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Implementation of the International Standards for Countering Terrorist Financing in Different National Contexts

A Comparative Perspective

by

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Abstract

The aftermath of the 9/11 attacks revealed the vulnerability of the international financial system, which facilitated terrorist financing. It accelerated a global response, with states adopting a multilateral strategy to tackle terrorist financing, notably through the United Nations (UN) instruments and the 40 recommendations of the Financial Action Task Force (FATF). Yet, 20 years since the FATF introduced international standards for counter-terrorist financing (CTF), the effectiveness of national and global efforts towards CTF remains blurred. This thesis addresses the implementation of the FATF CTF regime in different national contexts (the UAE, Egypt and the UK). It argues that the current national practice of the international anti-money laundering (AML)/CTF regime is not developed enough to combat the financing of terrorism in said countries effectively. Within the national context, it offers an understanding of the critical factors that challenge the successful implementation of CTF measures in practice and lead to variations in compliance within the global governance framework.

In order to understand the national practice of the FATF regime, this research employed primary qualitative data collected from 34 state and non-state practitioners of the FATF regime, as well as qualitative and quantitative secondary data. Subsequently, it interprets the argument about the regime's effectiveness from the perspective of the practitioners and documentary data using grounded theory.

This thesis will show that the extent of the CTF regime effectiveness is perceived differently from one practitioner to another and was influenced by gaps in implementation and compliance. The implementation gap is recognised in the inconsistent implementation at the sectoral level, resource capacity, and the outdated measures implemented against the new digital financial system. The implementation gap also includes a gap of knowledge about terrorist financing (TF) and the difficulty of detecting TF transactions. The gap of compliance is identified according to states' national characteristics and the cost dedicated to compliance requirements at the

institutional level. National characteristics within this thesis are defined by national factors such as culture, geopolitical risks, level of corruption, financial infrastructure and national economic circumstances. The aforementioned data will indicate how national characteristics affect states' effective implementation and level of compliance.

Lastly, this thesis introduces the gap of actors' lacking intrinsic motivation to comply with the regime requirements, which could affect their level of compliance. This thesis suggests that propelling actors' intrinsic motivation together with the current regime extrinsic tools could posture actors' compliance levels and, consequently, improve the regime's effectiveness.

Dedication

I dedicate this work to my mother, who passed away shortly before my submission.

You will always be in my heart.

I also dedicate this work to my father and my family, especially my sister Nada Alshamsi and my cousin Hessa Alshamsi for their constant support during the ups and downs of my research journey.

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I would like to acknowledge the participants whom I met in the UAE, Egypt and the UK, who provided me with fruitful insights that helped me to develop my understanding of AML/CTF regime practice and, eventually, reach the findings of this research. Without their contribution and the support from my supervisors, this work would not have been feasible.

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List of Abbreviations

AML	Anti-Money Laundering
CTF	Counter Terrorist Financing
CDD	Customer Due Diligence
DNFBP	Designated Non-Financial Business or Profession
EMLCU	Egyptian Anti-Money Laundering and Terrorist Financing Unit
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
ISIL	Islamic State of Iraq and the Levant
JMLIT	(UK) Joint Money Laundering Intelligence Taskforce
MENAFATF	Middle East-North Africa Financial Action Task Force
ML	Money Laundering
MVTS	Money or Value Transfer Service(s)
NGO	Non-Governmental Organisation
NPO	Non-Profit Organisation
NRA	National Risk Assessment
R.	Recommendation
RBA	Risk-Based Approach
SAR/ STR	Suspicious Activity Report/Suspicious Transaction Report
TF	Terrorist Financing
UAE	United Arab Emirates
UAEFIU	UAE Financial Intelligence Unit
UK	United Kingdom
UKFIU	UK Financial Intelligence Unit
UN	United Nations

Chapter 1

Introduction

1.1. Research scope

In the wake of the terrorist attacks in the US on 11 September 2001, American President George W. Bush stated: "Money is the lifeblood of terrorist operations. Today, we're asking the world to stop payment" (US Department of State Archive, 2001). The 9/11 attacks provoked a global response and the implementation of governance systems, notably through the UN instruments and the 40 recommendations of the Financial Action Task Force (FATF), to disrupt and inhibit the emergence and growth of terrorist networks (GTI, 2020: 5). Terrorists need funding to carry out their activities, such as planning, training, recruitment, logistics and acquiring essential materials with which to execute their acts of terror. Within this framework, terrorist financing (TF) concerns the legal and illegal methods used by terrorists to generate and conceal their needed funds (9/11 Commission Report, no date).

Combatting terrorist financing requires a global strategy because terrorist activities can be planned in one country and executed in another (Acharya, 2009: 84). In this manner, a country may have a low risk of terrorist attacks, but its financial system can be abused to disguise and move terrorist funds overseas (FATF, 2019a: 9). Terrorist abuse of the financial and trade systems for terrorist activities is perceived to be a 'global public bad' that threatens the integrity and stability of the international financial system (Acharya, 2009: 84). Simultaneously, the primary aims of the global governance system are to solve transnational problems and achieve the common good (Zürn, 2018: 4). Therefore, the problem of TF is global in its scope and it is inefficient to tackle it unilaterally (Aufhauser, 2003: 303). In this way, combatting the financing of terrorism became a form of global governance. Within this context, this thesis interprets global governance as the collective efforts adopted by state and non-state actors to address and solve the transnational problem of terrorist financing to disrupt terrorist financial networks (Weiss, 2013: 32).

The global governance approach has gone through different waves of change from government hierarchy to markets to governing with and through networks (Rhodes, 2012). Governing through networks emerged due to the increasing incapability of the hierarchical state to act without coordination and interaction with non-state actors, and more importantly, due to recognising that no actor possesses enough knowledge, capacity, and authority to govern alone (Torfing, 2012: 100; Bevir, 2010: 49). Concurrently, the state-centred governance approach recognises the limitation of its policy and the importance of non-state actors (Levi-Faur, 2012). However, it deems the state the most important policy actor (11-12). Within this context, this thesis recognises the role of states in the global governance network, including their established national and international institutions (such as the FATF). This thesis discusses the CTF international regime as an approach that divides obligations and control measures between state and non-state actors. It focuses on how state actors, in collaboration with non-state actors, under the scrutiny of the FATF, govern and control TF as a matter of national and global security. It examines how governance works in CTF and the results of actors' actions, behaviours, culture, and motivations. In such a manner, it addresses governance within its interpretive meaning. An interpretive governance approach emphasises the importance of practices, values, cultures, varied interests and motivations (Rhodes, 2012: 39-41).

The United Nations (UN) instruments, including the relevant international conventions, Security Council and General Assembly resolutions, and the UN sanction regime imposed upon terrorist individuals and entities, have a crucial role in the global collective action against the financing of terrorism. However, the FATF international counter-terrorist financing (CTF) regime is chosen within the objective of this thesis due to its detailed guidance and consolidated standards offered to both state and non-state actors in implementing CTF measures. The FATF is "the global money laundering and terrorist financing watchdog" (FATF, no date, a). It is an intergovernmental body established in 1989 by the G7 states to set a standard of recommendations and promote the effective practice of the regulatory and operational measures for combatting money laundering (FATF, no date, b). Following the 9/11 attacks, the FATF expanded its mandate — consisting of 40

recommendations for anti-money laundering (AML)— to include special recommendations for dealing with terrorist financing.

In addition to the FATF establishment by the G7 states, the UN and the G20 leaders reinforced FATF's work on different occasions (e.g. FATF, no date, f). Therefore, the FATF AML/CTF regime is considered in this thesis as an imposed regime established within the global governance approach by the economic leaders' network (Hewson and Sinclair, 1999: 9; Drezner, 2007: 142-145). For CTF, it is necessary for the financial sector to be regulated by both state and non-state actors. In order to empower the FATF role in AML/CTF and control the opportunistic behaviour, the FATF members enabled it to list non-compliant states. In case of non-compliance, the FATF calls for its members to limit or prohibit financial transactions with non-compliant countries to protect the international financial system from the risk of TF (FATF, no date, e). Such a practice is deemed as a diplomatic sanction (or diplomatic criticism), which refers to ranking and naming and shaming countries that fail to comply with a regime (Pattison, 2018b). As a result, the implementation of the FATF CTF non-binding standards became an international obligation to non-member states, as well as non-state actors such as financial institutions and non-financial businesses and professions. Therefore, the FATF became responsible for monitoring states' compliance with the AML/CTF regime through its periodic mutual evaluation that measures states' technical compliance with, and the effectiveness of, their AML/CTF systems. In this way, the FATF international CTF standards (40 recommendations) have become a significant worldwide governance regime in the global efforts against TF, making it an ideal case study with which to examine its implementation in different national contexts.

Nevertheless, the effectiveness of global efforts by the UN and the FATF and their associated governance systems to CTF is contested in the literature due to different reasons (section 2.6). One of these reasons is the complexity and diversification of TF typologies which are difficult to be detected by financial institutions (e.g. Giraldo and Trinkunas, 2007: 10-11). Another reason is establishing the CTF regime on the AML mandate; the latter is deemed insufficient to CTF due to methodological dissimilarities between terrorists and money launderers in collecting and moving their funds (e.g. Navias, 2002; Tsingou, 2005; Sharman,

2011; Martuscello, 2011; Sinha, 2013; Ryder, 2015; Gilmour, Hicks, and Dilloway, 2017). (section 2.5). However, this thesis does not dismiss the current CTF policies due to their AML basis or the complexity of TF typologies. Simultaneously, it examines whether the perception of effectiveness is contested due to shortcomings in designing the international CTF standards, implementation failure at the national level, the increased cost of compliance, or other unforeseen factors.

Other reasons for the debate around the regime effectiveness concern state and non-state actors legal and technical incapacity to implement the CTF regime effectively (e.g. Napoleoni, 2006: 61; Giraldo and Trinkunas, 2007: 283-293; Aufhauser, 2003: 303). This is in addition to the increased cost of compliance with the CTF regime requirements, particularly in developing countries and financial centres (e.g. Sharman, 2008, 2011; Vlcek, 2015; Passas, 2015; Mugarura, 2013). Therefore, to understand whether the AML/CTF regime is effective in CTF and why its effectiveness is controversial in the literature, it is important to explore the regime's implementation at national levels to achieve the global aim.

Terrorist financing in national contexts is still under-examined (Chadha, 2015). Therefore, this thesis explores the CTF regime effectiveness in terms of state and non-state actors' ability to implement and achieve (utmost) compliance with the regime requirements, through a systematic analysis of data collected in three case studies. Subsequently, it will develop the understanding of how global governance functions in CTF and what challenges its effectiveness. Furthermore, it will improve the knowledge about TF typologies emerging in practice and suggest whether the currently applied measures are appropriate for these typologies. In this way, it interprets the gaps in the CTF regime effectiveness within the context of the growing concern in the literature concerning the effectiveness of the global governance system. For example, states and non-state actors' technical and financial capacity to implement global measures, the cost of compliance, and the knowledge and information asymmetry gap concerning regulated issues.

Implementation of the FATF CTF regime refers to "incorporating [international CTF standards] in domestic law through legislation, judicial decision, executive decree, or other

process" (Shelton, 2003: 5). This thesis examines three case studies in terms of the way they implement the international CTF regime through their regulatory framework. It also interprets the practitioners' perception of what could encourage or challenge a successful implementation of the regime requirements. For example, how the different actors involved in the regime implementation process understand and practice the regime requirements, and how they identify TF national risks and apply the appropriate measures to mitigate these risks. These are in addition to examining to what extent they cooperate in exchanging information related to TF transactions. Global governance is considerably about information processing and steering based on the obtained data (Peters, 2012). Accordingly, the exchange of information within the practice of the CTF regime is the cornerstone of the system. The necessity of gathering and sharing information related to suspicious financing transactions within the FATF network is reflected in 25 of the FATF's 40 recommendations and 7 effectiveness outcomes (FATF, 2018c; 2017). Therefore, this thesis will interpret the practitioners' perspective on the national financial intelligence performance. Eventually, interpreting actors' understanding, practice, experience and how they implement the regime will lead to identifying factors that facilitate or challenge a successful implementation of the international regime at the state (including institutional) level. In this way, this thesis will add to the existing literature concerning the national practice of the CTF regime, including examining states' ability to implement the regime requirements.

Compliance "includes implementation, but is broader, concerned with factual matching of state behaviour and international norms; compliance refers to whether countries in fact adhere to the provisions of the accord and to the implementing measures that they have instituted" (Shelton, 2003: 5). According to the FATF categories of its evaluation of states' compliance, compliance rating varies between compliant, largely compliant, partially, and non-compliant. As will be explained (Chapters 5-8), state and non-state actors might choose the minimum requirements for compliance with the requirements of the AML/CTF regime to evade sanctions and international pressure with this regard. Therefore, for this thesis, Utmost Compliance refers to a state of maximum compliance with all the FATF standards of 40 recommendations. Within this framework, this thesis will interpret the practitioners'

perception of how the regime is monitored at the national level and what challenges or facilitates actors' compliance with the regime's requirements. The purpose of this approach is to examine similarities and differences among the examined states' compliance within their national context. It is important to understand the national context, such as culture, financial infrastructure, economic circumstances and regional risks, to identify factors that facilitate or challenge a successful implementation of the international regime at the state level. Ultimately, these factors will underline gaps of compliance with the CTF regime practice and anticipate the level of the national regime effectiveness.

Effectiveness is concerned with "whether the goals of the [CTF] norms are achieved, and may be independent of compliance" (Shelton, 2003: 5). Therefore, it is important to explore the CTF regime effectiveness, especially with the increased cost of compliance with its requirements and the continued worldwide activity of major terrorist groups. For example, although the Islamic State of Iraq and the Levant (ISIL) attacks in the Middle East and North Africa declined, due to global efforts targeted at the group's sources of funds, in 2019, 27 countries experienced at least one terrorist attack executed by ISIL or one of its affiliates (GTI, 2020: 2). This suggests that the group is still able to operate with limited funds. Examining the Financial Action Task Force/Middle East and North Africa Financial Action Task Force (FATF/MENAFATF) evaluation reports of the countries researched in this thesis, it could be argued that the FATF regime has made a difference in ensuing states' compliance with AML/CTF. For example, Egypt was listed as a non-cooperative jurisdiction in 2001; however, according to the MENAFATF last evaluation, the country is ranked as being compliant with 9 out of the FATF's 40 recommendations, largely compliant with 23, and partially compliant with 8 (FATF-GAFI, 2001; MENAFATF, 2021: 12). Eventually, the three countries examined in this thesis showed a higher compliance level in their latest mutual evaluation conducted by the FATF/MENAFATF than in 2007-2009 (FATF, 2007; MENAFATF, 2008, 2009). Furthermore, as will be explained (section 5.5.6, 6.5.6, 7.5.5), actors' motivation for compliance with the CTF regime is primarily derived from their obligation at the international level (including FATF) and to avoid being sanctioned by regime's regulators or listed by the FATF.

This thesis outlines that an effective CTF regime requires successful implementation and a high level of compliance at national and institutional levels. Nevertheless, it will show that (official) compliance does not necessarily reflect the effectiveness of a regime. For example, according to MENAFATF evaluations of the UAE and Egypt's AML/CTF regimes, the UAE has a higher compliance level than Egypt, while the latter shows better effectiveness than the UAE (MENAFATF, 2020: 16, 2021: 12). Moreover, as will be explained (sections 6.5.7, 7.5.6), despite state and non-state practitioners' compliance, their perception of the regime effectiveness was contested. That might be the reason for the FATF to revise its methodology in 2013 to evaluate both (official) technical compliance and the effectiveness of states' AML/CTF regimes (FATF, 2013c). In other words, following the 9/11 attacks, the international CTF regime was concerned with ensuring global compliance and commitment to implementing CTF measures at the national level. Thereafter, the global concern focused on effective implementation more than official compliance due to its greater importance in practice rather than only official compliance.

Lastly, within the framework of this thesis' methodological approach to understanding and describing CTF, it includes an interpretation of actors' cultures, perceptions, behaviours, experiences and motivations within the context of the international regime. As will be explained in the following chapter, the modern global governance system works as a network and focuses more on non-binding rules and non-state actors in implementing these rules. Different scholars have explained the reasons states comply with international regimes (e.g. Keohane, 1984; Haas and Bilder, 2003; Pattison, 2018c). What is missing in said literature is a development of the understanding of non-state actors' motivation to comply with international regimes. Therefore, this thesis will contribute to the literature by examining both state and non-state actors' motivations for compliance with the international CTF regime within the context of theories of motivation. It will underline the relationship between actors' motivation and compliance. In this context, actors' motivation is either intrinsic or extrinsic. Intrinsic motivation will refer to actors' motivation and personal conviction concerning fighting ML and TF as designed by the FATF, while its extrinsic counterpart will refer to actors' motivation to avoid the international political and economic tools of punishment such

as sanctions. Ultimately, this thesis argues that combining both intrinsic and extrinsic motivations could allow us to understand actors' effective performance and compliance, especially when there are deficiencies recognised in states' supervisory roles (Chapter 8).

To sum up, this thesis will show that the regime's effectiveness is not only challenged by the diversification of TF typologies or the difficulty of detecting terrorist transactions. The regime's effectiveness and actors' (utmost) compliance with its requirements are challenged by states' national characteristics, the increased cost of compliance, and actors' lack of intrinsic motivation.

1.2. Research objective and questions

This research aims to explore the effectiveness of the FATF CTF regime in terms of state and non-state actors' ability to implement it and absorb its cost of compliance, with a particular focus on the growing role of non-state actors in the FATF global governance network. Within this framework, this thesis will contribute to the literature on global governance by strengthening the understanding of how individual states implement global standards and examining what could facilitate or challenge the successful implementation of global standards at the national level. Therefore, the objective of this research is to answer the following main questions:

1. How are the FATF international CTF standards implemented in different national contexts?
2. How is the effectiveness of the CTF regime perceived by the practitioners?
3. Why do the actors involved in the implementation of the international CTF regime comply (or not) with the requirements of the regime?

This research adopted a comparative case study design to understand the implementation of and compliance with the FATF international CTF standards in three different locations (the UAE, Egypt and the UK). Conducting a systematic comparison between the UAE and the UK

financial centres and a developing economy like Egypt underlined similarities and differences in these countries' compliance with the international CTF regime. The regulatory flexibility of the UAE and the UK financial centres could increase the risk of money laundering and the funding of terrorist activities through these financial systems. Also, the characteristics of the informal economy in Egypt anticipates a constraint upon the national regulatory authorities and financial institutions to implement the FATF regime requirements. Eventually, the comparison approach enabled me to develop my understanding of what facilitates or challenges the successful implementation of the regime's requirements and its effectiveness, and why compliance levels vary between these countries.

To answer the first two questions, this thesis, through semi-structured interviews conducted in the three locations, collected data from regime partitioners on how the regime is practised and monitored. Also, it collected data on what facilitates or challenges the successful implementation of the requirements of the regime and its effectiveness. Interpretation of the answers to these questions provided by the practitioners together with data collected from the FATF/MENAFATF evaluations will develop a thorough understanding of how the international CTF regime is implemented and offer a perception of the regime's effectiveness according to the practitioners. Similarly, to answer the main last research question, this thesis will interpret both the practitioners' views on what are the actors' motivations or incentives to implement and comply with the requirements of the regime, together with the documentary data concerning the level of compliance of the aforementioned countries with the international regime. This will provide a full analysis of the implementation and compliance gaps that affect the effectiveness perception.

