Photo ID from or meetings with an agent or nominee director did not qualify as compliant, since both could enable the ultimate beneficial owner to remain anonymous. Non-compliant responses failed to specify photo ID or in-person meeting requirements for the beneficial owner or controlling shareholder(s). If researchers disagreed on the coding of responses then a third, senior researcher adjudicated the dispute and determined the final outcome value.

In the experiment measuring the effectiveness of the sanctions first compares the response, refusal, Know Your Customer compliance, or non-compliance rates from intermediaries in reply to email solicitations from sanctioned names (treatment) versus those from non-sanctioned names (placebo) in countries that have Magnitsky legislation. Relative to the low-risk control group, are the high-risk Magnitsky names any less likely to receive a reply to their solicitations, are they more likely to be refused, and are they more likely to be asked for proof of identity, in compliance with international rules? The larger the difference between the low-risk placebo and high-risk treatment on these measures, the more effective the sanctions. Conversely, if high- and low-risk customers receive the same treatment on these measures because firms fail to distinguish between treatment and control email solicitations, this is strong evidence that sanctions are ineffective.

The before-and-after picture provided by the first round of solicitations conducted from November 2019 through December of 2020 and the second in May of 2022 following the full-scale Russian invasion of Ukraine in February 2022 aims to determine whether sanctions compliance changed. Though the relevant law did not change, there was a strong political and moral backlash against Russia in countries with Magnitsky legislation. This reaction led many Western firms to stop doing business with Russians, often at considerable expense, even when they were not legally required to do so. Did the backlash make any difference to the effectiveness of pre-existing financial sanctions?

What ethically justifies the use of deception in our study? Simply asking firms whether they follow sanctions law is unlikely to provide a true picture of their behavior. Nor does

measuring things like sanctions training seminars, purchases of financial surveillance software, or the number of employees working in compliance departments give much indication of whether sanctions are actually enforced. We redact the names of all the firms and people that we corresponded with to ensure none can come to harm from the research. Finally and most importantly, the stakes are high: financial sanctions are designed to prevent or stop war, and thus whether or not they work is a life and death issue for policymakers and citizens in Ukraine, not just a diverting academic puzzle. When considering ethics in experiments, the *Belmont Report* principle of beneficence must be balanced along with autonomy and justice (NCPHSBBR 1979), and in this case the scale weighs strongly in favor of providing the first causally identified evidence on a matter of worldwide import.

Findings and Results

Round 1 Pre-Invasion Results from Nov. 2019-Dec. 2020 in Countries with Magnitsky Legislation

	Control	Treatment
Total N	3552	236
No Reply	75.56% (2684)	77.54% (183)
Refusal	13.03% (463)	13.56% (32)
Compliant	6.92% (246)	4.66% (11)
Non-Compliant	4.14% (147)	4.24% (10)

Table 1: Comparison of outcomes in the control and treatment conditions in the study period prior to the invasion (November 2019-December 2020) for countries with Magnitsky legislation.