1.3. Thesis structure

Following this chapter, chapter two discusses the existing literature on CTF and addresses the relevant literature on the role of global governance in this regard. It underlines how global governance works and is monitored by establishing international regimes (such as the FATF AML/CTF regime) through which to solve specific global problems. It will highlight how

international regimes could be linked to theories of motivation to develop the understanding of non-state actors' role in the contemporary global governance system. Lastly, the chapter illustrates the argument surrounding the effectiveness of the global response in disrupting TF activities by highlighting the gaps in implementation, knowledge and compliance in relation to the international CTF regime. These gaps underline the lack of states' capacity and knowledge to successfully implement the requirements of the regime, as well as the increased cost of compliance associated with the regime in both public and private sectors.

The third chapter develops the understanding of the TF phenomenon and highlights the importance of CTF strategies. Firstly, it explains terrorist group objectives that require a large amount of money. Thereafter, it addresses how terrorists take advantage of the vulnerabilities of the international financial system to collect, disguise and move their funds. Lastly, it underlines the FATF's major recommendations introduced at the global level to address the global problem of TF. Furthermore, one of the primary objectives of the third chapter — and which is briefly discussed in chapter two — is to understand the difference between AML and CTF measures. As indicated earlier, CTF under the mandate of AML, has been criticised and deemed to be complicated in practice by several scholars due to this divergence between money laundering and terrorists' financing typology and objectives.

The roots of global AML efforts are linked to the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances Against Drug Trafficking (1988) and the FATF's 40 recommendations introduced in 1989. These global efforts targeted the criminalisation of money laundering as a primary aim against drugs (Hülsse and Kerwer, 2007: 628; Simmons, 2003; Zarate, 2013: 29). Money laundering is concerned with "concealing or disguising the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources. It is frequently a component of other, much more serious, crimes such as drug trafficking, robbery or extortion" (Interpol, no date). As the chapter will explain, the illegal act ML is not necessarily included in TF acts and, consequently, challenges actors within the CTF regime to identify terrorist transactions and behaviour. Nevertheless, from a theoretical perspective, AML measures could facilitate

financial intelligence attempts to trace not only the origins of money but also terrorist destinations and networks.

The fourth chapter discusses the research methodology and methods employed in the data collection and analysis. It highlights the nature of the research questions and purpose that influenced the research's philosophical assumptions with a qualitative paradigm. This research strategy included utilising triangulation in the collection of primary data from interviews and secondary data from documentary sources. Furthermore, within the ontological and epistemological positions of the research, constructivist grounded theory is used to analyse the data collected from the fieldwork.

Chapters five to seven will examine the implementation of, and compliance with, the international CTF regime in the UAE, Egypt and the UK, respectively. These chapters employ an interpretation of data collected from practitioners of the regime and documentary data collected from the FATF/MENAFATF mutual evaluation reports on the compliance of the UAE, Egypt and the UK with its standards. Using triangulation in collecting data for these case studies underlined similarities and differences between the fieldwork data interpretation and documentary data. The purpose of these chapters is to develop the understanding of the implementation of the FATF regime and underline what factors could facilitate or challenge compliance with the requirements of the regime, according to the practitioners' perceptions. Moreover, these chapters interpret the practitioners' perspectives on the effectiveness of the regime and capture actors' motivations for compliance. In this way, the research questions are repeatedly answered according to the circumstances of each case and the interpretation of the practitioners' views.

The eighth chapter ultimately compares the implementation and compliance among the three cases examined in this thesis through a systematic cross-case analysis. Once again, it addresses the research questions but in a comparative manner to illustrate similarities and differences among the three case studies. Such an approach enabled me to highlight the common implementation gaps among said countries, such as the inconsistent implementation at the sectoral level in the three examined cases due to variation in experience between

previously and recently regulated sectors. This is in addition to the gap in the performance of financial intelligence units (FIUs). Moreover, the systemic comparison will illustrate the variation in compliance levels among the three examined cases and explain such variation within the context of these states' national characteristics. Furthermore, this chapter will compare the perception of effectiveness according to FATF/MENAFATF mutual evaluations of said countries' compliance and the participants' perceptions of the effectiveness of the regime according to their daily practice. Ultimately, the chapter captures the regime actors' lack of intrinsic motivation to comply with it and interprets such a finding as a factor that could affect actors' performance and the outcome of the regime's implementation.

The last chapter concludes the thesis by underling its major findings and then proposes recommendations for future research. This research has found little evidence that the current implemented CTF measures at the national level is effective enough in combatting the financing of terrorism. The effectiveness of the CTF regime is challenged by states' national characteristics, the increased cost of compliance and actors' lacking intrinsic motivation. This thesis underlines the importance of actors' intrinsic motivation in compliance with the regime requirements within this context. Thereafter, it recommends that propelling actors' intrinsic motivation together with the current regime extrinsic tools could absorb the institutional cost of compliance associated with international regimes. In this way, actors' intrinsic and extrinsic motivations could posture their compliance level with the international regime and, consequently, improve the regime's effectiveness.

Chapter 2

Literature Review

2.1. Introduction

Since the 11 September 2001 terrorist attacks in New York, the financial sector has witnessed a "sea change" in terms of the increasing amount of policies and regulations aiming to tackle the problem of terrorist financing (Eckert, 2007: 209). Although the cost of executing a terrorist attack can be low, terrorist groups require a large amount of money to run their activities, such as recruitment, logistics, and acquiring essential materials for their acts of terror. Terrorist financing (TF) is a transnational problem; therefore, a country may have a low risk of terrorist attacks, but its financial system can be still abused to disguise and move terrorist funds overseas (FATF, 2019a: 9). As will be explained in the following chapter, global cooperation in implementing counter-terrorist financing (CTF) measures could disrupt terrorist funds and the growth of their networks. Furthermore, financial institutions have a significant role in improving states financial intelligence through identifying and tracing terrorist (suspicious) financial transactions. Such a role could uncover terrorist locations and networks and consequently disrupt their plans and acts of terror (section 3.2). In this way, non-state actors are perceived as the gatekeepers of international financial system integrity (FATF-GAFI, 2011: 19; Shepherd, 2009: 619-623; Aufhauser, 2003: 304; de Oliveria, 2018: 162-167; Zarate, 2013: 145-167). Therefore, successful implementation of the CTF strategies requires extensive collaboration between state (supervisory and regulatory authorities) and non-state actors (regulated entities) at both national and international levels.

Nevertheless, the effectiveness of international CTF strategies has been questioned in the literature (section 2.7). Effectiveness refers to "the question whether the goals of the [international CTF] norms are achieved" (Shelton, 2003: 5). Therefore, it is important to understand the debate surrounding the effectiveness of international CTF measures, especially that implementing these measures is associated with a considerable cost of

compliance for both state and non-state actors. This thesis explores the said debate in terms of national implementation and compliance with CTF policies. In order to do so, this thesis aims to develop the understanding of the implementation of, and compliance with, Financial Action Task Force (FATF) international CTF standards in different national contexts. The objective is to contribute to the literature on global governance by exploring the international CTF regime effectiveness in terms of state and non-state actors' ability to implement regime requirements and absorb its cost of compliance.

This chapter, therefore, explores the relevant literature on the role of global governance and engages with theories of international regimes and motivations to understand TF literature. Then, it discusses the existing literature on CTF and the focus of this thesis.

2.2. Global governance

While the word 'global' refers to "the top-level scale of human activity or the sum of all scales of activity", governance (including the concept of global governance) has different definitions depending on its context (Dingwerth and Pattberg, 2006: 188). For example, the Commission on Global Governance (1995: 2) defines governance as "a continuing process through which conflicting or diverse interests may be accommodated and cooperative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest." Within the context of this thesis, global governance is defined as "collective efforts to identify, understand, or address worldwide problems that go beyond the capacities of individual states to solve" (Weiss, 2013: 32). CTF is a problem of collective action, which requires both states and non-state actors' collaboration. The international CTF standards are originally designed by the G7 countries as non-binding rules. However, as will be explained later (section 2.8), these standards have been widely reinforced as a global collective response to the problem of TF. In this way, global governance concentrates on global collective efforts as a network of public-private partnership.

Most of the practice in global governance literature is concerned with institutional structure and the role of international law (Lopez-Claros, Dahl and Groff, 2020: 31). Halliday (2003) emphasised the role of international institutions in expanding global governance and designing the required regulations for solving global problems. International institutions are required to monitor states' compliance with global norms and reduce the probability of defection (Shelton, 2003: 2). Such a role includes controlling the problem of opportunism or freeriding; this is indicated in the literature as being a collective action dilemma or the prisoner's dilemma. The collective action dilemma occurs when an actor does not cooperate or contribute to a global collective action — even though actors might share a certain degree of convergence of interests, while it benefits from the international system (Keohane, 1984: 67-69; Heckathorn, 1996: 250-251; Coglianese, 2000: 300; Fireman and Gamson, 1988: 15-18). With such opportunistic behaviour, only a higher authority — such as state regulators or international institutions — could control the behaviour of freeriding and secure compliance through establishing incentivising and disincentivising structures to motivate actors against opportunistic behaviour and achieve a unified interest (Bevir, 2010: 42-44; Heckathorn, 1996: 251). Therefore, effective global governance requires a successful supervisory role at both national and international levels.

Nevertheless, according to Rosenau's concept of global governance, it "refers to more than the formal institutions and organizations through which the management of international affairs is or is not sustained. The United Nations system and national governments are surely central to the conduct of global governance, but they are only part of the full picture" (1995: 13). Therefore, international institutions are only an element of the global governance system that reflect the global forms of cooperation but do not necessarily reflect the effectiveness of global governance approaches (Weiss, 2013: 34). States' values, cultures, interests, and the role of non-state actors could have a significant impact on the effectiveness of international norms (Lee, 2020: 77-83). The role of non-state actors and NGOs has been significantly noted in different areas related to governing behaviours and attempts to solve global problems. For example, the European Environmental Bureau, which is the largest network of civil society organisations in Europe, helps in monitoring and advising on different

environmental problems (EEB, no date). Further examples include credit rating agencies such as Moody's Investors Service and Standard and Poor's (S&P), which help in the development of financial markets through providing ratings of debt securities issued by governments (CFI, no date). These are in addition to different social movements such as adherent feminists, environmentalists, and human rights activities (Rosenau, 1995: 24).

According to Bevir (2010: 49), contemporary governance of networks and institutions has emerged due to the increasing incapability of the hierarchical state to act alone without coordination and interaction with non-state actors or establishing networks of multiple actors. In this manner, governance is "a complex set of interactions in which the state is not ultimately the source of authority but facilitator and […] cooperating partner" (Bertelli, 2012: 16). Trubek and Trubek (cited in Kolben, 2011: 422) observed the contemporary governance as the "new processes emerging which range from informal consultation in highly formalized systems that seek to affect behavior but differ in many ways from traditional command and control regulation. These processes […] rely on broad framework agreements, flexible norms and revisable standards; and use benchmarks, indicators and peer review to ensure accountability." Keohane and Nye (2000: 19) highlighted that transgovernmental networks being constituted by private and third sector actors will become essential in global governance and more complex due to the extensive cooperation required. Slaughter recognised the power of actors other than state actors in the international system when she described the 'new world order' that emerged following the Cold War era, especially following the 9/11 attacks. The author illuminated the notion of "regulation by network", which describes how national and international financial regulators acknowledge the importance of a multifaceted network of different actors in addressing and solving common problems (2004). Similarly, Bevir and Richards (2009: 3) described the new world order as a "rule by and through networks". In other words, the effectiveness of any global regime requires the cooperation of state and non-state actors to succeed.

When considering the contemporary governance of networks, it is worth highlighting Ayres and Braithwaite's notion of 'responsive regulation' (metaregulatory theory), which refers to the cooperative relationship between state regulation and industry self-regulation for better

policy implementation. They argued that public regulation can promote private sector governance through the delegation of regulatory functions (1992: 4-5). In this way, policymakers will set the policy goals and then regulated entities will regulate themselves and report their compliance progress to the relevant regulatory authority. Simultaneously, regulated entities will be subject to the regulator's scrutiny, wherein reasonable and fair punishment will be applied when the regulator's persuasive strategies have failed to ensure regulated entities' compliance (19-27). Therefore, Ayres and Braithwaite's notion assumes that regulators would delegate their power to non-state actors based on regulators' trust that regulated entities would willingly regulate themselves. Moreover, it assumes that regulators have the capacity to audit regulated entities through their supervisory role. Nevertheless, what could be anticipated here, is that those assumptions could be less feasible when the national supervisory role is not effective in monitoring the progress of regulated entities. Ultimately, Ayres and Braithwaite highlighted that responsive regulation is not a set of perceptions that fits all regulations because it depends on regulatory context, culture, and history (1992: 5).

Abbott and Snidal (2013) developed the model of Ayres and Braithwaite into a transnational responsive regulation. They perceived that responsive regulation through public-private partnership is approachable using "transnational regulatory standard-setting". In this approach, international intergovernmental organisations work as responsive regulators in supporting and promoting transnational norms. They set regulatory standard-setting and deploy reputational and market sanctions to regulate the behaviour of actors. Considering the interaction between international and domestic actors, Abbott and Snidal's new framework of responsive regulation is more fitting with the global governance approach because international organisations could tackle state institutions' incapacity to monitor actors' compliance.

In brief, global governance became characterised by a shift to soft regulations through voluntary rules and standards (Hülsse and Kerwer, 2007: 626). However, the global governance system still generates transnational and international regulations, with associated requirements such as enforcement and monitoring compliance, all of which are justified as a

global common good (Zürn, 2018: 6). Therefore, it intends to regulate a global problem with a minimum level of compliance of both state and non-state actors.

This section discussed the central concepts in the literature on global governance and underlined the difference between the traditional global governance system and the contemporary global governance system. The former was more hierarchical and concerned with states' delegation of their authority to international institutions and international law so that the act of governance is achieved in the absence of a global government. The latter functions as a network and focuses more on soft non-binding rules and non-state actors' role so that it can manage the world order flux and the complexity of new global problems resulting from globalisation.

Therefore, to understand how governing the global problem of TF works, it is important to explore interactions between state and non-state actors, including international institutions. The next section underlines how global governance is monitored through establishing international regimes to solve specific problems such as TF. Then, it will highlight how international regimes could be linked to theories of motivation to underline non-state actors' motivation to comply with international regimes.

2.3. International regimes and compliance motivations

This section explains how global governance works by establishing international regimes and underlines states' motivation to enforce or comply with said regimes. Thereafter, it explores reasons for non-state actors' compliance within the context of theories of motivation.

2.3.1 International regimes and states' motivation for compliance

States, especially developed ones, most often create international regimes and assign them to international organisations to govern specific global problems (Keohane and Nye, 2000: 20). A regime is defined as "sets of governing arrangements" that include "networks of rules,

norms and procedures that regularize behavior and control its effects" (Keohane and Nye cited in Krasner, 1983: 2). Norms refer to "all rules of conduct", while standards refer to "measures of compliance or technical objectives" (Shelton, 2003: 5). Similarly, Krasner (1983: 2) and Keohane (1984: 57) define norms within the context of the international regime as "standards of behaviour defined in terms of rights and obligations", and rules as "specific prescriptions or prescriptions for action". Soft norms are "those nonbinding rules or instruments that interpret or inform our understanding of binding legal rules or represent promises that in turn create expectations about future conduct" (Guzman and Meyer, 2010: 174). Regimes could be perceived to be forms of governance without government that involve both governmental and non-governmental actors who share common interests in cooperation (Rosenau, 1992: 8). Nevertheless, Rosenau underlined that regimes are not the same as governance in a global order because a regime is limited to a specific area, while governance is a broader concept and has a wider range than merely one area.

According to Rosenau, governance rules and principles "come into play when two or more regimes overlap, conflict, or otherwise require arrangements that facilitate accommodation among the competing interests" (1992: 9). Similarly, Kratochwil and Ruggie (cited in Hewson and Sinclair, 1999: 11) underlined that international regimes are concerned with longstanding problems within 'international governance' that involve multiple territorial states. Therefore, international regimes reflect only part of the whole global governance system. In this way, a regime, e.g. the AML/CTF regime, could be perceived to be a unit of analysis of the global governance domain because it is limited to solving a specific problem or purpose, e.g. ML and TF. Simultaneously, global governance aims towards a broader concept such as world peace or the integrity of the international system, or (as pointed out in the governance literature) the 'public good'. In other words, international regimes, whether they are designed to govern specific economic, security or environmental issues, could be considered a "system of international governance" (Hewson and Sinclair, 1999: 12).

Acharya (2009: 86) highlighted that cooperation among states is often facilitated by institutions and regimes, the latter of which are often established through either consensus or imposition. An imposed regime (or orders) is "established by dominant actors who succeeded

in getting others to conform to the requirement of these orders through some combination of coercion, cooperation and manipulation of incentives" (Young, 1983: 100; Acharya, 2009: 86). Cox recognised the role of economic leaders and key networks such as the G7 in shaping approaches of global governance, which was also described by Gill as "globalizing elites" (cited in Hewson and Sinclair, 1999: 9). Similarly, Drezner (2007: 5, 142-145) argued that great powers will remain the major actors in regulating the global economy and that their role is essential for effective global governance. In this sense, standards that introduced are perceived to be a "club model" or that of "club standards", referring to key regimes for governance established by developed and powerful states that delegate the practice of governance to an international organisation. The role of international organisations is to facilitate cooperation and the implementation of these states' targeted rules and policies at the global level (Keohane and Nye, 2002: 219-244; Drezner, 2007: 119-148). Such understanding of the role of major powers in imposing regimes or orders about a specific governed issue explains why disadvantaged (weaker) actors commit to an international regime while receiving fewer benefits than others (Keohane, 1984: 72).

Some scholars (e.g. Keohane, 1984; Clunan, 2006: 573-574) have recognised the essential role of hegemonic states such as the US in leading the global pattern of order and imposing compliance within international regimes. Keohane (1984: 50) emphasised that cooperation in the absence of hegemony is conceivable through international regimes; however, the creation of regimes is contingent on sharing mutual interests and (in most cases) the involvement of hegemonic powers. Meanwhile, others (e.g. Heng and McDonagh, 2008; Holsti, 1992) have outlined that a regime of multilateral governance does not necessarily require a hegemonic state as it shifts and decentres state power. Instead, the regime employs multiple forms of governance through different practical techniques of power, instruments, tactics and procedures with which to monitor and control individual states' compliance (Heng and McDonagh, 2008: 562).

For Rosenau, once the system of rules has been successfully established, control mechanisms are necessary to sustain governance without government (1995: 14-15). With that being the case, international regimes create incentives for compliance so that they attract potential

members to join and cooperate. However, regimes may also involve punitive actions towards non-compliant actors, such as imposing sanctions, or negatively evaluate those actors, consequently affecting their reputation (Keohane, 1984: 103-106). Global governance in this respect not only refers to adjusting national rules and regulations, but also "encompasses the collection of authority relationships designated to monitor, enforce, and amend any transnational set of rules and regulations" (Drezner, 2007: 11).

In the same vein, realists suggest that compliance with international regimes is achieved when a hegemonic state is involved in exerting pressure on other countries to comply, which could be through rewards or the threat of sanctions for non-compliant parties (Haas and Bilder, 2003: 52-61; Keohane, 1984: 7-9). Meanwhile, neorealists deem compliance to be a matter of compulsion because states are less likely to cooperate, therefore, they are more likely to comply if they are compelled to do so. From a neoliberal perspective, international organisations are required to induce compliance and perform some functions that increase compliance among the parties involved, such as monitoring, promoting knowledge, and building national capacities (Haas and Bilder, 2003: 52-61; Keohane, 1984: 7-9). From a constructivist perspective, compliance is relative to actors' shared beliefs and values in relation to the regulated matter, therefore, compliance is higher if states believe that an international regime will benefit their interests or reflect their ethical and moral values (Haas and Bilder, 2003: 62; Weiss, 2013: 149). This elucidation provided by international relations theorists offers a great understanding of states' motivations to force or comply with an international regime. However, as indicated previously in this chapter, non-state actors have a significant role in the contemporary global governance system. What is missing in said literature is developing the understanding of non-state actors' motivation to comply with international regimes. This thesis, therefore, aims to explore the motivations for both state and non-state actors to comply with the international CTF regime.

Understanding the motivations of actors is required in the case of a collective action dilemma (indicated earlier in section 2.2). In such a situation, it is crucial to provide motivations to individual actors whose interests may conflict with cooperation in collective action domains. Encouraging actors to cooperate could be done through provoking actors' ethical motivations

to perceive their compliance to be “the right thing to do”, rather than normative conformity (Wijen and Ansari, 2007: 1086). In this way, actors’ ethical motivations and praising the importance of their contributions could absorb the institutional cost of compliance associated with international regimes (Heckathorn, 1996: 251).

Pattison argued that using positive incentives to induce compliance could create a moral hazard of eliminating actors’ intrinsic motivations to morally comply with international norms. Therefore, positive incentives should be monitored and combined with the threat of coercion measures such as reputational and financial costs for non-compliant actors — which constitutes the concept of the carrot and stick. Simultaneously, positive incentives might be problematic in practice because they could remove actors’ intrinsic motivations and, thereby, actors may return to their (non-compliant) behaviour after an incentive has been delivered or removed (2018c: 17-18). The author; however, justified in some cases that crowding out intrinsic motivations could be outweighed by the greater good. Besides, actors may not have any intrinsic motivations to adjust their behaviour, while extrinsic motivations may develop a habit of the desired behaviour and last after an incentive has ended. Nevertheless, Pattison’s work was more concerned with states’ compliance and did not include non-state actors’ motivations. This thesis suggests that a thorough understanding of non-state actors’ compliance with international regimes could be developed by using theories of motivation.

2.3.2 Non-state actors’ motivation for compliance

Theories of motivation are rooted in psychological literature and most often employed in research that attempts to explore individuals’ behaviour or institutions’ performance (e.g. Hull, 1943, 1951; Spence, 1956; Skinner, 1953; Deci and Ryan, 1985, 2000, 2001; Scott, 1995). “To be motivated means to be moved to do something” (Deci and Ryan, 2000: 54). Motivations are categorised into two types: intrinsic and extrinsic motivations. Intrinsic motivation has different definitions in psychological literature. Nevertheless, Deci and Ryan (2000: 56) define it as “the doing of an activity for its inherent satisfactions rather than for some separable consequence”, which underlines the importance of intrinsic motivation that

reflects human tendency to learn and self-regulate rather than receiving rewards or avoiding punishment (1985). On the contrary, they define extrinsic motivation as "a construct that pertains whenever an activity is done in order to attain some separable outcome" (2000: 60). Therefore, it could be understood from these definitions that intrinsic motivation arises from inner factors within a person such as ethics, values, and the willingness to learn and develop oneself, while extrinsic motivation arises from instrumental values in the form of repayment or rewards such as profit, promotion, and praise. The merit of individuals acting according to their intrinsic motivations is that it could lead to a high quality of learning, creativity, and, thereby, sustainable performance (Deci and Ryan, 1985, 2000).

The application of science to human behaviour often produces contested perspectives and theories, not due to its inaccessibility but due to its complexity (Skinner, 1953: 6-15). For example, one of the arguments in psychological literature concerns whether human behaviour is derived from intrinsic or extrinsic motivation, which is most recognised as being that of "drive theories" (Hull, 1943) or self-determination theory (Deci and Ryan, 1985). Hull's (1943) drive reduction theory indicated that all behaviours are derived from biological and psychological needs, wherein a drive (e.g. hunger) creates an unpleasant experience that needs to be reduced (e.g. through eating). In this way, humans will repeat behaviours that reduce their drives. What is more, the author (1951) observed that reinforcements (such as incentives) affect human behaviour. Skinner's (1953) operant conditioning theory (also known as reinforcement theory) indicates that positive reinforcements (pleasant consequences in the form of stimuli such as rewards and praise) and negative reinforcements (unpleasant consequences through removing adverse stimuli) affect individuals' behaviour. According to this approach, all behaviours are motivated. In other words, behaviour which is rewarded will be repeated and that which is followed by unpleasant consequences will occur less. The author; however, underlined the difference between negative reinforcement and punishment. The latter (unlike reinforcement) suppresses a behaviour temporarily and an individual former behaviour may return once the punishment has been removed (1953: 183-184). Nevertheless, Deci and Ryan (2000) underlined that behaviour does not require extrinsic rewards, because a reward could be gained from an action or task itself. Other

scholars (e.g. Atkinson, cited in Weiner, 2010: 29) have argued that individual behaviour is derived not only from motivation but also from individual values.

The second debate in social science, including in psychological literature, discusses the impact of extrinsic motivation factors on individual intrinsic motivation — most commonly known as motivation crowding theory. This argument first occurred in social science with Titmuss, who introduced the idea that paying for blood (through tangible or intangible returns) undermines social values and crowds out the willingness to donate blood. The author raised the concern that such behaviour would ultimately transform all social and moral values into economic policy (1970: 12). In psychology, Cameron and Pierce (1994), for example, pointed out that rewards do not decrease intrinsic motivation, and that verbal praise, in particular, increases intrinsic motivation. On the other hand, Deci, Koestner and Ryan (2001) indicated that verbal rewards could slightly enhance intrinsic motivation; however, tangible rewards undermine the intrinsic motivation towards the rewarded activity. Furthermore, threats such as deadlines and competition pressure eliminate intrinsic motivation because individuals perceive them to be control over their behaviour (1985, 2000). In the same vein, economists have extended psychologists' findings in their economic and econometric research. For example, Frey and Jegen (2001) established the same findings mentioned previously at both theoretical and empirical levels. Their study constructed that external effects through financial incentives or punishments (penalties) may undermine intrinsic motivation under different circumstances. Moreover, Fehr and Gächter (2001) provided empirical evidence that incentives in labour contracts lead to the crowding-out of voluntary cooperation.

Within the context of economic crime, Tullock (1974: 104-105) noted that most economists have concluded that "punishment will indeed deter crime. […] If you increase the cost of something, less will be consumed. Thus, if you increase the cost of committing a crime, there will be fewer crime." Therefore, this quotation suggests that punishment within the context of financial crime could adjust non-compliant behaviour to comply with the law. Nevertheless, the author underlined that even though punishment can deter crime, "preventing crime by training the criminal to be good" by means of rehabilitation would be more eligible (109). In

other words, other long-term alternatives to punishment should be examined for more sustainable effects. As Akerlof and Dickens (1982: 318) confirmed, increased punishment may act as a crime deterrent. Nevertheless, they pointed out that "once the threat of punishment is removed, people who have been threatened with relatively severe punishment are more likely to disobey than those threatened with relatively mild punishment". They concluded that the majority of criminals commit crimes while not expecting to be caught, which implies that self-motivation to obey the law is a key factor in reducing crime.

Recalling what was illustrated previously (section 2.3.1) that actors may absorb the institutional cost of compliance associated with international regimes through praising their contributions and invoking their ethical motivations. Literature in psychology and political science suggest that the collective action dilemma could be addressed through Deci and Ryan (1985, 2000) approach of internalization and integration. "Internalization is the process of taking in a value or regulation, and integration is the process by which individuals more fully transform the regulation into their own so that it will emanate from their sense of self" (2000: 60). Said process, therefore, would align individuals' intrinsic values and self-regulation with a specific activity through transforming individuals' amotivation behaviour into passive compliance and, eventually, active personal commitment.

In conclusion, the literature in this section illustrated how international regimes are used as a form of governing specific global problems. They are constructed via either consensus or imposition. Consensus indicates regime actors' mutual interests and common understanding; thereby, the probability of cooperation and compliance is expected to be high. On the other hand, imposition may only reflect the interests of creators (major actors); thereby, the probability of compliance and cooperation (from other actors) is expected to be lower unless the actors involved share the same interests with the creator of the regime. Therefore, regimes use an incentivising structure to encourage and motivate actors (state or non-state actors) to comply with the norms and rules of regimes. Nevertheless, regimes are primarily concerned with states' interests and compliance, while non-state actors' interests and motivations within a regime have not been thoroughly examined in the literature, despite their significant role being recognised in the contemporary governance system. Although inferences of theories of

motivation are contested in psychological literature, they still suggest the tendencies of individuals (non-state actors) to behave towards actions that produce rewards or to ward off actions that could result in punishment. However, they also suggest that individuals may react and comply according to their intrinsic motivations and individual values, which is preferable because the risk of actors changing their behaviour towards non-compliance is lower than when incentives (positive or negative) are removed.

Given the above discussion, this thesis employs regime theory and theories of motivation to explore what would encourage and motivate actors (particularly non-state actors) involved in the CTF regime to comply with its requirements. As it will be illustrated (sections 5.5.6, 6.5.6, 7.5.5), such an approach underlined actors' different motivations to comply with the international CTF regime. In this way, it develops the understanding of how contemporary global governance of networks works through international regimes.

2.4. Effectiveness of global governance and governance gaps

The key question of the contemporary literature on global governance is whether global efforts can solve common problems that are beyond the unilateral system (e.g. Weiss, 2013; Young, 1992). This thesis contributes to the aforementioned literature concerning the effectiveness of global efforts in solving common global problems, particularly TF.

Effective multilateral cooperation has been witnessing a gridlock within the global governance system concerning solving twenty-first century global problems (Held, 2016). Lopez-Claros, Dahl and Groff (2020: 478) illustrated that although international collaboration within the global governance system has prospered in different areas such as transportation, telecommunications, and health, it remains limited in other areas such as environment, finance, and collective security. The authors emphasised the global integration of efforts (including the UN) need for reinforcement and development in order to achieve sustainable results and manage global and social challenges that have emerged in different areas such as

economic crises, climate change, unemployment, and nuclear proliferation (5).
Simultaneously, the United Nations Office on Drugs and Crime reported:

> Global governance has failed to keep pace with economic globalization. Therefore, as unprecedented openness in trade, finance, travel and communication has created economic growth and well-being, it has also given rise to massive opportunities for criminals to make their business prosper (2010, ii).

This perception may have led to the growing concern in the literature regarding the effectiveness of the global governance system and how the international community could introduce or develop practical measures to solve global problems in a changeable world order (Held and McGrew, 2003). Coen and Pegram (2015) suggested a new generation of global governance research that considers the following challenges: states' inability to implement global policies, coordination between state and non-state actors, enhancing knowledge, increasing transparency, and analysing the gap in the implementation of policies. Weiss (2013) examined the effectiveness of the global governance system in relation to different international problems, and concluded with five major gaps that can prevent global governance from working efficiently: knowledge, norms, policies, institutions and compliance. In that respect, my thesis addresses the three interlinked gaps of the implementation of policies, state and non-state actors' compliance with the CTF regime requirements, and knowledge in the form of information intelligence as part of the implementation and compliance requirements. The aforementioned three governance gaps are briefly explained here but are examined further in this chapter (section 2.6) within the context of TF.

Different observers (e.g. Keohane, 2002: 273-287; Napoleoni, 2003: 188-201; Devitt, 2011: 3; Giraldo and Trinkunas, 2013: 346-361; Lopez-Claros, Dahl and Groff, 2020; Reinicke, 1998: 52-101) outlined the challenges surrounding global governance performance with respect to controlling problems arising from globalisation due to the inability of states to constrain their borders and solve transnational problems such as terrorism and transnational crime. These challenges include the lack of engagement with non-state actors and states'

incapacity to implement international policies at their national level or enforce obsolete global measures (e.g. Coen and Pegram, 2015; Drezner, 2007: 12-13; Napoleoni, 2006: 60-65; Abbott and Snidal, 2013: 96; Weiss, 2013; Reincke and Witte, 2003: 86-89; Grindle, 2000: 178-207; Weiss, 2000: 807-810). States' incapacity includes the lack of technical capacity and financial resources devoted to enforcement, which affects states' implementation of international norms and their compliance with the requirements of regimes (Haas and Bilder, 2003: 46). Moreover, Weiss highlighted that implementation failure at the national level of states is a challenge to global policies (2013: 51-54, 106-126). The author illustrated that the implementation gap is primarily caused by the gap between decision makers (politicians) at the international level and those who are influenced by policy implementation (non-state actors). Nevertheless, Vogel (2010) argued that the governance gap does not necessarily mean a governance deficit, but rather a regulatory failure due to international firms' and national governments' inadequate mechanisms with which to effectively govern several negative social and environmental impacts (e.g. through voluntary standards). Kirsch, Siehl, and Stockmayer (2017: 23-24) indicated that understanding how global governance rules are implemented and monitored continues to be limited. They underlined that the design and implementation of global governance programmes is influenced by the expected outcome and the methods of monitoring and evaluating progress. Ultimately, they perceived that solutions and reforms for policy implementation could be easily laid out, but they need to be implemented (7).

Haas and Bilder (2003: 64) underlined that understanding patterns of compliance with international regulations has not been thoroughly investigated. Compliance is broader than implementation, as it reflects "whether countries in fact adhere to the provisions of the accord and to the implementing measures that they have instituted" (Shelton, 2003: 5). Therefore, the gap of compliance explains the lack of implementation and enforcement at the national level and the lack of full engagement of the relative sectors, including non-state actors (Weiss, 2013: 149-154). In this manner, the gap of compliance is strongly interlinked with the previous gap of implementation. However, this thesis focuses more on addressing the challenge of the cost of compliance, particularly for developing countries and financial

centres. The cost of compliance is interpreted as one of the major reasons for the implementation incapacity explained earlier in relation to the previous gap. Shelton (2003: 12) noted that when nonbinding rules are associated with hard law agreement the probability of compliance is higher than when introducing new ones. Nevertheless, Zürn (2018: 6) highlighted that the requirements of transnational and international regulations affect the distribution of the costs and benefits of compliance between and among national states, which could result in inequalities among states. Furthermore, Drezner (2007: 119-145) suggested that while major powers such as the G7 enforce global financial regulations through establishing international organisations, the distribution of costs and benefits of implementing such a regulatory framework is not the same for developing countries and less developed ones. Therefore, designing an incentivising structure is vital in global governance to ensure compliance through monitoring and supervising states' obligations, and thereby maintain sustainability of the common good (Shelton, 2003: 12-14). However, as Weiss (2013: 58-60) illustrated, this is easier to be perceived than done, especially when collective actors lack the conviction or common interests with respect to enforcing international norms, as in the situation in different human rights cases or international trade disputes.

The third governance gap examined here is the gap of knowledge and information. The production and circulation of information, especially by the elite states, through institutions and networks became a globalised fashion (Hewson and Sinclair, 1999: 10; Hurely and Mayer-Schönberger, 2000: 330-346). Keohane (1983: 161-162) underlined that international regimes, including their produced institutions and procedures, have the crucial function of reducing uncertainty and risk by linking relative information together, whereby improving the quantity and quality of information available to regimes' parties. Therefore, international standards are a form of creating knowledge with the purpose of solving a global problem; standards in this respect refer to "expert knowledge stored in the form of rules" (Jacobsson cited in Hülsse and Kerwer, 2007: 629-630). In this way, promoting global knowledge, intelligence and transparency through networks of information became part of the global governance approach to coordinating and solving problems raised by globalisation (Hewson, 1999: 97-113). Therefore, governance relies heavily on the dynamic exchange of information

and feedback between the involved actors to guide or adjust policy implementation and decision-making (Peters, 2012). Nevertheless, Abbott and Snidal (2013: 102) highlighted that the effectiveness of transnational regulations could be challenged by the lack of information concerning regulated issues. Weiss (2013: 46-48, 62-83) defines the knowledge gap as the lack of consensus surrounding the nature and causes of specific problems, as well as reaching an explanation for their emergence. The author underlined two challenges to knowledge within the contemporary global governance system. The first challenge is that of biased knowledge and ideology, which can determine and interpret information and sources of knowledge through selective data and evidence. The second challenge is that of insufficient and conflicting information, particularly on new phenomena that were previously unknown or undervalued, such as global warming. Ultimately, while filling the knowledge gap is challenging and varies from one region to another, Weiss perceived it to be the first requirement in solving the other gaps in global governance.

To sum up, the controversy surrounding the effectiveness of global governance, including its associated international regimes, could be linked to three major gaps. First, the gap of knowledge and information symmetry on a governed issue. Second, the gap of implementation due to the legal and financial incapacity of states, as well as a lack of engagement with non-state actors. lastly, the gap of compliance due to conflicting interests and/or the increased cost of compliance. This research, therefore, addresses the aforementioned gaps throughout this thesis.

It is worth pointing out, that Weiss (2013) also identified institutional and normative gaps in the performance of global governance. Nevertheless, this thesis does not examine the aforementioned two gaps. Despite their importance, examining these two gaps requires a different theoretical and methodological approaches (e.g. institutional theory, or securitisation and internationalism) so that the research produces sufficient theoretical and empirical examination and findings.

2.5. Terrorist financing literature

To understand the phenomenon of terrorist financing and its countermeasures, it is important to first understand what these measures counter. Terrorism is an essential by contested concept (Gallie, 1955). The term 'terrorism' first appeared during the 'reign of terror' in a positive interpretation published by a French dictionary in 1798 (Laqueur, 2001). A terrorist was described as "anyone who attempted to further his view by a system of coercive intimidation" (6). Therefore, the illegality of terrorism was not assuredly perceived in early literature on terrorism. For example, Rubenstein (1987: 33) defined terrorism as "acts of small group violence for which arguable claims of mass representation can be made". Currently, however, there is no consensus among the UN members on a standard definition of terrorism, but rather only a definition of the act of terrorism. Article 2 of the UN International Convention for the Suppression of the Financing of Terrorism (1999) determines the objective of terrorism to "intimidate a population or to compel a government or an international organisation to do or abstain from doing any act". This definition, therefore, only reflects the act of terrorism, which determines the epistemology of terrorism but not the ontology thereof.

Laqueur (2001: 5-6, 144) indicated the difficulty of providing one full theory on political terrorism and anticipated that the controversy surrounding an explicit terrorism definition is infinite and will not end up with a standard agreement or understanding. A genuine reason behind this issue could be that terrorism has a normative dimension and that a definition thereof might consider ideological or political tendency (Gibbs, 1989: 329). Juergensmeyer underlined that the connotations or definitions of terrorism are regarded by one's attitude, being subjective to the nature of the definer (who might have different interests and agendas). Therefore, a criminal or terrorist in one country could be deemed to be a hero in another; alternatively, "one person's terrorist is another person's freedom fighter" (2003: 9). Therefore, from a constructivist perspective, terrorism ontology is an ideological and socially constructed phenomenon that has a common negative perception among communities according to societal members' interpretation of violent incidents and their related causes and

ethics (Turk, 2004: 271-273). As a result, the definition of terrorism could be self-serving by often being labelled according to biased definers or governments based on political, ideological and religious aims (Lutz and Lutz, 2008: 9). In other words, a government may abuse CTF measures against other political movements that challenge its authority (Acharya, 2009: 162). In this way, counter-terrorism strategies and legislation, including CTF, may anticipate a dilemma in practice with the absence of a universal definition of terrorism.