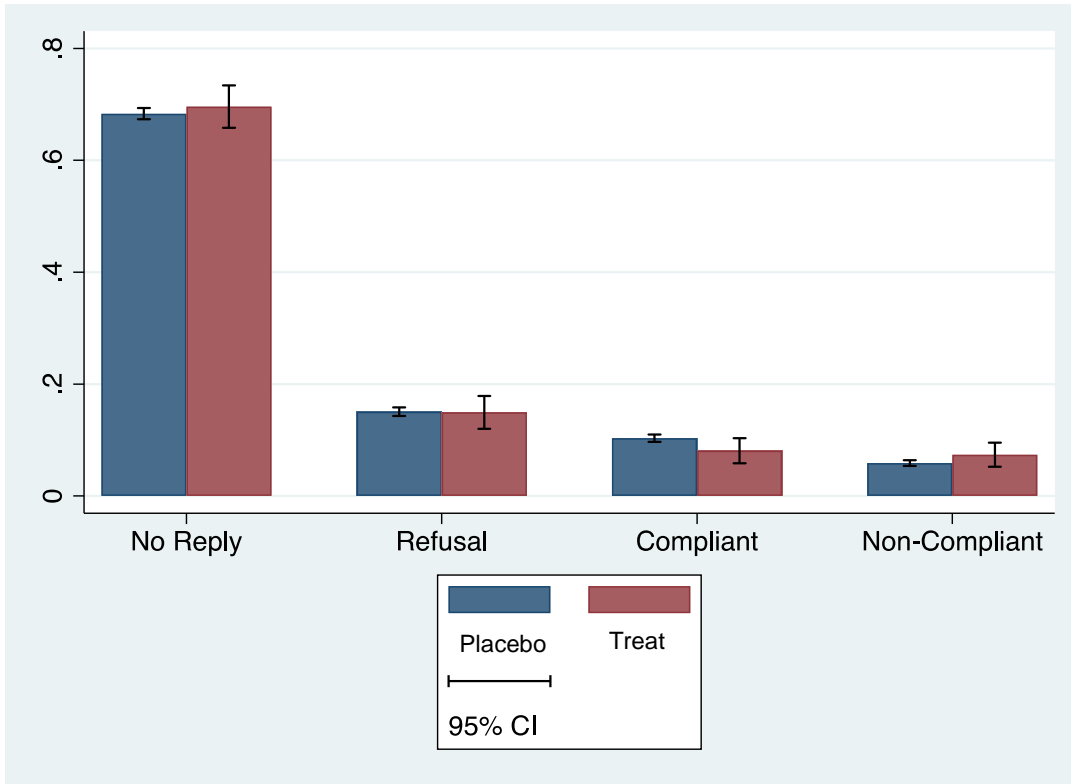


Figure 1: Bar chart comparing innocuous-names placebo and Magnitsky-sanctions-names treatment conditions including 95% confidence intervals for Round 1 of experiment occurring November 2019 – December 2020.

By way of overview, the results suggest the general ineffectiveness of sanctions in the first round of the study pre-invasion. This brings into question some of the optimism about sanctions among both scholars and policymakers. At first glance, the second-round results suggest the sanctions regime has become much more effective, given the notable discrimination between sanctioned and non-sanctioned names. Yet questions persist on whether it was the sanctions or the radically changed political context of the Russian invasion, and the associated general sensitivity about doing business with Russians, that caused the change. The fact that intermediary firms in countries that do not have such

sanctions also became more reluctant to deal with sanctioned Russian names after the 2022 invasion relative to the year before suggests that it was the war, not the Magnitsky sanction laws per se, that caused the largest behavioral change. Nevertheless, the effects were substantively and statistically significantly stronger for the firms based in countries with Magnitsky laws, indicating that law may interact meaningfully with the scrutiny occasioned by war.

As noted, the results from the first round of solicitations cast doubt on the effectiveness of the sanctions. Before the Russian invasion, private firms in the United States, European Union, the UK, Canada, and other countries¹ with Magnitsky sanctions legislation were statistically as likely to accept business and flout compliance requirements when dealing with high-risk sanctioned names as they were when fielding requests from the low-risk placebo solicitations. There was some variation between the treatment and control groups on these measures, but it was not statistically significant. Though a larger sample might have been able to pick up smaller effects, this would still lead to a picture of relatively low effectiveness: the difference between the obviously high-risk sanctioned and innocuous non-sanctioned names should be dramatic if the rules are working as intended.

The first round pre-invasion results obtained in 2019-2020 show that there is, however, some small reaction to the high-risk treatment in solicitations for shell companies, but not for bank

¹Other countries with Magnitsky sanctions laws include Australia, Kosovo, Gibraltar, and Jersey.

accounts. Specifically, relative to the control group, the solicitations from sanctioned names for shell companies were significantly less likely to receive a response. It was the compliant firms, those that followed rules on identifying would-be customers when receiving low-risk solicitations, that appeared to drop away. The results suggest that roughly 6 percent of firms responded to heightened customer risk by switching from a compliant response when fielding solicitations from the control group to no response at all when faced by the treatment. Thus, counter-intuitively, compliance with Know Your Customer rules went down, not up, when faced with sanctioned names because firms that otherwise would have proven compliant chose instead not to respond. The treatment and control solicitations for bank accounts, however, did not cause any significant difference for any outcome measure, once again reinforcing the impression that sanctions were not effective.

There was a relatively small minority of firms in Round 1 – 526, or 6 percent of the 8,286 contacts – that were non-compliant in selling access to the financial system without proof of identity, regardless of whether customers were named on sanctions lists or not. While this was only 6 percent of all firms contacted, it equaled 19 percent – roughly 1 out of 5 – of the firms that replied, suggesting that anonymous companies and bank accounts could be readily obtained in 2019-2020, even by sanctioned Russian individuals. Sanctioned people were just as likely to be able to access the financial system anonymously as low-risk customers, again suggesting that the sanctions were ineffective in 2019-2020.