Terrorist financing refers to "the financial support, in any form, of terrorism or of those who encourage, plan, or engage in terrorism" (Schott, 2006: I-1). Wittig (2009: 274) conceptualises it as the "compendium of individual transactions in which various items of material and non-material value are exchanged that result in terrorist actors acquiring something of value". The knowledge on TF in the literature has been increasingly developed since the 9/11 attacks. Prior to those, however, research on TF was only part of studies concerned with terrorism (e.g. Laqueur, 2001: 86-90; Lutz and Lutz, 2005: 105-106, 137-157) or state sponsorship of terrorism (e.g. Hoffman, 1998; Byman, 2005; Richardson, 2005), while there were few studies that were dedicated to TF alone (e.g. Adams, 1986). Romaniuk (2014: 4) pointed out that a "theory of terrorist financing has been elusive and is likely to remain so without a stronger evidentiary base". Wittig's (2009) dissertation underlined the literary gap concerning the lack of conceptualisation of TF, including international relations discourse, which has led to the lack of theories in TF literature.

Nevertheless, research on how terrorist groups and their associated financial networks generate and move their funds is a form of understanding the typologies of TF and, thereby, its countermeasures. A considerable range of inquiries are provided in TF literature in terms of the developing patterns and typologies of TF, tracing TF patterns from relying on state sponsorship so as to generate their funds, to terrorist groups' autonomy and self-direction in generating and expanding their financial network (e.g. Giraldo and Trinkunas, 2007; Napoleoni, 2003; Freeman, 2011; Geltzer, 2011; Sinha, 2013; Passas and Jones, 2006; Gilmour, Hicks and Dilloway, 2017). These include the interaction between TF activities and illicit actors, underlying their similarities and differences in objectives, behaviours and outcomes — a thorough discussion is structured in the following chapter. For example,

Picarelli's (2006) work on analysing the 'crime–terror nexus' by means of a postinternationalist paradigm argued that terrorists are involved in crime as a marriage of convenience for specific short-term motives and mutual benefits related to their social, economic and political opportunities, rather than as a long-term relationship (similar findings were reached by Williams, 2007b; Levi, 2007). Research on the relationship between terrorist and criminal financial activities ultimately directed the literature to the central debate of CTF literature concerning the effectiveness of employing money laundering countermeasures against TF. Despite that, there remains a lack of empirical analysis in the literature that could indicate or affirm that a specific transaction constitutes TF, or which activities or behaviours constitute TF, and which do not, which implies a low probability of reaching an explanation for TF behaviour (Wittig, 2009: 21-22).

Napoleoni (2003: xv) interpreted the development of TF as 'the new economy of terror', which refers to "an international network linking the support and logistical systems of armed [terrorist] groups". Rudner (2006: 32) underlined "terrorist economic management and the supply of funding to meet operational demands" as one of terrorism financing's core elements in the contemporary international domain. Within these economic perceptions, different scholars have attempted to develop a theory concerning TF sustainability and have put more emphasis on the organisational approach to analysing the financial structure of terrorist organisations, including how operational and organisational costs are managed by terrorist groups. For example, Shapiro (2007: 64-66) perceived the relationship between terrorist leaders and their financial networks in terms of the principal–agent relationship, wherein the principal delegates raising and moving funds to their financial networks (agents). As a result, a moral hazard could arise when agents have different preferences from those of their principal and, thereby, act in a way that reduces the principal's profit, while the principal can neither monitor nor punish the agents. In this way, TF is deemed to be vulnerable and inefficient to sustain. Adams (1986) illustrated that terrorist groups have run their finances as corporates, including making investments and agreements with organised crime groups or governments in some cases. Gunaratna (2002: 68-69) and Acharya (2009: 47-49) perceived terrorist organisations (such as Al-Qaida) to be multinational corporates

(with a centralised structure) that have many subsidiaries all over the world and are responsible for their accounts and operations. The second type is perceived as holding companies (with a decentralised structure) that provide the organisation's cells with seed money; later; however, the cells should be independent financially and generate their own money. The third type is that of networks, which are the most complicated type because all networks' units and cells have a common goal but are independent financially and managerially (which could be applied to ISIL).

In the same vein, Stern and Modi (2007: 19-46) used organisational theory in perceiving terrorist groups to be business firms that trade in the production of violence, with consumers purchasing terrorism through their donations, and in a similar fashion to corporate firms, terrorist firms use an incentivising structure to motivate their members. In this approach, "terrorist behavior represents the outcome of the internal dynamics of the organization rather than strategic action" (20). The authors argued that freezing terrorist assets or cutting off their income from charities would not necessarily affect terrorist groups because they are flexible in responding to changes in their economic environment. Myres interpreted a micro-level theoretical framework of terrorist financing as investing in the market of violence. The market of violence here is "a sociopolitical and economic space, wherein terrorist firms produce violence products and services that are used to translate asymmetric violence into tactical, and sometimes strategic, political gains for investors, as well as the terrorist firm itself" (2012: 687). In this way, terrorist organisations function as agents or firms to obtain their funds according to their organisational type and structure and the market investment opportunities. Such a perception provides an insightful understanding of terrorist organisations' financial behaviour and management decisions in diversifying or expanding their capital. It offers an answer as to why and when a terrorist group becomes involved in criminal activities, self-funding, or relies on external investors (e.g. state sponsorship).

Nevertheless, what could be emphasised in this approach is that the investment market is most often a regulated market in which investors and firms operate according to the market regulations and regulators' auditing and inspection. In that sense, the market of violence functions as an underground market in which terrorists (as firms or investors) deliver illegal

products and function out of sight of regulators' radar. Thereby, the delivery of violent products is uncertain and could be jeopardised by investors' distrust or changing of their investment behaviour, as well as by regulators' efforts in regulating this market. Furthermore, as Stern and Modi indicated, unlike corporate firms' essential features of labour and capital, for a terrorist organisation the most important features are its ideology and mission — the latter supports the group in raising funds (2007: 30).

Counterterrorism encompasses "the policies, strategies, [and] tactics that states use to combat terrorism and deal with its consequences" (Silke, 2011: 3). Heng and McDonagh (2008) and Acharya (2009) noted that the aftermath of the 9/11 attacks led to global political collaboration against terrorism, as well as to financial coordination. For example, the UN International Convention for the Suppression of the Financing of Terrorism introduced in 1999 and the FATF anti-money laundering (AML) international standards, became a priority in the foundation of the 'financial war on terrorism' (Ryder, 2015: 3-4, 35-46). The financial war on terrorism is recognised as the process of attacking, "whether via criminalization, confiscation, freezing, or sanctioning, the financial assets of known or suspected terrorists" (2015: 11). Nevertheless, Ryder underlined that the global community were not ready or prepared for the financial war on terrorism, and the Bush administration's attempt to combat TF was only an excess of regulations and policies that have been insufficient in reaching their aim. Those regulations have created complications such as the increase in compliance costs and reporting requirements.

Napoleoni (2003: xvi) perceived the enemy in the war on terror to be "a product of policies of dominance adopted by Western governments and their allies — the oligarchic powers of the Middle East and Asia". The author illustrated that the actual financial fight is between the Western capitalist economy and the new economy of terror, while the dilemma in this fight is that both economies are interdependent. McCulloch and Pickering (2005) perceived the war on terror, including CTF measures that became a key tool in the aforementioned war, to be a new form of colonial project led by the global dominance of the US and with the support of international organisations. An indicator of this perception could be linked to the unilateral action taken by the US to invade Afghanistan and Iraq in 2001 and 2003, respectively, during

the Bush administration's campaign of 'the war on terror' (Hale, Held and Young, 2013: 82-84). McCulloch and Pickering built their perception upon counter-insurgency warfare theory and practice, which describe that an existing government regime or social order will be maintained through coercive strategies — in CTF case, against civil society (including NGOs, humanitarian organisations, and social movements). These critical views in the literature concerning the war on terrorism are prominent because they have directed research — including this thesis, as indicated in section 3.2 — on whether CTF measures are necessary and if these measures serve their purpose. Furthermore, they entailed the misuse of the term 'war', which implies that the perception of terrorists has changed from that of criminals to that of warriors. Such a term would justify the use of military force to achieve victory and maintain state power, as well as of terrorism countermeasures, including against TF (Lutz and Lutz, 2013: 275-276; Baylis and Roper, 2006: 17).

In a similar argument, Wittig (2009: 21, 50) underlined that the orthodox approach in the literature perceive TF to be "a significant international security threat that must be countered in order to fight terrorism and safeguard the legitimate financial system". Such perception justifies states', including the private sector's, strategies of 'targeted governance' — e.g. targeted sanctions — in applying countermeasures against individuals and entities that would be perceived to be involved in funding terrorism. de Goede (2008) argued that the financial war on terrorism is not about regulating the movement of money and disrupting terrorist funds, but rather about the practices of governing in the name of anti-terrorist financing through political media and social affiliation (including think tank reports, news reporting, and court indictments). In that sense, the author defined TF as an "unproblematic reality which has elicited a state response, but as a practice of government that works through a number of political or discursive moves" (Campbell cited in de Goede, 2008: 291). Such a definition conceptualises the reality of TF as a security concern that interprets terrorist funds as the 'lifeblood' of terrorism rather than as a real issue of the international political economy related to governing illegal funds and the integrity of the international financial system (Wittig, 2009: 70).

Nevertheless, it is worth underlining here within the context of de Goede's argument that governing practice through anti-terrorist financing could also be interpreted as a way of gaining political attention through the media in influencing public perceptions or 'doing something' (logic of appropriateness). For example, Hall (2002) affirmed the media's significant role in the case of travel security and argued that the "adoption of post September 11 security measures will likely cease to find political support once the perceived terrorist threat receives less attention in the media and, related to this, the voting public". Simultaneously, Strange (1998: 126) pointed out politicians' vulnerability to public protests, especially protests through the media, which ultimately invoke politicians to "do something" through passing new laws against money laundering. Durodie (2016) illustrated (in terms of the UK securitising education to prevent terrorism) that governments act not out of conviction, but rather "to be seen to be doing something". Roger (2014: 1-2) explained that counter-terrorism strategies are opportunistically derived by either the desire to be seen to be doing something or the current circumstances — e.g. a terrorist attack — providing an opportunity for endorsing measures that normally would not be acceptable.

With that being the case, the literature remains indefinite concerning TF behaviour, as well as politicians' behaviour in enforcing CTF. Nevertheless, as indicated in the following chapter (section 3.2), CTF measures are exploitable in deterring the expansion of terrorist organisations and supporting the process of investigation to define terrorist locations through tracing money trails.

In conclusion, with the uncertainty associated with terrorism, as well as the contested, dubious knowledge on TF, analysing governmental counter-terrorism measures, including their motives, implications and effectiveness, could still develop the current knowledge surrounding TF in the literature. As Levi (2007: 273) illustrated, strategies of countering terrorism and organised crime need to be systemically analysed and evaluated, particularly, when the link between measures and outcomes is blurry. Despite that, as Silke (2011: 11) explained, in practice, one of the challenges in measuring the success of counter-terrorism strategies is that they are formed from various policies that have been implemented all together. It is difficult to measure the results of each policy separately to determine what has

been the best technique thus far. In addition, what is discussed later in the following sections (2.6, 2.7) is that of the difficulty of measuring the effectiveness of the current international CTF regime, wherein effectiveness is associated with challenges of policy implementation, compliance, and a lack of information on TF transactions.

2.6. Gaps of governing terrorist financing

To answer the question of effectiveness and understand its current debate, it is important to review the gaps in governing TF as indicated in the literature. This section, therefore, explains in depth the identified gaps in policy design and implementation, compliance, and information asymmetry within the context of the CTF regime.

2.6.1 Gap of implementation

Terrorist financing (TF) and money laundering (ML) are interlinked. Both use the international financial system to conceal the ownership of their money and avoid authorities by transferring money through formal banking and informal transfer systems (Acharya, 2009: 35-39; Passas, 2007: 29-36). As part of that connection, the relationship between terrorists and transnational organised crime was recognised (e.g. Giraldo and Trinkunas, 2013: 347-360; Williams, 2007a: 72-90; Kenney, 2003: 192). According to the FBI (2008), "international organised criminals provide logistical and other support to terrorists". Nevertheless, ML is a profit-driven crime aiming to achieve personal gain or fund more crime, while TF involves organised crime as a means, not as an end, and could be exercised through legitimate activities (Sinha, 2013: 144-145; Kenney, 2003: 196). Simultaneously, some divergences between the two have led to the controversy surrounding applying the AML measures to CTF.

First, ML involves using illicitly obtained assets through business transactions. Meanwhile, TF includes processing legally acquired assets or collecting legal funds such as donations

from supporters or indirect funds from state sponsors of terrorism. Therefore, the process of TF is recognised as "reverse money laundering" which refers to the use of legal money for an illegal end (Cassella, 2003: 92-93; Acharya, 2009: 36). Second, there is the fact of 'cheap terrorism', e.g. terrorists using a small amount of money to organise an act of terror. Therefore, terrorist funding tends to be carried out in smaller amounts than in money laundering (FINTRAC, no date). Furthermore, Islamist terrorists can follow a cheap lifestyle based on their belief that a luxurious life could affect their priorities and drive them away from their Jihad duty (e.g. Aydinli, 2006: 303-304; Acharya, 2009: 31). Lastly, terrorists are becoming more self-sufficient in generating their needed funds, imposing a significant challenge in achieving the objective of CTF regulations, as the measures currently applied to CTF are more counteractive actions than proactive (Ryder, 2015: 20-21).

Such differences render the process of tracing terrorists' transactions challenging in comparison with identifying ML activities. According to the FATF-GAFI (2008: 21), "in many situations, the raising, moving and using funds for terrorism can be challenging and almost indistinguishable from the financial activity associated with everyday life". Therefore, the aforementioned dissimilarities have led to complications and overlap in the implementation process of the AML/CTF regime, especially for the private sector (Clunan, 2006: 570-571). As a result, the FATF AML recommendations are deemed in the literature to be insufficient to CTF due to methodological dissimilarities between terrorists and money launderers in generating and moving funds (e.g. Navias, 2002; Tsingou, 2005; Sharman, 2011; Martuscello, 2011; Sinha, 2013; Ryder, 2015; Gilmour, Hicks, and Dilloway, 2017).

The second key challenge in implementing CTF global standards concerns participation of the involved actors in the FATF CTF regime network in the implementation process. As indicated previously in this chapter, the role of non-state actors is an essential element in implementing global governance approaches, including their role in closing the information gap through the implementation process. Ayers (2002: 459) stressed the role of the private sector in the financial war on terrorism and described how *"*the war against terrorism may be won by the destruction of checkbooks instead of on a battlefield*"*. As such, financial institutions and non-financial professions became key partners with state authorities and law

enforcement agencies in sharing the burden of implementing and complying with the CTF requirements. These actors must identify customers through ‘customer due diligence’ by examining whether client payments are compatible with what they have stated regarding their income and purpose, including ordinary transactions. This is in addition to submitting specific reports to competent authorities upon request or voluntarily with respect to any suspicion surrounding customers (Levi, 2010: 651-658).

According to (Zagaris, 2004; Shepherd, 2009; McCulloch and Pickering, 2005; Levi, 2010; Sinha, 2013), such regulations became a burden on financial institutions and are not preferable for business owners due to their lengthy procedure in addition to the increased cost of compliance related to human resources and software systems and, most significantly, the risk of losing legitimate customers. For example, it is estimated that major international banks spend between £700 million and £1billion annually on AML/CTF compliance (the British Bankers' Association, 2015: 6). What is more, CTF measures continue to have many limitations include deviations in implementation and law enforcement at the domestic level due to the differences in financial structures, procedures, institutional systems, and cultural values and norms. This leads to the next challenge of implementation.

The last challenge in implementing the international CTF regime is concerned with states’ legal and financial infrastructure and non-state actors’ technical and financial capacity to implement the CTF regime. Napoleoni indicated that terrorist organisations are adapting to the rapid changes of the financial system, and have successfully utilised vulnerabilities within the financial system for their benefit. Concurrently, states’ multilateral CTF policies are reactive and most often obsolete before they are introduced and implemented (2006: 60). Moreover, effective implementation of the global CTF regime should be consistent and harmonised at national levels, with uniform enforcement (Napoleoni, 2006: 60; Acharya, 2009: 85). Several scholars (e.g. Aufhauser, 2003: 303; Napoleoni, 2006: 61) have referred to the problem of incapacity of implementation. Incapacity includes a lack of dedicated resources and technical and institutional capabilities, especially in developing and emerging economies, which cause the implementation process of these countries to achieve poor results. Giraldo and Trinkunas (2007: 283-291) argued that while the international CTF

regime requires all member states to commit to the regime requirements, domestic factors — including political will— determine whether a country's participation would be active and effective (This view was also illustrated in Acharya's study, 2009).

Vleck (2008: 305) indicated that the literature of AML/CTF in OECD and developed countries is comprehensive —especially in the US — while analysis and policy recommendations for implementing these measures in developing countries is limited.

Nevertheless, different studies (e.g. Passas, 2015; Mugarura, 2013) have reviewed the difficulties and implications of applying the FATF international regime at the national level in LDCs (such as Uganda and other Eastern and Southern African countries) or cash-based countries (such as India, Afghanistan, and Somalia). Factors that restrict implementing the FATF recommendations in the aforementioned countries were mainly noted amidst the absence of political will, robust law enforcement by local institutions, a lack of skills and technical expertise, a high level of corruption, a lack of substantial infrastructure and capacity, and intercultural factors. These were in addition to the large size of the informal economy, wherein the majority of citizens continue to rely on cash for their daily or business transactions, and, most significantly, the poor technology. As a result of these factors, banks and regulated financial institutions cannot comply with FATF regulations, since they cannot build client profiling or knowhow with which to report suspicious transactions accurately. They continue to use manual documentation with low quality and verify their data verbally with the customer.

To sum up, the literature suggests that implementation of the international regime is higher in developed countries than in developing ones due to the financial and technical capacities of states, including their financial sectors. Furthermore, it underlined non-state actors' incapacity in implementing the FATF CTF regime requirements, including the difficulty faced in detecting terrorists' suspicious financial transactions.

This thesis attempts to contribute to the aforementioned literature through answering its first main question — How is the FATF CTF regime implemented in different national contexts? — and its sub-question: What facilitates or challenges a successful implementation of the regime requirements and its effectiveness? Through examining the implementation of the

FATF regime in three different settings, it will be feasible to compare the implementation of the FATF global regime in these countries: the U.K. as a developed country, as well as a major elite and cofounder of the FATF regime; the U.A.E. as a mixed free market economy; with two significant global financial centres (Dubai and Abu Dhabi); and Egypt as a developing country in which the size of the informal economy is substantial.

2.6.2 Gap of compliance

As explained previously in this chapter, compliance with global governance approaches requires higher authorities such as state regulators or the FATF to monitor actors' compliance by means of an incentivising structure. Such a structure may involve compatible mixes of 'carrots and sticks' with which to enhance states' compliance (Weiss, 2013: 152-153; Clunan, 2006: 573). According to Nance's (2018: 133-134) interviews with state representatives, the FATF was primarily established to share knowledge and best practices, with compliance relying on persuasion; later; however, threats of sanctions and reputational damage were needed so as to enforce commitment. According to the FATF's first evaluation, 23 jurisdictions out of a total of 47 were identified between 2000 and 2001 as high-risk jurisdictions — subject to a call for action (FATF, no date, d; FATF-GAFI, 2001). These countries had to enhance their performance and regulations in line with the FATF recommendations, to be removed from the FATF list. Currently, there are only two non-compliant countries — North Korea and Iran — out of 190 jurisdictions (FATF, 2021). Moreover, according to the UN Security Council monitoring team (2020: 15), 83% of states member revised their CTF national laws, particularly during 2015-2019. These numbers reflect how the global governance system, by means of incentivising instruments, can change states' behaviour and enforce compliance with its non-binding norms among its members and non-members.

Several studies have attempted to assess the outcome of compliance with the multilateral AML/CTF measures at the national level, including within developing countries and offshore centres. For example, Sharman (2008) pointed out the negative impact of AML/CTF

measures on financial offshore centres (Barbados, Mauritius and Vanuatu) due to the increased cost of compliance incurred in meeting the international standard that overrides their benefits in both public and private sectors. The most interesting statement from those financial centres was that they only applied those measures because they wanted to maintain their reputation and were afraid of being listed as a non-cooperative country at the global level. The cost of compliance not only represents a significant challenge to offshore centres, but it has also resulted in different unintended consequences in developing countries, wherein the size of the informal economy is substantial, and many individuals remain unbanked or undocumented (Vlcek, 2015: 413). According to Sharman (2011), the cost of compliance with AML measures exceeded the benefits in developing countries —the benefits of maintaining the integrity of the financial system and the private sector credibility and reputation, wherein such policies should benefit society and exceed their imposed value.

Moreover, it was recognised that in some cases there was a lack of transparency when banks, for example, excluded some firms in high-risk countries from their services because they did not have sufficient justification to comply with those regulations, rather than examining the ML/TF risks individually according to the situation of each case — known as the act of de-risking (Lowery and Ramachandran, 2015). Such de-risking behaviour could lead to more poverty and less economic growth. For instance, preventing migrants from using banking services to transfer money to their families pushed those migrants to use other expensive channels or institutions that have lax regulations and cannot mitigate the risk of ML/TF (Lowery and Ramachandran, 2015). Furthermore, small and medium-sized firms faced a challenge in accessing finance because their local banks were recognised as high-risk institutions, which are prevented from dealing with international banks and gaining access to the global financial system (viii). Moreover, people in disastrous situations or high-risk countries needed humanitarian aid, whereas humanitarian organisations reported difficulties in operating under the current CTF measures (35-48). McGough (2016) highlighted the economic impact of the "de-risking" approach upon "financial inclusion" — especially in developing countries — when the FATF or foreign national regulators list a state as a non-cooperative country. As a result, the identified state's financial institutions are prevented from gaining

access to international financial system services (McGough, 2016). The increased risk of de-risking explained in this section is considerably alarming with respect to moving the risk of ML/TF from institutions adopting this behaviour to another financial institution or informal sector. As such, the risk of ML/TF is transferred but neither tackled nor prevented— It will be illustrated within the context of the fieldwork data (sections 5.5.3, 6.5.3)

In conclusion, this section underlined the challenge of the cost of compliance with the FATF international CTF regime, particularly in developing countries and financial centres. The literature suggests that the reputational cost of being listed as a non-cooperative country by the FATF is a significant motivation for states, including financial institutions, to comply with the FATF regime. Nevertheless, Haas and Bilder (2003: 43-44) illustrated the need to consider what other factors challenge or motivate compliance because global competition in the private sector introduces gains and incentives to uncoordinated or less committed firms. Besides the increasing concerns surrounding the cost of compliance, monitoring, and building capacity, which were found in many cases to be higher than AML/CTF policy benefits (Shelton, 2003: 13; Sharman, 2011).

This thesis aims to contribute to the aforementioned literature by answering the research's second main question — Why do the actors involved in the implementation of the international CTF regime comply (or not) with the requirements of the regime? — and its sub-questions: What is the actors' motivation or incentive to implement and comply with the regime requirements? And to what extent do the examined states comply with the regime requirements? "A central feature to interpreting social actions entails assigning motivations and intentions for the said social actions" (Ponterotto, 2006: 542). In light of this, understanding actors' motivation to comply with the AML/CTF measures is essential when it comes to capturing the actual reasons that prompt them to choose either the minimum or the maximum level of compliance with the regime's requirements.

2.6.3 Gap of knowledge (asymmetry of information)

The collective knowledge gap in counter-terrorism strategies started with the global problem within the UN system to defining terrorism, as well as what we know about terrorism and terrorist networks (Weiss, 2013: 62-70). Within the context of terrorism, it is mostly explained as an "asymmetry of information" (Keohane, 2002: 276-277). Reinicke (1998: 140) commented in terms of AML that "The resulting information asymmetries have drawn policymakers into a regulatory dialectic, forced to respond to these [money launderers] changing tactics on an almost continuous basis". Effective implementation of CTF regulations requires exchanging experience and knowledge at both national and international levels. The FATF raised the same prominence in its 2016 plenary, wherein it necessitated the "focus on enhancing effective exchange of information" (FATF, 2016b).

Nevertheless, understanding TF has evolved only since the 9/11 attacks, and as of now, there remains a lack of information thereupon, which constrains officials and financiers with respect to completely understanding and tracing how terrorists run their organisations financially, especially before carrying out their attacks. Passas (2007: 22) pointed out that knowledge around the nature of TF continues to be uncertain because we have incomplete knowledge in this domain. For example, the US staff report (2004: 13) conveyed that: "The nature and extent of Al Qaeda fund-raising and money movement make intelligence collection exceedingly difficult, and gaps appear to remain in the intelligence community's understanding of the issue". Similar to the case of Al-Qaeda, the same challenge persisted in developing a comprehensive understanding of ISIL's financial network and identifying effective measures with which to counter and disrupt ISIL's collected funds (FATF, 2015b: 5). Eventually, even if the required information is available, until it is collected and examined, it will be less valuable or adequate for law enforcement (Strange, 1998: 125; Williams, 2007a: 86-88). Furthermore, in practice, domestic financial intelligence units may engage in scant information sharing with other foreign units due to weak compliance with reporting requirements, privacy rights, or the lack of trust in some cases (Barrett, 2012, 734-735; Rudner, 2006: 49-50).

This thesis does not; however, address the knowledge gap as a gap that is separate from the implementation and compliance gaps. Collecting and exchanging information related to

terrorists' financial transactions is the cornerstone of the FATF CTF regime. The necessity of gathering and sharing information related to ML/TF transactions within the FATF network is reflected in 25 of the FATF 40 recommendations (FATF, 2018c). From this perspective, this thesis presumes that by implementing and complying with the FATF regime requirements in this respect, the knowledge gap should be improved.

In order to contribute to the existing literature concerning this gap, this thesis attempts to examine the role of financial intelligence performance in exchanging information between the public and private sectors, as well as its relationship with the perception of regime effectiveness and outcomes (sections 5.5.4, 6.5.4, 7.5.4).

2.7. Questioning the effectiveness of the global CTF regime

This section illustrates the literature relevant to the last question of this thesis: How is the effectiveness of the CTF regime perceived by the practitioners? It discusses the growing argument among officials and experts surrounding the effectiveness of the CTF regime at both domestic and international levels.

Since the global implementation of CTF measures started in late 2001, the effectiveness of these measures has been questioned. One of the major challenges recognised with respect to effective CTF is its implementation in unstable countries such as Iraq and Syria, wherein terrorists, such as ISIL, have acquired significant resources for a long period of time (Ryder, 2015: 179-182). This is in addition to implementation of CTF measures in less regulated states with the technical inability to identify and apply these measures at the national level. Based on Levi's (2010: 657) interviews with financial institutions with respect to compliance, it was inferred that banks' "concerns about terrorism are real", but that they need guidance so as to determine which transactions raise the suspicion of terrorist funding. Nonetheless, the primary challenges with respect to implementing AML/CTF in financial institutions have been recognised as the increased cost of compliance and the uncertainty as a result of the

doubt surrounding the effectiveness of CTF measures and their actual implementation in practice (e.g. Clunan, 2006: 569; Tsingou, 2005: 11; Sharman, 2011: 7-52).

Several studies conducted to examine the effectiveness of CTF have found no coherent and empirical evidence that validates the effectiveness of the regime. For example, (Ryder, 2015; Giraldo and Trinkunas, 2007) studies concluded that there has been no solid evidence thus far indicating that the CTF regime has achieved its goals. Rudner (2006: 49) referred to that effective CTF depends on the performance of financial intelligence units, which requires vigorous law enforcement, cooperation, and the exchange of information between financial institutions at both domestic and international levels. (Navias, 2002: 66; Martuscello, 2011: 368-372; Sinha, 2013: 152-153) argued that with regard to enforcing CTF measures on the same mandate of AML, these measures are not effective enough in condemning and prosecuting terrorists and oppressively affecting financial institutions. Similarly, Passas (2007: 36) argued that some of CTF measures (e.g. asset freezing) are not only ineffective in increasing transparency and prevention of TF, but they could also be counterproductive. That is because different cases of funds and assets that have been frozen are constructed from suspicion and allegation rather than solid evidence.

Moreover, the legitimacy of the FATF itself has been also questioned (Tsingou, 2005: 9-11). The FATF attempted to build its legitimacy through persuasion and including new members and establishing its Style Regional Bodies (SRBs), as well as non-state actors' participation and contribution (Hülsse and Kerwer, 2007: 631-637). As a result, the FATF enhanced the formal global compliance with CTF measures. However, the FATF organisation aims not only for its member states' compliance with its AML/CTF standards, but also that of non-member states, despite being excluded from the decision-making process (Hülsse and Kerwer, 2007: 630-638; Goldbarsht and Harris, 2020: 836). In this manner, such formal compliance does not necessarily reflect actual or effective compliance and enforcement (Hülsse and Kerwer, 2007; Goldbarsht and Harris, 2020). The legitimacy of the FATF here is relevant to the global governance approach (Zürn, 2018: 4). The global political system comprises three interconnected levels: common norms and principles; specific political institutions, which could be international but still should carry both authority (not based on

coercion or persuasion) and legitimacy; and interactions between different authorities within the global system (2018: 7-10). In other words, when international institutions serve the benefit of its members and major powers (due to authority holders and the lack of legitimation), inequalities among the other states occur.

Nevertheless, (Hale, Held and Young, 2013: 96) commented that, despite the lack of consensus concerning terrorism definition, the CTF regime could still be perceived to be a successful case in the multilateral efforts to tackle terrorism. From the perspective of officials, CTF measures were deemed to be the most successful and effective component of global counter-terrorist efforts. For example, Benjamin (former National Security Council Director for Transnational Threats during the Clinton administration, cited in Clunan, 2006: 569) reflected that global cooperation against TF "has been the most successful part of the global community's counter-terrorism endeavour since the Al Qaeda 11 September 2001 attacks". In the same manner, Barrett— a former British diplomat and an expert on terrorism — highlighted the importance of CTF regulations in constraining fundraising and the movement of money to terrorists from donors, which is one of the indirect reasons as to why terrorists lose their credibility, and which challenges them to deliver what they have promised their advocates. What is more, these regulations are vital in educating and guiding financial sector actors in protecting the integrity of the financial system from terrorist abuse. Nevertheless, Barrett underlined the existing gap in implementing CTF in practice in the lack of guidance and information regarding the trends and patterns of terrorists, as well as in challenges with respect to identifying terrorists' transactions. This gap could be tackled through promoting partnerships between governmental agents "who know about terrorism" and private sector actors "who know about finance" (2012: 729).

In conclusion, this section illustrated the debate around the FATF CTF regime effectiveness. Within the scope of the present thesis, which focuses on implementing international CTF measures in different national contexts, there is a need to analyse the current challenges faced by financial institutions regarding compliance with CTF requirements. So that these measures address the identified challenges to achieve more effective implementation and outcomes.

Moreover, it was suggested (Sinha, 2013: 152-153) that policies need to be constantly revisited to identify how terrorists change and renew their methods of funding their activities.

The following chapter will illustrate the major identified typologies of TF at the global level that are updated and presented by the FATF. However, chapters 5-7 will demonstrate that understanding and addressing the risks associated with typologies of terrorist funding at the national level varies from one state (and sector) to another. Said chapters will also examine the practitioners' perception of the CTF regime's effectiveness (sections 5.5.7, 6.5.7, 7.5.6).

2.8. Locating CTF with global governance and research position

Heng and McDonagh (2008) identified the theoretical framework of FATF practice within the context of Foucault's notion of governmentality. The notion of governmentality is different from the approach of governance, as it is concerned more with what and how governance operates than who governs (Wesseling, 2013: 43). Therefore, Heng and McDonagh's framework focused on how TF is globally regulated rather than the CTF measures and their effectiveness. Governmentality describes how power is exercised within a state. It concerns employing "tactics rather than laws, and even of using laws themselves as tactics – to arrange things in such a way that, through a certain number of means, such and such ends may be achieved" (Foucault, 1991: 93-95). In the context of the FATF regulations, governmentality is exercised by delegating implementation of the FATF regulations to non-state actors such as banks and corporate service providers (Sharman, 2011: 170). In this approach, the FATF governs through best practices and promoting knowledge and learning among its network (Acharya, 2009: 165).

Nance (2018) analysed the FATF network as a form of experimentalist governance. Sabel and Zeitlin (2008) introduced the framework of experimentalist governance as a multilevel mechanism of problem solving, which counts on multiple actors who create, evaluate and re-examine global measures for the sake of developing knowledge and best practices to solve a global challenge. They define it as "a recursive process of provisional goal-setting and

revision based on learning from the comparison of alternative approaches to advancing them in different contexts" (Sabel and Zeitlin, 2012: 169). Experimentalist governance is processed through different stages of governance. First, pertinent actors such as governments and international institutions set specific goals, e.g. AML and CTF, and design metrical mechanisms with which to measure progress, e.g. FATF mutual evaluations. Thereafter, lower-level units such as regulatory and competent authorities are compelled to implement a set of regulations in order to meet those goals according to their appropriate procedures at the national level. Third, those units should report regulations and arrangements made by them to the peer-review process so as to measure progress and share practices with others. Finally, policies will continuously be revised in light of units' performance and any new challenges or trends recognised through the evaluation process (Sabel and Zeitlin, 2012; Nance, 2018).

In the same mainstream of multilevel actors within the FATF network, Jakobi (2018) perceived the CTF regime as a branched network of "multi-nodal governance" due to its wide-ranging governance arrangements and actors. The author argued that CTF standards became a significant global governance model in the financial battle against terrorism, especially in security governance instead of conventional international security such as military intervention. Furthermore, de Oliveria (2018) explained the increasing power of the private sector within the context of the FATF regime. The author argued that although the G7 states established the FATF to serve their economic and security purposes, due to various security threats that appeared, new powers such as the private sector became major actors — but did not replace the major powers — in the global governance approach.

Acharya (2009) used theories on international cooperation to systemically analyse a comprehensive understanding of cooperation dimensions within the context of CTF as an issue of collective action. Acharya's study aimed to offer a theoretical explanation as to why cooperation among states continues to be lacking in CTF. The author, ultimately, argued that lacking cooperation in this domain is not due to institutions' failure in balancing the benefits from cooperation with the cost of compliance, but rather to a lack of states' political will (which is conditioned by their domestic interests). As a result, the willingness of other

international community members has been affected with regard to effectively cooperating in implementing the global CTF measures.

In the same vein, this thesis explores the FATF international CTF standards as a global governance network that facilitates international cooperation in solving the common global problem of TF. However, rather than solely employing theories of cooperation and international regimes, which are often state-centric, it considers the roles of both state and non-state actors using regime theory and theories of motivation. This thesis does not; however, focus on the role of hegemonic or major states that govern the CTF regime, but rather on what is governed and how, since it focuses on the FATF CTF measures themselves as a form of global governance and how they are implemented at the national level. Nevertheless, this thesis interprets the FATF CTF regime as an imposed regime that was established by the G7 states, with its requirements being obligatory to other states at the global level due to FATF members' soft tools of persuasion and ranking non-compliant states. These tools include the FATF's call for its members to limit or prohibit financial transactions with non-compliant countries to protect the international financial system from the risk of TF (FATF, no date, e). The G7 states established the FATF in 1989 to combat ML and expanded its mandate in 2001 to include CTF and protect the integrity of the international financial system. Furthermore, the FATF was supported by the international community, including the UN and the G20 leaders (FATF, no date, f). For example, the United Nations Security Council significantly advocated FATF patterns, strongly urging:

> All Member States to implement the comprehensive, international standards embodied in the Financial Action Task Force's (FATF) Forty Recommendations on Money Laundering and the FATF Nine Special Recommendations on Terrorist Financing. (Resolution 1617, 2005).

As a result, implementation of the FATF CTF requirements became an obligation and commitment to non-member states, as well as non-state actors such as financial institutions and non-financial businesses and professions. For this reason, this thesis perceives the role of international institutions such as the FATF is essential to monitoring states' compliance with the global CTF regime and reducing the probability of defection (Shelton, 2003: 2).

Otherwise, states having lax control of their financial system or having loose implementation of CTF measures could lead to terrorist funds simply moving from regulated states to an alternative financial system (Gardner, 2007: 328; Napoleoni, 2006: 61; Heng and McDonagh, 2008: 558). Furthermore, States could easily adopt international policies and norms, but the difficulty lies in applying a domestic institutional change, especially when there is a high cost of compliance (Clunan, 2006: 573).

In conclusion, this thesis does not dismiss the current CTF policies due to their AML basis and complications (sections 2.6.1 and 2.7), remarkably, since no other alternative regimes were suggested in the critical literature to replace the currently implemented AML/CTF measures. In the contrary, it has been recognised (e.g. Barrett, 2012: 732) that the perception of CTF measures' disproportionality threatens any progress made in disrupting terrorist funds. As such public consciousness, financial institutions, and compliance officers would lose their interest and be less motivated in implementing the aforementioned measures. Although the FATF CTF measures are nonbinding norms by nature and non-compulsory, per se, these norms have been translated into binding rules at the national levels by the FATF member and non-member states (chapter 8). The reasons for the FATF international standards being introduced at the global level as nonbinding norms are mainly related to the diversity of states' legal and financial systems. In this way, they enable more flexibility in amending those norms according to the constant changes in the financial market and the typology of terrorist financing (Simmons, 2003: 262; Abbott and Snidal, 2000: 441-446). These findings render the implementation of the FATF international standards a reflexive and uniform rule of the global governance approach. Above all else, the FATF CTF regime represents a vital global network or a "network of networks of financial regulations" of official and private actors who meet periodically to exchange information and functional experience with respect to cases and typologies of ML and TF (Slaughter, 2004: 54, 132). Eventually, understanding global governance in the twenty-first century not only concerns multilateral cooperation between states, but also, and more significantly, concerns understanding the global network, including the role and interaction of the network actors involved in the implementation of international norms (Keohane and Nye, 2000: 26).

Therefore, this thesis examines state and non-state actors' roles, perceptions, interactions, and motivations within the context of the FATF AML/CTF network.