Round 2 Post-Invasion Results from May 2022 in Countries with Magnitsky Legislation

	Control	Treatment
Total N	555	579
No Reply	68.11% (378)	84.50% (489)***
Refusal	17.30% (96)	8.64% (50)***
Compliant	7.21% (40)	3.63% (21)***
Non-Compliant	7.39% (41)	3.28% (19)***

Table 2: Comparison of outcomes in the control and treatment conditions in the study period after the invasion (May 2022) for countries with Magnitsky legislation. Statistical significance is computed for experimental comparisons across rows. For example, *No Reply* is statistically different (84.50% in treatment compared to 68.11% in control.)

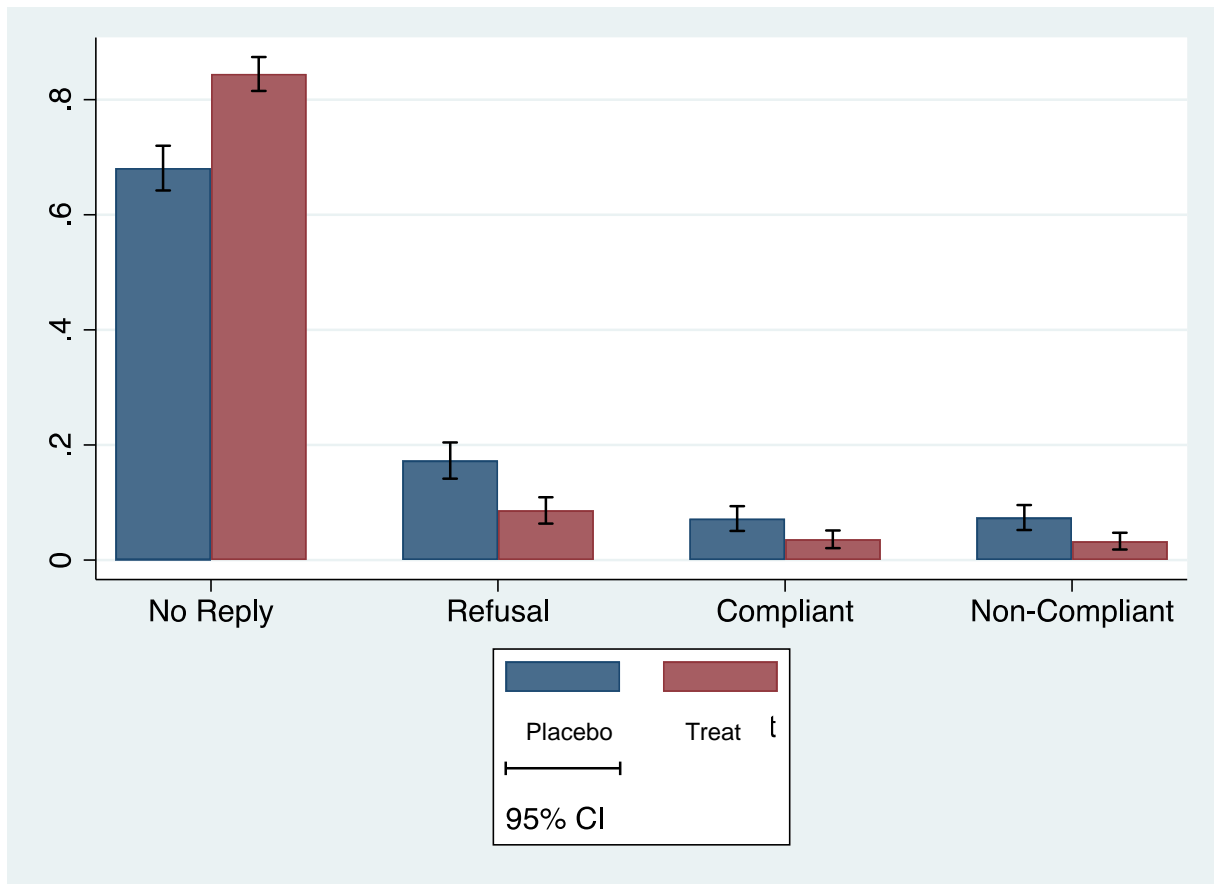


Figure 2: Bar chart comparing innocuous-names placebo and Magnitsky-sanctions-names treatment conditions including 95% confidence intervals for Round 2 of experiment occurring in May 2022.