2.9. Conclusion

The present chapter discussed the literature on establishing international regimes as a form of global governance to solve specific common problems, such as TF, and linked international regime theory to theories of motivation. Furthermore, it discussed the central debates in TF literature and addressed the gaps in both global governance and CTF. It reviewed different perceptions of the CTF regime's effectiveness and the critical challenges that constrain the successful implementation of, and compliance with, the regime.

The literature discussed in this chapter illustrated the contested and blurry perspectives on the CTF regime effectiveness. The said discussion guided this thesis to explore the effectiveness of the CTF regime as the central gap in the literature that requires further research. However, rather than evaluating the regime's effectiveness as the many attempts indicated previously in this chapter, this thesis aims to explore what elements have contributed to this debate. Evaluating the effectiveness of CTF policies without sufficient statistics or data regarding the policy outcomes has been a significant challenge to several scholars and researchers (e.g. Sharman, 2011; Giraldo and Trinkunas, 2007). My thesis, therefore, aims to answer the question of effectiveness in terms of the implementation and compliance of policies. In order to do so, I interviewed different practitioners of the CTF regime in three national contexts (the UAE, Egypt and the UK) so that I understand: How is the FATF CTF regime implemented? And What facilitates or challenges the successful implementation of the requirements of the regime and its effectiveness? Examining gaps of implementation and compliance within the FATF CTF regime will identify whether the perception of effectiveness is contested due to implementation failure at the national level, the increased cost of compliance, or other unforeseen factors. Meanwhile, some challenges identified in the literature are eliminated due to national and international reforms of CTF policies, including national legislation reforms. Therefore, it would be implausible to judge the CTF global

regime design or effectiveness without considering how the regime is implemented at national levels, including states and non-states' role in implementing the regime requirements.

Nevertheless, this research's puzzle is why actors involved in the CTF regime network comply with its requirements while the regime's effectiveness is uncertain? What is lacking in the literature is a thorough examination of non-state actors' motivations and reasons to comply with the FATF CTF regime. This thesis, therefore, aims to employ theories of motivation to answer Why do the involved actors comply (or not) with the FATF CTF regime requirements? The purpose of my approach is to contribute to the literature on what encourages regime actors to comply with its requirements, especially with the regime's associated cost of compliance and the uncertainty surrounding its effectiveness.

Chapter 3

Terrorist Financing and the FATF Recommendations

3.1. Introduction

The preceding chapter illustrated the argument surrounding the effectiveness of the global response in countering terrorist financing (CTF) activities, including gaps in implementation, knowledge, and compliance related to the FATF global CTF regime. For example, the implementation gap underlined how global CTF policies were established on the FATF anti-money laundering (AML) measures associated with criminal proceeds and illegitimate sources of generating funds. It also addressed the importance of states and financial institutions' legal and technical capacity to implement the requirements of the CTF regime. The aforementioned factors were perceived to be challenges constraining the successful implementation of, and the effectiveness of, global CTF policy. These are in addition to the knowledge gap and information asymmetry regarding terrorist financing (TF) networks and detecting suspicious transactions related to TF.

The present chapter is divided into four sections. Despite what has been discussed in the literature review chapter concerning cheap terrorism, the first section here explains terrorist group objectives that require a large amount of money, stressing the importance of implementing a global CTF regime to disrupt terrorist funds and networks. The second section describes how terrorists raise funds and highlights how their collected funds are still related to organised crime. Although it explains how terrorists use legitimate channels or self-funding methods to raise their required funds, it also underlines that terrorists still use illegal channels. Such a case increases the probability of detecting their transactions through current AML/CTF measures (Acharya, 2009: 67; Picarelli and Shelley, 2007: 51). Furthermore, it could be argued that even when terrorist groups use legal sources of funding, they still need to engage with criminals who can provide logistics and facilitate their requirements for executing an act of terror (The FBI, 2008). In light of this, tracing organised crime and its

criminal proceeds through AML measures could indirectly disrupt the activities of terrorist organisations. This is not to claim the effectiveness of the current AML measures in CTF, but rather to offer a thorough understanding of TF typologies and highlight the limitations of CTF policies. In other words, such an understanding could anticipate when the implementation of global CTF policies will be successful and when they will be challenged or inapplicable, such as in the cases of terrorist extortion of territories under their control, or self-funding through individual terrorist incomes.

The third section describes the vulnerabilities within the international financial system that facilitate both ML and TF, requiring the implementation of AML/CTF measures by all states to protect the integrity of the international financial and trade systems. It highlights how terrorists, even when they generate their required funds through legitimate sources, similar to money launderers, still use the vulnerabilities within the international financial system to move and disguise their money. Once again, such a case increases the probability of detecting or (at the very least) disrupting terrorists' financial activities by implementing the current AML/CTF regime. Nonetheless, due to the increased global regulatory focus on the formal sector, the significant challenge in CTF would be when terrorists collect their funds through legal channels and then move and disguise them through the informal financial system or deregulated sectors (Passas, 2007: 30). In this way, the diverse channels used by terrorists in generating and moving their money reduce their risk of being detected by law enforcement agencies (Picarelli and Shelley, 2007: 51-52).

The final section explains the key FATF global recommendations introduced to tackle TF. The purpose of the final section is to offer an understanding of the essential measures adopted by states. In chapters 5–7, the analysis of data collected for this thesis will illustrate how individual states vary in implementing these measures. The final section, together with the findings of this thesis from data collected by means of fieldwork, would eventually enable identifying key elements that challenge or facilitate a successful implementation of the global CTF regime at national levels.

3.2. Why pursue terrorist funds?

This section illuminates why terrorists need fund and underlines the importance of a global approach that aims to disrupt terrorist fund required for their operations and global network. According to different officials and scholars (e.g. Zarate, 2013: 29, 49, 64; Acharya, 2009: 32, 38; Gardner, 2007: 327-328; Williams, 2007a: 82-87; Koh, 2006: 10-11; Aufhauser, 2003; 9/11 Commission Report, no date: 382), the current CTF regime helps not only in disrupting the process of terrorist groups collecting money, but also in deterring the expansion of terrorist organisations and helping during the investigation process to define terrorist locations through paper trails and trace the origin of their financial transactions. With this in mind, CTF policies have introduced and enabled new domains for the perception of global security (Jakobi, 2018) — or speculative security (de Goede, 2012: xx). For instance, in 2008, a local bank in Bahrain helped in arresting one member of the Rajah Solaiman Movement (RSM) when he applied for a loan while his name was listed on a UN-sanctioned list (ABS-CBN News, 2008). In this way, the CTF regime contributes to filling the gap of information asymmetry about terrorist groups network. Juan Zarate — who served as the deputy assistant to US president and deputy national security advisor for combatting terrorism—revealed how financial data guided investigative authorities in closing the information gap in many cases and arresting terrorist leaders and preventing imminent attacks. Such as those targeted New York airport and US bases in Germany in 2007 and the Asia-Pacific Economic Cooperation (APEC) summit in Thailand in 2003 (2013: 64-65). The latter case showed how financial data were used in tracing Hambali, one of Al Qaeda terrorists who participated in organising a terrorism act in Bali in 2002. By tracking his financial data, the Thai police located and put him into custody before he could execute a planned attack on the (APEC) summit in 2003. Another example is the financial investigations into the bombing attempt at Time Square in 2010 that helped track and criminalise two unlicensed money transmitters who facilitated transferring $11,900 from Tehrik-e-Taliban Pakistan (TTP) to the perpetrator Faisal Shahzad (The FBI, 2010b).

Despite the widespread perception that terrorist attacks do not require a large sum of money, statistics and terrorist testimonies have shown that the costs of some attacks, e.g. the 9/11 attacks and the Madrid bombings, were miscalculated and did not account for expenditure on recruitment, training and living (Zarate, 2013: 63-65; Acharya, 2009: 32, 38). This is in addition to the affirmation of Michael Chandler, who was head of the U.N. panel established to introduce financial sanctions against Al-Qaeda and the Taliban during the period of 2001–2004, stating:

> We mustn't be wooed into the idea that because attacks are costing less and less, that there isn't a need for money, or that it isn't being provided. It's not just the money they need to make the explosive devices. It's the money they need for other things: to support the network, to recruit and to train (cited in Whitlock, 2008: 4; Acharya, 2009: 32).

Therefore, terrorist groups need operational and organisational funds to pursue their goals and spread their ideology. Operational funds include the money needed for perpetrating a specific attack, while organisational funds are the day-to-day funds needed for maintaining the organisational infrastructure, such as for training camps, recruitment salaries, propaganda and communications, and logistics (Acharya, 2009: 24-28). Recruitment, in particular, is crucial for the existence of terrorist organisations, and varies from one terrorist organisation to another. Its cost is determined by several factors such as the techniques of recruitment (FATF, 2018a: 3-7). However, the recruitment process itself requires considerable starting amounts of funds, as represented in the costs of recruiters, militant travel and accommodation expenses, issuing counterfeit identification, phone cards, food, clothes, healthcare, and renting sites to hold meetings (18-19).

Furthermore, terrorists need funds for social activities to gain people's support and expand their ideology and networks of adherents through providing social aid and services such as building mosques, schools and clinics and helping people in need and families of fighters killed in operations (Koh, 2006: 14-15). Besides, large terrorist organisations fund and back other terrorist groups who cannot collect enough money for their activities, which is described by Gunaratna (2004: 91) as the 'Ford Foundation of terrorism' — in a similar vein,

researchers present projects to be funded; after the funder has reviewed them, some of these projects are accepted for funding and others rejected.

Terrorist organisations also need funds to keep up with the most up-to-date technologies, which improve their ability to recruit new fighters, spread their ideology, as well as fundraise (Rudner, 2006: 37; Sardarnia and Safizadeh, 2017). For example, ISIL uses a variety of technological techniques including polished websites, encrypted messages, online portals, digital magazines, the production of video games used in recruitment and training, and mobile applications used for communication (Sardarnia and Safizadeh, 2017).

Moreover, there is a wide belief that large terrorist groups such as Al-Qaeda and ISIL are ambitious with regard to developing weapons of mass destruction (WMDs) (Hummel, 2016). The international community has acknowledged such a threat. For example, the U.N. General Assembly has issued several resolutions since 2007, such as resolutions A/RES/72/42 (2017), in addition to Security Council resolutions such as 2325 (2016) and 1540 (2004) to argue for its state members taking all measures and making all efforts needed to prevent terrorists from developing WMDs or obtaining radioactive materials (United Nations Office for Disarmament Affairs, no date). For this reason, substantial finance is also considered a key element enabling terrorists to obtain the materials and experts required for acquiring WMDs.

With that being the case, even though an individual act of terrorism does not necessarily require a large sum of money, financing remains important to the persistence of terrorist groups. According to some leaked documents published online in October 2015, there was some speculation about ISIL monthly cost being $5,587,000 (Al-Tamimi, 2015). Therefore, applying appropriate financial measures to combat TF is crucial to disrupting and deterring terrorists' goals. CTF measures would isolate them from the formal international financial system and making it challenging for them and their adherents to collect and move the necessary funds for their organisation's survival. However, as will be explained throughout this chapter, with such financial pressure on terrorists, they innovate with new channels to develop their fundraising and leaning more on self-funding. Ultimately, the success of CTF

measures still relies mostly on state and non-state actors' cooperation in implementing global CTF objectives.

3.3. Sources of terrorists' funds: How do terrorists raise funds?

The US staff report pointed out that:

> Because of the complexity and variety of ways to collect and move small amounts of money in a vast worldwide financial system, gathering intelligence on al Qaeda financial flows will remain a hard target for the foreseeable future (2004: 13).

Similarly, Giraldo and Trinkunas (2007: 10-11) indicated the challenge of implementing CTF measures due to the complexity and diversification of TF typologies, together with the growing size of terrorists' financial networks in light of the increased levels of globalisation and the integrated international financial system. Such a case emphasises the implementation gap, including the knowledge gap and the information asymmetry. The implementation gap highlights the difficulty that states face in implementing CTF policies due to the diversification of terrorist groups' financial networks, not only due to states' technical and financial incapacity. Nonetheless, as Passas (2007: 22) argued, "the uncertainty about which means of fund-raising and fund transfer are preferred by terrorist organizations has serious consequences when it comes to constructing policy, developing enforcement mechanisms, and allocating resources to countering such activities". This section aims to offer a thorough understanding of the most recognised methods used by terrorists to raise funds.

Terrorists' expenses and sources of income depend on their organisational structure and location (Acharya, 2009: 46-49). Therefore, terrorists' needed funds may vary from one group to another; however, the methods and techniques that they use to collect and move their money are almost similar. Sources of terrorists' funds could be explained in five typologies: state sponsorship, extorting territories under terrorists' control, fundraising through public donations, and self-funding through legitimate and illegitimate channels.

Nevertheless, these typologies are not exclusively used, as it is explained in the preceding chapter, it is still challenging to comprehensively identify terrorist groups' financial network.

3.3.1 State sponsorship of terrorism

Reaching a global consensus on the definition of state sponsorship of terrorism has the same difficulty as that of defining terrorism, therefore, it still has no standard definition (Maogoto, 2003: 8). Hoffman (1998: 23) defined state sponsorship of terrorism as "the active and often clandestine support, encouragement and assistance provided by a foreign government to a terrorist group". A state sponsorship act is recognised when a regime supports a non-national terrorist group through resources, materials, logistics and funds required for terrorist activities (Byman, 2005). States could support terrorists also by providing them with a safe haven or diplomatic recognition (53-78). There is also passive sponsorship, wherein a regime wilfully allows or has a lax system that allows its citizens to support terrorists but the regime itself is not involved (33-35).

In many cases, the state would adopt the strategy of sponsoring terrorist groups for reasons related to its domestic politics, but it also could have strategic or ideological purposes (Byman, 2005: 21-52). Nevertheless, despite the vast belief that state sponsorship of terrorism is a significant cause of terrorism, it has been argued that it is not the root cause (Richardson, 2005: 189-197). It may strengthen the terrorist group's subsistence but defeating state sponsorship of terrorism will not end terrorists' ideology and objectives (189-197). Various officials (e.g. US Department of the Treasury, 2015: 17–18; US Bureau of counterterrorism, 2018: 218; FATF, 2015a: 20) have stated that different designated terrorist groups are still funded by state regimes, such as Iran's support for Hizbullah through millions of dollars yearly. However, both officials and further researchers have affirmed that state sponsorship of terrorism is in decline (e.g. Passas, 2007: 24; Acharya, 2009: 53; Hardouin, 2009: 205). There is a general concurrency that state sponsorship has been declining due to global collaboration and solidarity, specifically after the 9/11 attacks, including the sanctions and measures imposed upon rogue states that support terrorism (Ryder, 2015: 13). Another

reason for the decline in state sponsorship is the typology of the relationship between the sponsor state and the sponsored terrorist group. Bapat (2012) explained how a sponsor state can lose control of its sponsored terrorist group or risk different consequences of its sponsorship. Moreover, terrorist groups, especially sturdy and well-structured groups, would prefer to be independent of sponsor state control (Carter, 2012; Acharya, 2009: 53). Ultimately, a fundamental reason for the decline in state sponsorship could be that contemporary terrorist organisations rely more on self-funding sources from legitimate and criminal activities, as will be illustrated in the next elements.

3.3.2 Extorting territories under terrorists' control: The example of ISIL

Terrorists take advantage of the resources available in territories under their control to generate their funds. For example, in Syria and Iraq, wherein the Islamic State of Iraq and the Levant (ISIL) group deems itself to be a state government, not a terrorist organisation, it generates revenue from citizens under the name of 'Zakat', 'charitable giving', and 'taxation'(FATF, 2015b). These are in addition to illicit trading in natural resources and looting activities (13-16). It was estimated that ISIL annual revenue from Iraqi and Syrian land in 2014 to be the second-highest income after oil at $200 million (Levallois, Cousseran and Kerrello, 2017: 17). This is in addition to ISIL income from oil in Iraq, which was estimated in 2015 to be 250–600 million dollars (9).

Furthermore, ISIL has been involved in several criminal activities such as bank theft, human trafficking, especially of women and children, and the illicit trade of artefacts and antiques. ISIL robbed $425 million from the Central Bank of Iraq in 2014 and vital money supplies from other banks in Iraq and Syria, in addition to undertaking different extortion activities and ransoms from kidnapping civilians and leaders, arms, and artefact contraband (Financial Times, 2014). Thus far, there has been no sufficient information on how much ISIL gains from human trafficking. However, ransoms could be as low as $13 per individual, but they have reached in some cases $3,000 for a woman (FATF, 2015b: 13). ISIL also gains money from trading in cultural artefacts and antiques on the underground market, either by selling

the antiques that they have stolen and acquired or from taxes imposed upon smugglers who pass by the territories under ISIL control (Levallois, Cousseran and Kerrello, 2017: 17). The value of money that ISIL has gained from stolen antiques is not known, but in Syria, it is estimated to be tens of millions of dollars (Andrew, 2015).

In 2014, it was estimated that ISIL's capital had grown to over $2 billion in assets (Financial Times, 2014; Ryder, 2015: 17-18). However, since 2017, ISIL has been largely defeated and lost almost 98% of its controlled territories due to the international coalition strategy included launching air strikes on ISIL-controlled oil refineries, which, in turn, disrupted this source of income. (BBC News, 2019; Wilson Center, 2019). The latest estimation of the ISIL budget had dropped in 2016 to $870 million (Levallois, Cousseran and Kerrello, 2017: 14). Nevertheless, the group is still active and periodically executes different terrorist attacks, including significant attacks in Syria and Iraq in 2020 (Dent, 2020). This implies that the group is still able to run its operations financially.

To sum up, ISIL could be deemed a significant case study of a terrorist group that expanded and gained its wealth from self-funding sources and looting territories under its control, and unlike Al-Qaeda, it did not rely on donations or foreign contributions. Notwithstanding, the ISIL group has been defeated and lost significant territories because ISIL could not run its activities without funding while the international coalition was targeting its sources of funding, rejecting paying ransoms, and applying sanctions against the group's leaders (The Economist, 2015). Nonetheless, in the explained cases here, it could be understood that the current global CTF regime does not yet address such terrorist financing methods. It could also be argued in the ISIL case that without the international military intervention against its source of funding, the group would not lose its major source of income. This implies that the implementation of the CTF regime is not applicable in such a case to deal with terrorist groups financing.

3.3.3 Fundraising and public donations

Fundraising through the abuse of charitable organisations and direct public donations is one of the most popular sources of terrorists' fund. It could vary from one terrorist group to another, e.g. donor contributions do not count for ISIL as a primary source of income, compared with other sources such as oil extraction and taxation (FATF, 2015b: 18). However, the US Department of the Treasury (2015: 44) stated that individuals have funded 33% of terrorist financing cases since 2001. As for Muslim terrorist groups, they managed to manipulate and influence a wide range of the Muslim community to donate to their organisations — wittingly or unwittingly — for public good and promoting religious beliefs, e.g. through collecting Zakat. This method is notably misused by terrorists and is challenging for officials and financial institutions to trace because it does not usually raise any suspicion and is not considered that of criminal proceeds (Koh, 2006: 22). It is also not globally practised by charitable organisations to provide donors with documents that can explain how or by whom their money will be used or publish detailed reports of all projects or individuals they finance (Commonwealth Secretariat, 2006: 15; Acharya, 2009: 56).