In the second round in May of 2022 we repeated the same experiment, once again randomly assigning the same treatment and control email solicitations to a random sample of the same pool of intermediary firms in the same jurisdictions. The relevant Magnitsky sanctions law remained the same in each jurisdiction across the pre- and post-invasion rounds. The results, however, were strikingly different. In stark contrast to Round 1, in Round 2 each outcome category (no response, refusal, compliant, and non-compliant) was significantly different for the sanction-names treatment solicitations compared to the innocuous placebo requests. The

large increase in no reply, and the corresponding sharp and significant declines in refusal, compliant, and non-compliant responses indicate that firms dealt with risky approaches by simply not engaging, rather than by writing to refuse or by being more punctilious in applying Know Your Customer procedures. In Round 2, fewer than half as many intermediaries were willing to correspond with solicitations from sanctioned names compared to placebo emails. Taken in isolation, these results are strong evidence of sanctions working as they should. Yet a comparison with the first-round “before” picture and juxtaposition with identical pre- and post-invasion experiments on firms in countries *without* equivalent Magnitsky laws below raise questions about this potential conclusion.

A Comparison with Non-Magnitsky Countries

Pre-Invasion Results (November 2019-December 2020)		
Outcomes	Control	Treatment
Total N	4684	333
No Reply	62.83% (2943)	63.96% (213)
Refusal	16.61% (779)	15.92% (53)
Compliant	12.92% (606)	10.51% (35)
Non-Compliant	7.19% (337)	9.61% (32)
Post-Invasion Results (May 2022)		
Outcomes	Control	Treatment
Total N	322	340
No Reply	63.04% (203)	77.35% (263)***
Refusal	17.39% (56)	8.53% (29)***
Compliant	12.42% (40)	8.82% (30)
Non-Compliant	6.83% (22)	5.30% (18)

Table 3: Comparison of outcomes in the control and treatment conditions for countries without Magnitsky legislation. The upper half of the table reports the results for the study period before the invasion (in November 2019-December of 2020) and the lower half of the table reports the results for the study period after the invasion (in May of 2022). Statistical significance is computed for experimental comparisons across rows. For example, *No Reply*

is statistically different in the post-invasion period (77.35% in treatment compared to 63.04% in control.) Descriptive comparisons can be made within columns where the invasion constitutes a natural treatment.

Thus, as an extension of the study, we also tested the equivalent intermediary firms in those countries that do *not* have Magnitsky sanctions legislation (i.e., all countries other than the US, EU, UK, Canada, Australia, Kosovo, Gibraltar, and Jersey) using exactly the same control and treatment emails. Once again, we conducted one round before the invasion 2019-20 and a second afterwards in 2022. Intermediary firms in these non-Magnitsky jurisdictions have the same legal duty to identify their customers according to the Know Your Customer rule, but have no legal duty to screen out the sanctioned names that we used in our treatment emails. Even though providers in these countries have no legal duty to turn away those sanctioned in foreign jurisdictions, concerns about reputation, and/or the long arm of US extra-territorial economic coercion, could have possibly had an effect.

Similar to firms in the four Magnitsky legislation jurisdictions, in Round 1 there were no significant differences between treatment and control emails (though there were differences in the overall responses between Magnitsky and non-Magnitsky countries, see Tables 1-3 and Appendix Table A1). The conclusion, which might seem obvious, is that sanctions do not have an effect in countries where those sanctions are not legislated, though observers anticipating spillover effects or policy diffusion might have expected otherwise (see Dobbin et al. 2007).

In Round 2, however, the results indicate that, even though firms in countries without Magnitsky laws had no legal requirement to discriminate in their treatment of sanctioned names relative to placebo solicitations, they nevertheless did so. In countries without Magnitsky laws there was a substantively large and statistically significant decrease in the number of firms willing to engage with treatment emails, and a corresponding decline in refusals (compliance and non-compliance declined also, but these results were not significant statistically). These results suggest that it was the effects of the war, perhaps in political and reputational terms, that drove the sensitivity to approaches from sanctioned names in Round 2.

Returning to the first part of the study, this logic then raises the question for those countries that do have Magnitsky laws: was it war rather than law that drove the Round 2 sensitivity to sanctioned names when Round 1 showed insensitivity? Such a judgement is supported by the fact that the law remained constant in Magnitsky countries over both periods, yet the willingness of private firms to engage with sanctioned names changed significantly before and after the 2022 invasion.

However, the treatment effects in Round 2 were generally greater for firms in the Magnitsky-law countries than for those in countries without the sanctions in terms of both substance and statistical significance. We also conducted difference-in-differences analysis and the results substantiate these conclusions. See Appendix Table A1. We further extended the analysis to consider whether there are differences based on whether the solicitation was purely for a shell company rather than a bank account and learned that the greatest differences between rounds

occurred when bank accounts were requested, and especially in the Magnitsky-law countries, though firms in countries without Magnitsky laws also increased their sensitivity to Magnitsky names for company formation requests in terms of greater propensity to refuse service (see Appendix Table A1).