Charities are a significant form of a sociable non-profit organisation that aims towards public good and helping people in need, especially in developing countries and conflict zones. A non-profit organisation (NPO) is defined as "a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of good works" (US Department of the Treasury, 2015: 35). For this reason, governments facilitate the establishment of these organisations and reduce their cost of business through fewer constraints in their operations and tax exemption (Bolleyer and Gauja, 2017: 655,660). However, since the 9/11 attacks, several measures have been imposed upon NPOs to protect them from terrorist abuse (including FATF special recommendation number 8). Therefore, although the international community acknowledges the advantage of NPOs in providing humanitarian needs and that not all NPOs are at risk of being abused by terrorists, it also recognises the importance of applying the appropriate regulations and sanctions against NPOs that have a link to terrorist groups (FATF, 2014a: 2).

The FATF members acknowledged the risk of charities and non-profit organisations in the FATF's statement that: "the misuse of non-profit organisations for the financing of terrorism is coming to be recognised as a crucial weak point in the global struggle to stop such funding at its source" (FATF-GAFI, 2008: 11). Additionally, several case studies raised by different authorities to the FATF in 2014 noted the role of internal actors in NPOs in transferring funds to terrorists and NPOs' support for terrorists' recruitment (FATF, 2014a: 5, 37-44). Moreover, the risk of the abuse of NPOs by terrorists is recognised higher when the organisation is located in territories under the control of terrorist groups. For example, the UK Charity Commission raised the same concern in 2017 regarding the high risk of terrorist organisations abusing charities, especially in crisis zones, where the number of related allegations reported to the commission escalated during three years from 234 to 630 cases (Hope, 2017). Nevertheless, some human right adherents and NGOs reported the difficulties caused by CTF regulations, which can delay the humanitarian aid and providing rapid support to people in disasters (e.g. Ramesh and Isaac, 2015; Metcalfe-Hough, Keatinge and Pantuliano, 2015; Kuznia, 2017). The Charity & Security Network published a study in 2017 wherein 305 NPOs were surveyed to analyse the results of 'de-risking' regulations applied by banks to NPOs in the US. Two-thirds of these NPOs have reported difficulties in access to financial services and significant delays in wire transfers, as well as the additional cost and documentation (Eckert, Guinane and Hall, 2017).

Therefore, the dilemma of NPOs in relation to TF is that they have the probability of being abused by terrorist groups while CTF measures should be addressed realistically without affecting the legitimate business of these organisations (FATF, 2014a: 1-5). Thus far, this dilemma has been difficult to solve. As the FATF stated in its 2014 study, 57% of its states are not compliant or are partially compliant with the requirements designed to mitigate the risk of NPOs' vulnerabilities (2014a: 2).

On top of that, with today's advanced technology, terrorists rely not only on physical charities and NPOs for fundraising but also on social media and online networks. Different authorities have reported cases of fundraising through online campaigns via social media and online methods such as crowdfunding (FATF, 2015b: 24-25). For instance, the US

government reported one case of an individual charged in September 2014 for supporting ISIL through using Twitter to encourage people to donate money as part of their Muslim Jihad duty (24-25). Similar cases have been published during the past few years to confirm the use of Bitcoin and the dark web to fund ISIL and Al-Qaeda (Malik, 2018). Fundraising through social media and online methods challenges authorities due to the difficulty of tracing transactions and obtaining enough and reliable data on how a fund is used after being collected through the Internet (FATF, 2015a: 34). The FATF highlighted that online methods are used for fundraising by a vast network of sympathisers, but thus far there has not been enough information on how this process is established. At the same time, blocking or shutting down suspected websites would be against human rights and privacy (2015a: 6).

For such cases, it could be argued that while the current CTF measures addressed the risk of terrorists' abuse of (physical) charities, the current CTF is challenged with digital donations. Monitoring digital donation requires states' adequate financial infrastructure and advanced systems to regulate or tackle such a concern. As explained in the preceding chapter and later in this thesis (chapter 6), such requirements are challenging to implement, especially in developing countries.

3.3.4 Self-funding from criminal proceeds

Terrorist groups have been involved in criminal acts to generate the required funds for their activities since the 1970s, as an alternative to state sponsorship of terrorism (Ryder, 2015: 16). According to US investigations published in 2015, 24% of TF cases incorporated criminal acts such as drug trafficking and fraud (US Department of the Treasury, 2015: 26). Kidnapping for ransoms was also enlarged as a significant source of revenue for different terrorist groups. The US authorities underlined that terrorist groups such as Al-Qaeda and ISIL gained more than $222 million between 2008 and 2014 from ransom payments (FATF, 2015a: 18).

Drug trafficking is a major source of illegal terrorists' funds. The Madrid train bombings in 2004 were financed by gains from trading in hashish and ecstasy (The Matthew B. Ridgway Center, 2007: 13). Dutch authorities reported a case of drug trafficking through transferring funds from the Netherlands to Paraguay and Brazil to trade in drugs, eventually sending the profit to a terrorist organisation in Lebanon (FATF-GAFI, 2008: 16). Furthermore, there is a connection between drug and weapon trafficking. The US authorities reported different cases related to the relationship between drug traffickers and terrorist organisations, including drug smugglers' arrangement of selling and delivering weapons to the Taliban and Hizbullah from the proceeds of drugs (FATF-GAFI, 2008: 16-17; US Department of the Treasury, 2015: 28-29).

Fraud and robbery are common as well among terrorist groups. In addition to what has been elucidated earlier in the case of ISIL's smuggling, extortion and theft activities, other groups, e.g. Jemaah Islamiah (JI), have also been involved in different illegal activities including bank robbery and credit card scams (Kaplan, Fang and Sangwan, 2005). Most of the needed funds for executing JI's attack on Bali in 2002 were obtained from stealing the value of $90,000 in gold and $500 in cash from a jewellery store (Kaplan, Fang and Sangwan, 2005; The Matthew B. Ridgway Center, 2007: 13). In 2015, the FATF reported on two Dutch citizens who came back from Syria and were arrested in possession of guns. Investigations revealed that they had planned a robbery to finance terrorism acts (FATF, 2015a: 15-16). Another example is that of Khalid Ouazzani, who pleaded guilty in 2010 to funding Al-Qaeda with more than $23,000 from the proceeds of fraudulent and money-laundering schemes (The FBI, 2010a). Fraud scams include different individuals' deception, such as utilising social and banking systems, e.g. through social allowance given to unemployed individuals in Europe or using bank overdraft limits from different accounts (FATF, 2015a: 26, 2015b: 23).

Terrorist groups gain substantial cash through illicit trade in a range of products, e.g. smuggling cigarettes, ivory, charcoal, contraband sugar, and dealing in the informal market (FATF-GAFI, 2008: 18). The Al-Shabab terrorist group gains £365,000 monthly from the illicit trade of ivory and over $25 million yearly from illegal charcoal smuggling (Doshi,

2014). Smuggling cigarettes is undertaken as well to generate revenue by Hizbullah affiliates and other terrorist groups in West Africa (FATF, 2015a: 15). According to the Washington Post, cigarette smugglers can earn around $2 million from one container (Horwitz, 2004). Although it was found that very few cases of ML or TF were related to illicit trade in tobacco (ITT), ITT represents a risk of being abused in TF activities (FATF, 2012b: 35, 38, 54, 69).

To sum up, criminal activities could increase the risk of terrorists being exposed to law enforcement agencies, and they may also lose their adherents' support (Acharya, 2009: 67). Sources of illegal funds are still multifarious. However, in this case, wherein the source of terrorists' funds is illegal, terrorists are similar to criminals. For this reason, financial institutions have turned into law enforcement agencies that have a role in investigating and detecting criminals. Yet, it is challenging for financial institutions to differentiate terrorists from criminals based on financial data only. Besides, having reasonable grounds to suspect criminals is another challenge. According to the United Nations Office on Drugs and Crime, less than 1% of global illicit financial income has been seized and frozen (2011: 5). Nevertheless, it could be argued that the current CTF regime that was established on the AML approach has a high probability in successfully detecting terrorists' criminal activities, and (at the very least) prosecute them as criminals.

3.3.5 Self-funding from legitimate sources

Self-funding could be generated from terrorists' salaries themselves or their families' wealth and contributions, especially when the needed money for some operations is low, which was the case, for example, in the July 2005 attacks on the London transport system (FATF-GAFI, 2008: 14-15). However, for terrorist organisational needs, terrorist organisations may engage in legal business to generate their own funds, including establishing front companies to facilitate fund transfers as well as to conceal and mix the origins of their money. Front companies can also be used to deceive authorities by providing fabricated documents such as overestimated prices, double invoices or sham transactions (Acharya, 2009: 63). Since 2001, several reports and articles have highlighted how terrorists' business varies, including trading

in different import and export activities, financial services, hotel companies, restaurant franchises, and ventures in real estate and stocks (e.g. Kaplan, 2006; Gómez, 2010; FATF, 2015a: 19; Acharya, 2009: 59).

For example, in 2008, the US reported a case of a television channel owned and managed by a terrorist group. The channel's objective was to broaden the group's ideology, and it was also used for recruitment and fundraising through various donations to the channel's bank account (FATF-GAFI, 2008: 9). In 2015, France reported a case of a foreign telecommunication company that collected unreasonable money that exceeded EUR 600,000 from different companies based in France. All directors of those French companies had the same nationality. Suspicion related to TF was raised when EUR 500,000 was transferred from the telecommunication company's account to another company based in the same country of origin of the directors (FATF, 2015a: 19).

The introduced examples here highlight how TF is different from ML. Therefore, tracing terrorists when the origin of their money is legitimate is challenging for both competent authorities and the financial sector. Consistently, using the same strategy of ML to follow the money trail may be seen as unproductive enough to detect terrorist networks. Nevertheless, as Acharya (2009: 63) illustrated, terrorists are rarely involved in establishing legitimate businesses due to the market and financial risk. Moreover, despite the wide belief that Bin Laden's wealth was more than $300 million, it was cleared up in 2004 by the US investigative commission that this number was not accurate (US staff report, 2004: 20). Based on the details revealed in FATF-related reports, the objective of most terrorists' legitimate activities is more similar to that of money launderers, who are moving and concealing their funds rather than investing. Therefore, even when terrorists generate their needed fund from legal sources, in most cases, they will end up following similar techniques to money launderers. At such a stage, there is a high probability of detecting or disrupting their financial activities through the current CTF regime that were primary designed for AML. This similarity in techniques through which to move and disguise funds is explained in the following section.

In conclusion, as the FATF stated, "the FATF special recommendations relating to terrorist financing are newer than those for money laundering, and thus further trends may become apparent as suspicious transaction reporting regimes mature" (FATF-GAFI, 2009: 58). Such new trends explained in this section used by terrorists to fund their activities, especially using the advanced technology, require the FATF network attention to the new financial ecosystem in the field of AML/CTF (Zarate, 2013: 423-432). For example, chapters 5-8 will illustrate how financial institutions, in the case studies examined in this thesis, identify the current financial ecosystem, including digital finance, as a significant challenge that could jeopardise the outcome of implementing the current CTF regime.

3.4. The vulnerability of the international system: How do terrorists move funds?

> The fight against the financing of terrorism addresses two dimensions: the origins of fund, and the transfer of fund [...] Without targeted transfers, funds are useless [...] Transfers bridge the spatial and temporal gap between the place where funds are collected and the place where funds are required to be spent for terrorist goals (Hess, 2016: 56).

The UN Security Council monitoring team of sanctions implementation reported that:

> Member States generally have instituted the necessary reforms to their official banking systems to prevent listed parties from receiving or transferring money, but there are many unofficial ways available to circumvent these restrictions. […] the challenge for the international community lies in finding a proper balance between restricting the flow of money to terrorists and allowing legitimate transactions to continue freely (2005: 5).

Within the context of the aforementioned statements, this section explains that both terrorists and money launderers use three methods for moving and disguising their money: the physical movement of money, using the international trade system, and, most significantly, through the international financial system (FATF-GAFI, 2008: 21). This section will illustrate how some of these methods are challenging to detect from regular and clean financial transactions.

3.4.1 Physical movement of cash

Smuggling small amounts of money through cash couriers is the easiest way in which to transfer funds to conflict zones or to locations wherein attacks are planned to take place, and it is difficult to detect (FATF, 2015a: 23). The FATF highlighted that most of the cases that it studied related to TF in West Africa involved the use of cash couriers (FATF, 2015a). In Europe as well, several terrorist organisations use the same method (23). Within this context, the FATF's recommendation number 32 was introduced to prevent and curb or confiscate any currency or cash that is spuriously declared or suspected to be related to TF.

Smuggling funds through couriers can also be in the form of goods, e.g. the vulnerability of the industry of precious minerals is recognised to be at risk of TF and ML. Criminals have been able to turn their liquidity gained from transnational crime into commodities such as gold and diamonds or precious stones to smuggle it overseas (FATF-GAFI, 2008: 18). The IMF (2014: 1–2) and the FATF (2013a) outlined purchasing or smuggling commodities such as diamonds and precious stones, among others, undertaken by money launderers and terrorists to reshape their illegitimate revenue funds. In the same context, diamonds and gold are used as a form of currency or a method of payment to purchase other goods such as weapons without the involvement of financial institutions (FATF, 2013a: 51-52, 86-88). Another pattern of TF comprises a donor buying diamonds through a legal fund and then transporting them to terrorists so that they can exchange them later for cash or materials (27). The same pattern could also be used through an illegal fund. Different cases included in FATF reports have illustrated that these commodities are used as well in trade-based money laundering (TBML) schemes (107-112), which will be illustrated in detail in the following element. Simultaneously, as explained later in chapter 5, regulating or monitoring couriers of cash and high standard commodities such as gold and precious stones at the national level is challenging in countries like the UAE due to its culture and luxurious lifestyle.

3.4.2 The abuse of the international trade system

The international trade system is vulnerable to ML and TF risks. Different states have revealed various cases of how the international trade system is used in TF and ML by manipulating price invoices (FATF-GAFI, 2006a)— e.g. using over- or under-invoicing the shipment, multiple invoicing, and counterfactual descriptions of goods (FATF-GAFI, 2006a: 4-7). This practice is defined as "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins" (3). Perversion of the international trade system is common in financial crimes due to the growing trade flows and the ability to mix legitimate and illicit transactions worldwide, making it difficult for customs officers to suspect or follow the money trail (FATF-GAFI, 2006a: 2-3). It is difficult to be detected, as it requires examining various information related to market prices and precise specifications and descriptions to compare commodities with their documentation, which rarely occurs due to the high flow of international trade (Passas, 2007: 31). Such a case emphasises the gap of information in implementing the global CTF regime. Moreover, the dilemma with this challenge is that the stricter the global standard developed to mitigate the risk of terrorist financing and money laundering in the international financial system, the more the international trade system appeals to criminals with regard to abusing it (FATF-GAFI, 2006a: 1).

Another challenge concerns the resource capacity of customs officers to identify such practice, especially in developing countries. According to earlier published statistics, the percentage of goods inspected by customs officers varies from one country to another, but it was estimated to be 5% of all cargo goods (e.g. FATF-GAFI, 2006a: 2; USA Congressional Record, 2006: 6996; JOC, 2016). However, according to other statements, in the US, for example, following the 9/11 attacks, almost 100% of goods were examined by using different advanced techniques and risk-based analysis to mitigate the risk of TF (US Customs and Border Protection, 2019; Informed Trade, no date). Nevertheless, as explained in the previous chapter (section 2.6.1), states' technical and financial capacity is crucial in closing the

implementation gap in the CTF regime. Therefore, implementation of the global regime varies from one state to another.

The abuse of the international trade system for concealing and converting criminals' proceeds also includes the misuse of corporate service providers (CSPs), such as lawyers and accountants, and obtaining legal entities such as offshore and shell companies, and trusts (FATF-GAFI, 2006b). These types of entities are misused to conceal the identity of beneficial owners (FATF-GAFI, 2010: 4-12). It should be noted; however, that while there are many cases published by different states regarding the misuse of CSPs and legal entities in ML, there are not enough cases about how CSPs and the formal examples of entities could be used for TF (4). Nevertheless, that also does not mean that CSPs or these legal entities have not been or are not being misused by terrorists.

3.4.3 The abuse of the international financial system

Terrorists rely to a large extent on the international financial system — formal and informal — to move and conceal their money. The formal system includes banks and other regulated financial institutions, while the informal system includes what is parallel to the banking system, such as hawala.

3.4.3.1 Formal financial system

The banking sector is the most promising financial sector that offers different products and services to manage and profit individuals' and corporates' business. On the other hand, it is the most vulnerable sector to TF risk due to its speed and easy access to the international financial system, which facilitates moving money around the world (FATF, 2015a: 20-21). The sector proceeds a huge number of routine and complex daily transactions that terrorists and money launderers can abuse to conceal or mix their activities with legal transactions to avoid detection (2015a: 20-21). Banks are on the front line of financial services. Money launderers and terrorists may obtain funds through offshore corporates, trustee or insurance

services, trading, gambling, and several other ways. Ultimately, however, they all need a bank account to facilitate the business activities and movement of their money worldwide. Another indirect pattern of the abuse of banking services could be proceeded by terrorists' adherents, e.g. by obtaining bank accounts through their legal money and providing terrorists with their debit cards so as to gain access to cash easily through ATMs (2015a: 21). Therefore, the challenge for bankers is that they have to suspect that every transaction, including overseas activities, can be derived from criminals or terrorist acts. As explained previously (section 2.6.1), implementing such a requirement is challenging and has become a burden on financial institutions, especially with its associated cost of compliance.

A formal financial institution could be wittingly or unwittingly involved in facilitating TF, unwittingly when terrorists abuse it without their knowledge or recognising anything suspicious about their clients' transactions. On the other hand, they could be involved wittingly when turning a blind eye to ML/FT suspicion or applying lax AML/CTF measures that create a loophole in the system to be abused by terrorists. Between 2009 and 2017, American and European authorities applied $342 billion in fines to different banks due to their failure to apply AML/CTF measures and requirements (Reuters, 2017). Almost 90% of the biggest banks in Europe have been fined for money-laundering offences over the past ten years, including the most significant five banks in the UK: HSBC, Barclays, Lloyds, RBS and Standard Chartered (Westall, 2018).

All financial institutions, including banks, must apply AML/CTF regulations regarding customer due diligence and submit suspicious transactions reports to their national Financial Intelligence Unit (FIU). Moreover, banks should report all transactions that exceed the threshold, e.g. $10,000 in the US or € 10,000 in the UK (HM Revenue & Customs, 2013). As a way in which to avoid reporting, criminals and terrorists usually practise what is known as 'smurfing' or 'structured deposits', which is the process of depositing multiple small amounts of money below the reporting threshold in different bank accounts (FFIEC, 2014: 8; FATF, 2015a: 21). They may also obtain what is known as a 'dormant account', which is an account that usually remains dormant for a specific period with no transactions or suspicious activities until the time during which it is needed; the cash will be withdrawn swiftly (Mews, 2017).

Therefore, all banks are at risk of being used by money launderers and terrorists, but there are also specific types of banks that are at higher risks than others, such as correspondent and private banks (FSA, 2011: 78-84; FATF, 2016a: 9-10).

To sum up, the banking sector could be the most vulnerable and facilitator sector to the risk of enabling terrorist misuse of the international financial system to move and disguise their money. However, as will be illustrated in chapters 5-7, it is deemed by the participants in this thesis as the most efficient sector in monitoring the risks of ML/TF, due to its experience built through time since the global AML regime introduced in 1989 to regulate this sector.