Conclusions on Sanctions Compliance and Effectiveness

Sanctions have become an essential tool of statecraft, yet we know surprisingly little about whether and when they are effective. Existing studies are often focused on direct state-to-state trade sanctions, even though most sanctions now operate indirectly through the private financial sector to target individuals. Furthermore, almost all studies of sanctions rely on non-experimental observational data. In contrast, our study experimentally evaluates indirectly applied, individually targeted financial sanctions.

Comparing the pre- and post-invasion sensitivity to engaging with high-risk treatment sanctioned names versus low-risk placebo approaches indicates that gatekeeper intermediary firms on average only began complying with Magnitsky laws after the 2022 invasion, even though these laws had been on the books for up to a decade previously. War, not law, looks to have produced the largest behavioral changes, though evidence also suggests meaningful interactions between law and war. A comparison with countries that do not have these sanctions laws proves informative. In these non-Magnitsky countries the results indicate a similar pattern of pre-invasion indifference to sanctioned names, followed by post-invasion sensitivity to doing business with these individuals. However, the strongest treatment effects

both substantively and statistically occurred in the countries with sanctions laws, suggesting significant interaction effects.

The experimental results do not allow us to identify the exact mechanism(s) behind these outcomes. The ideas of for-profit firms doing more to comply with laws than their prior behavior suggests they can get away with (in Magnitsky countries post-invasion), or complying with laws that are not even in force in their own jurisdiction (in non-Magnitsky countries) are both puzzling. We speculate that the logic may mimic the decisions of the Western firms that incurred substantial losses in disinvesting from Russia in the immediate aftermath of the invasion, even though they had no legal duty to do so. Similarly, Western firms have been very reluctant to engage with non-sanctioned sections of the Russian economy (e.g. food and medical production), even though such business is legal and would be profitable. Impressionistic evidence suggests that these private firms have decided that political, reputational, and perhaps moral concerns override the profit motive and financial considerations. If true, these speculations might explain why the first Russian invasion of Ukraine in 2014 did not produce an equivalent effect, given that this episode had nowhere near the same global political and media salience as the 2022 invasion.

What does our experiment mean in judging the overall effectiveness of financial sanctions? At one level, the relatively low rates of non-compliance when intermediaries offer access to the financial system without identifying customers, in single-digit percentage points, is good news. But because it is easy (and free) to send email solicitations to a large number of intermediaries, even a small minority of non-compliant intermediaries can open significant

loopholes. And roughly 1 in 5 firms that replied offered anonymous shell companies and bank accounts in the pre-invasion period. For example, even if 94 percent of firms are following the Know Your Customer rule and barring sanctioned individuals, those looking to beat the system and remain anonymous may make enough email solicitations in a day to find multiple providers willing to flout the rules. Indeed, even after the Russian invasion, roughly 1 in 5 replies still indicated willingness to do business with potential Russian clients whose names appear on sanctions lists, even if it would take more solicitations to find those non-compliant firms, especially in countries with Magnitsky laws. At least some of the firms we corresponded with expressed a willingness to assist sanctioned individuals in a conspiracy to evade sanctions. In sum, our study brings into question both the mechanisms and effectiveness of this new breed of “smart” sanctions.

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Appendix

	No Reply	Comply	Refuse	Non-comply
A1. All countries	0.143***	-0.013	-0.086***	-0.047***
A2. Magnitsky legislation (companies & bank accounts)	0.144***	-0.013	-0.092***	-0.042***
A3. No Magnitsky legislation (companies & bank accounts)	0.132***	-0.012	-0.082**	-0.040
A4. Magnitsky legislation (companies only)	0.057	-0.014	-0.021	-0.026
A5. No Magnitsky legislation (companies only)	0.062	0.087	-0.107**	-0.037
A6. Magnitsky legislation (bank accounts only)	0.143***	0.007	-0.126***	-0.028
A7. No Magnitsky legislation (bank accounts only)	0.146**	-0.043	-0.065	-0.044

Table A1: Each row reports the key difference-in-differences coefficient (and statistical significance) for separate models. Full results TBA and available upon request. Models A1-A3 capture the material from Tables 1-3 in the main text. Models A4-A7 unpack the results by whether a company or account were requested.