3.4.3.2 Informal value transfer system

The informal value transfer system (IVTS) is defined as "any system, mechanism, or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographic location, whether or not in the same form" (Martis, 2018). The IVTS includes two methods of transfer: the informal funds transfer system (IFTS), including remittance services, such as hawala, and physical money transfer. Informal value transfer methods include transferring both money and value such as goods (2018: 11). In practice, it is challenging to differentiate between the two due to advanced technology and the high probability of mixing both methods (Acharya, 2009: 75-79).

Remittance services including hawala are one of the IFTSs that is still considered a significant challenge to the risk of ML/TF, despite the increased global governance efforts to monitor the IVTS (Cooper and Walker, 2016). Hawala system is "money transfer without money movement", through a wide and complicated network of money brokers all over the world, but more specifically in the Middle East, Africa, and South Asia (Cassara, 2015: 51). Different terrorist groups, including Al-Qaeda and ISIL, have been using such methods to move their funds (68). Coker (2016) reported several cases of how ISIL forced money exchange houses and hawaladars in Iraq to transfer their money through different Iraqi cities

and to direct cash travels and money transactions from Turkey to territories under the control of ISIL in Syria and Iraq.

The hawala method is attractive to terrorists because it does not apply the same intensive regulations of formal financial institutions, such as record keeping and customer due diligence, so the money trail is limited and difficult to trace (US staff report, 2004: 25). Hawaladars keep records but they are few and simple and usually in a foreign language or specific codes (Cassara, 2015: 55). Therefore, while terrorists might misuse hawala to move their fund, in practice, this system has limited financial transparency that consequently reduces the probability of identifying suspicious transactions (Cooper and Walker, 2016).

The IVTS has been developed and regulated, and most of the FATF members and non-members are obliged towards FATF recommendations (R.14 and R.16) concerning regulating the IVTS and applying reporting requirements (FATF, 2012a: 17). The IVTS is needed because it serves a large scale of migrants, especially in developing countries in which many citizens have no access to the formal banking sector. The Global Findex Database illustrated the considerable increase in the global number of adults who had bank accounts between 2011 and 2017 due to the growth of financial inclusion (Demirgüç-Kunt et al., 2018). However, there are around 1.7 billion adults still do not have access to banks (1-4).

To conclude, as the FATF pointed out, Hawalas and other similar service providers (HOSSPs) are not always at a high risk of being abused by terrorists, as in some states this system is regulated and has a detailed record (FATF, 2013b: 10-11). Yet, the three gaps examined in global policies concerning implementation, compliance with, and information asymmetry are applicable in the HOSSPs case. There are different reasons as to why this system is vulnerable to ML/TF. For example, the lack of resources and competent authorities' supervision, and settlement between money brokers out of the regulated financial system (FATF, 2013b: 10). Cash transferred between hawaladars is not settled according to each transaction; instead, it is periodic and complex (Cassara, 2015: 57-60). These are in addition to blending money with trade transactions, and the involvement of many parties that challenge tracing the money trail and defining beneficial owners (FATF, 2013b: 10).

Therefore, the FATF has urged its members and non-members to monitor and regulate the system through imposing HOSSPs under the risk-based AML/CTF regulatory and supervisory measures (11-26). However, as was expressed by developing countries to the FATF, the concern is that applying further and intense regulations or sanctions to this sector could motivate hawala and other service providers to turn to illegal methods or underground banking. In this manner, it will make the sector more vulnerable to the risk of ML/TF (26). What is more, there will be an increased cost of compliance for both service providers and supervisory authorities (49).

In conclusion, this section illustrated the vulnerabilities within the international financial and trade systems to be abused by terrorists and money launderers in disguising and moving their funds. Although some of the methods indicated in this section are challenging for financial institutions to detect from regular and clean financial transactions, terrorists are similar to money launderers in the way they move and disguise their money. Therefore, such a case increases the probability of disrupting terrorists' financial activities by implementing the current AML/CTF regime. The following section will underline the key AML/CTF introduced by the FATF to tackle the problem of TF.

3.5. Understanding the FATF CTF recommendations

This section describes the key recommendations of the FATF international standards, which are specified to tackle the phenomenon of terrorist financing. The FATF's first recommendation on assessing risks and applying a 'risk-based approach' (RBA) requires all states (including industries) to conduct their own risk assessment so that they can understand and identify their national risks concerning ML and TF and focus on areas where high risks are recognised (FATF, 2012a: 10). Following this step, states should adopt the necessary measures to mitigate the identified risks. The risk assessment approach is required at both national and institutional levels. This approach allows states to take full advantage of the allocation of their resources and concentrate their efforts on high-risk areas. However, the UN Security Council monitoring team (2020: 12) indicated that "only 20 per cent of States

reported that they had conducted a dedicated terrorism-financing risk assessment". As will be explained later in chapter 8 (sections 8.2, 8.4.1), the implementation of this recommendation is essential at the national level to identify and understand the state's own risks of terrorist financing so that a state could apply the appropriate monitoring measures of the identified risks. However, such implementation is challenging for recently regulated sectors that lack enough experience in the AML/CTF field and the lack of human and technical resources in regulated sectors due to its associated cost of compliance. Therefore, the two gaps concerning implementation and compliance in relation to the global CTF regime are related to this recommendation. Eventually, non-state actors' role in identifying TF risks in their institutions and then applying the appropriate institutional measures to mitigate the identified risks is crucial in successfully achieving the FATF aim of this recommendation.

The FATF special recommendation number 4 obliges countries to adopt the necessary measures to freeze or seize and confiscate funds that are used or intended to be utilised for money laundering or predicate offences, the financing of terrorism, terrorist acts or terrorist groups (FATF, 2012a: 12). This recommendation underlines that confiscation of terrorists' funds could be undertaken without requiring a criminal conviction, on the basis of domestic investigations that should identify and trace the funds which are subject to confiscation. Therefore, states competent authorities must adopt provisions in their national policies that enable law enforcement agencies to freeze or confiscate terrorists' funds. For example, among the states that periodically inform the UN of their progress in implementing the global sanction regime related to terrorist financing, 10% of these states reported in 2020 the value of financial assets that had been frozen in light of the UN's CTF sanction regime. The total value of these assets was $61,318,210.77 (UN Security Council monitoring team, 2020: 5). It could be assumed that such an amount could have been used to support or execute a terrorist attack but was disrupted due to implementation of the current global efforts to disrupt terrorist funds (Passas, 2007: 34). Nonetheless, taking into account the information asymmetry concerning the total amount of funds that terrorist organisations possess, the effectiveness of freezing terrorist assets as a strategy with which to disrupt their financial

activities is contested and could imply misleading perceptions of a successful CTF regime (Williams, 2007a: 89).

The FATF special recommendation number 5 establishes a common global legal basis for CTF at national levels; it is concerned with states defining terrorist financing offences — the terrorist financing offence is defined in Appendix 2 (FATF, 2012a: 13). According to this recommendation, states should criminalise the act of TF, regardless of whether the aim of said financing is to back terrorist groups or individuals and whether it is linked to a specific terrorist attack. This recommendation could be interpreted as a preventative measure that seeks to disrupt the financing of terrorism before the act of terrorism is executed. Simultaneously, it has a key objective in ensuring that countries have the legal power required to prosecute and apply criminal sanctions to persons — natural or legal persons — who have been convicted or accused of terrorist financing. According to the FATF, "terrorist financing offences should extend to any funds or other assets, whether from a legitimate or illegitimate source" (FATF, 2012a: 41). However, as highlighted in the preceding chapter, the implementation of this recommendation is challenged when terrorists fund their activities through legal channels. It is complicated in practice to detect and criminalise the fund that has been raised, e.g. through charities or self-funding and moved through the informal financial system.

The FATF recommendation number 10 is one of the FATF regime cornerstones. This recommendation concentrates on financial institutions' role in obtaining information about their customers, beneficial owners, and verifying customers' identity and data, whether natural or legal persons, through conducting customer due diligence (CDD). Furthermore, according to recommendations 12-13, 17, 22, and 24-25, customer due diligence should also be applied to foreign politically exposed persons (PEPs), correspondent banks, third parties, express trusts, and designated non-financial businesses and professions (DNFBPs) (FATF, 2012a: 14-22). Customer due diligence information "comprises the facts about a customer that should enable an organisation to assess the extent to which the customer exposes it to a range of risks" (ICA, no date). CDD approach stresses the importance of filling the information gap and the financial institutions' capacity in gathering sufficient information

about their customer so that they can detect suspicious activities and report them to the national financial intelligence unit (FIU). Said approach also prohibits financial institutions from opening anonymous accounts and requires them to keep records of their customer transactions for at least five years, which must be available to official authorities upon request. Ultimately, failure of financial institutions to comply with said recommendations in relation to filling the information gap about suspicious transactions would increase the risk of TF transactions proceeding through these institutions' systems. Such a case would lead to implementation failure and a low level of compliance with the global CTF regime. In this way, the three identified gaps in the global CTF regime in this thesis are related.

Another recommendation which is critical for this thesis and linked to the preceding requirements concerning customer due diligence is FATF recommendation number 20 (FATF, 2012a: 19, 87). This recommendation obligates financial institutions to report any suspicious activities relative to ML and TF, to the domestic FIU. This recommendation is crucial to this thesis because it aims to fill the information gap concerning terrorist transactions and financial behaviour and typology. Such information concerning suspicious transactions could ultimately develop the current understanding of terrorists' financial behaviour and what constitutes (or not) terrorist financing. In this way, any weakness in financial intelligence performance concerning identifying, gathering, and analysing suspicious activities relative to ML and TF would imply a lack of effectiveness in implementing the FATF recommendations in practice.

Within the context of global governance, FATF special recommendations number 6 and 7 require states to immediately implement the UN Security Council sanctions in relation to the prevention and suppression of terrorism, terrorist financing, and disruption of the proliferation of weapons of mass destruction and their financing (FATF, 2012a: 13, 43-57). The UN sanctions here refers to freezing funds or assets that directly or indirectly benefit the persons or entities designated by the UN Security Council as terrorists or terrorist groups, under Chapter VII of the Charter of the United Nations, including resolutions 1267 (1999) and 1373 (2001). These recommendations emphasise the role of global governance in monitoring the threat of terrorist proliferation of weapons of mass destruction and harmonise

global efforts to ensure the compliance of states in this respect. Nevertheless, as will be illustrated in chapters 5-7, the implementation of these recommendations requires adequate screening and reporting systems in both public and private financial institutions so that any current or future transaction relating to the designated names is monitored. Such requirements are associated with a considerable cost of compliance, therefore, it varies from an institution to another.

This section explained the key FATF international recommendations designed to tackle TF. In relation to the gaps identified within this thesis, these recommendations underlined four significant requirements related to the gaps of implementation, compliance, and information asymmetry. The first requirement concerns the importance of gathering and exchanging financial information throughout the FATF network and at national and institutional levels. Second, implementation and compliance in relation to said recommendations emphasise the role of states and financial institutions' capacities of human resources, software systems, and financial infrastructure required in order to implement these recommendations. Such requirements would increase the cost of compliance; therefore, implementation is anticipated to vary from one state to another. Third, these recommendations require significant cooperation and coordination between state and non-state actors at different levels. The level of cooperation and active communication between the actors is expected to impact the level of implementation of, and compliance with, these recommendations in practice. Lastly, the differences between ML and TF, particularly when terrorists fund their activities through legal channels, may induce a challenge in implementing these recommendations, requiring further data from the regime practitioners concerning their day-to-day practice of the CTF regime (chapters 5-7).

3.6. Conclusion

This chapter discussed the importance of implementing a global CTF regime that disrupts TF transactions and, as a result, could interrupt terrorist organisations' ultimate goals of extending their global network and executing further acts of terror. The second and third

sections of this chapter illustrated how terrorists raise and move their funds and emphasised the difficulties that challenge a successful implementation of the global CTF regime. The final section interpreted the FATF's fundamental recommendations designed to respond to the risk of TF. Ultimately, the present chapter elucidated when the global CTF regime is anticipated to tackle the risk of terrorists collecting and disguising their funds and when the implementation thereof is irrelevant or challenged in practice at the state or institutional level. This chapter underlined major gaps — namely in implementation, compliance, and information asymmetry — in achieving the global objective of disrupting TF activities within these contexts. States and financial institutions' infrastructure and resource capacity are crucial to fill the implementation and information gaps, while the cost of compliance challenges them. Moreover, terrorists' legal activities with which to raise funds challenge the information gap and that of detecting terrorists' suspicious transactions based on the AML regime. Simultaneously, terrorists' illegal activities and techniques used to move their generated funds increase the probability of detecting their activities by means of the current AML/CTF regime. Nevertheless, cooperation and active communication among the state and non-state actors involved in the FATF network are anticipated to be significant factors in closing these gaps and effectively shaping global CTF efforts in practice.

Eventually, understanding the typologies of terrorist financing and the FATF recommendations explained in the present chapter paves the way for understanding what measures are required for individual states to mitigate the risk of terrorist financing. Such an understanding will provide an important context for the subsequent analysis of the case studies examined in this thesis (chapters 5-7).

Chapter 4

Research Methodology

4.1. Introduction

Research is a "systematic process of collecting, analyzing, and interpreting information—data— in order to increase our understanding of a phenomenon about which we are interested or concerned" (Leedy and Ormrod, 2020: 24). This means that research creates and develops knowledge by following systematic and scientific methods of gathering and analysing information to answer unanswered questions (Goddard and Melville, 2001: 1-2). In this manner, scientific methods are forms of systematic observation, classification and interpretation of data, with attention being paid to formality, rigorousness, verifiability and validity (Chawla and Sodhi, 2011: 5).

Social research entails the academic study of phenomena that involve social science fields such as psychology, social policy, politics, and criminology (Bryman, 2016). It aims to address changes in social life and develop the understanding of unresolved social problems or gaps by employing the relevant conceptual and theoretical frameworks to understand the social world (3). In this vein, this research aims to develop the understanding of the implementation of the international standards for counter-terrorist financing (CTF). The theoretical framework of global governance and theories of motivation are used to interpret how global governance in different national contexts works to CTF. The following section explains this research central and sub-questions and underlines its paradigm. Thereafter, this chapter discusses the research philosophy, positionality and strategies, methods and the rationale behind the choice of case studies. It will also explain the data collection methods via documentary sources and interviews with the practitioners of the AML/CTF regime, as well as data analysis using constructivist grounded theory,

4.2. Research questions and paradigm

Clear and precise research questions are the first and most important element in the research approach because they determine the research design, strategy, and methods (Blaikie, 2009: 17). This research aims to develop the understanding of the implementation of the Financial Action Task Force (FATF) international standards for counter-terrorist financing (CTF) through answering the following questions:

Main questions	Sub-questions
How are the FATF International CTF standards implemented in different national contexts? How is the effectiveness of the CTF regime perceived by the practitioners?	How is the regime monitored? What facilitates or challenges the successful implementation of the requirements of the regime and its effectiveness?
Why do the actors involved in the implementation of the international CTF regime comply (or not) with the requirements of the regime?	What are the actors' motivations or incentives to implement and comply with the requirements of the regime? To what extent do the examined states comply with the requirements of the regime?

Table 1: Research main and sub-questions.

The aforementioned questions will ultimately contribute to the literary debate surrounding the effectiveness of the FATF regime's implementation and will elucidate the challenges and perceptions which have caused this debate. Answering said research questions requires exploring the understanding, experience, and perspectives of the FATF CTF regime practitioners. As Geertz (1973: 311) emphasised, "to understand what a science is, [...] you should look at what the practitioners of it do". Therefore, this research is qualitative in its nature because it attempts to "make sense of, or interpret, phenomena in terms of the meaning

people bring to them" (Denzin and Lincoln, 2005: 3). In other words, this research applies qualitative methodology because it fits the research questions and purpose in interpreting practitioners' experiences and perceptions so that I can gain an in-depth understanding of how the FATF regime is practised on an everyday basis (Silverman, 2013: 120-124).

In social inquiries, the 'how' question requires a thick description and searching for answers related to 'what' and 'why' questions (Blaikie, 2009: 59-61,80). Qualitative researchers, therefore, link what people do in specific situations to how they do it in an attempt to understand why specific actions and events occur (Charmaz, 2014: 228). Within this context, this research links how the CTF regime is implemented to what challenges or facilitates the successful implementation of the regime to understand why the effectiveness of the regime is controversial.

Thick description involves both understanding a social phenomenon and the accurate, descriptive interpretation of actors' cultures, thoughts, behaviours, actions, experiences, intentions and motivations within the context of this phenomenon (Geertz, 1973; Ryle, 2009: 494-510; King, Keohane and Verba, 1994: 40-75; Schwandt, 2001: 54-56; Ponterotto, 2006; Mason, 2018: 13; Bryman, 2016: 394-395). Description with an explanation is a mean of developing understanding (Stake, 1995: 38-39). King, Keohane and Verba, highlighted the interactive relationship between description and explanation. They stressed that systematic descriptive research in comparative case studies is essential. Although it is difficult to construct causality, a good description should include a reasonable explanation or reach a causal inference (1994: 40-49). The 'thick description' that this research has uncovered offers a glimpse at how the FATF regime is practised differently in different national contexts. It explains what could facilitate or challenge the successful implementation of the regime in a specific national context and how actors' motivations affect their compliance.

4.3. Research philosophy and positionality

Research processes and methods are influenced by the researcher's assumptions about the nature of social phenomena according to social reality (ontological assumption) and the nature of knowledge (epistemological assumption) (Bryman, 2016: 17; Silverman, 2013: 105). An ontological assumption is concerned with the nature of social reality, e.g. whether it is an objective and external reality to social actors or subjective and constructed from the actions of social actors (Bryman, 2016: 28). The ontological position of this research is that terrorist financing (TF) and its countermeasures are not independent from actors' actions and perceptions. The terrorism phenomenon is an essential by contested concept (Gallie, 1955) that entails different ontological definitions that are regarded by one's attitude and subjective to the nature of the definer (Juergensmeyer, 2003). In the same vein, there is a lack of understanding of the TF phenomenon, including what determines or constitutes terrorist financing behaviour (Wittig, 2009: 21-22). This means that TF ontology does not exist in external reality, but rather is subjective to the definers of counterterrorism and constructed from terrorist acts, as well as the responses of state and non-state actors. In this way, CTF has subjective and multiple realities. For this reason, the ontological assumption of this research is that of constructivism.

An epistemological assumption is concerned with how we know what we know and what knowledge is deemed to be genuine and compelling (Blaikie, 2009: 92; Bryman, 2016: 24). In social science, two epistemological approaches validate the nature of knowledge, namely positivism and interpretivism (Bryman, 2016: 24-28). A positivist position follows the same approach of natural science (in terms of methods, principles and procedures) in reaching a precise explanation, causation and generalisation of findings (Bryman, 2016: 24; Charmaz, 2014: 229). Positivists trust that knowledge exists but may need to be discovered (Bryman, 2016: 24; Charmaz, 2014: 229-237). On the other hand, an interpretivist position entails that human actions and their institutions are the subject matter in social science and construct reality (Bryman, 2016: 26). For this reason, social scientists seek to gain access to people's meanings and interpret their actions and their social world according to their perceptions, rather than providing causality (Bryman, 2016: 24-27; Charmaz, 2014: 230).

The epistemology of the TF phenomenon is blurred because most of the current knowledge surrounding terrorist financing has been created by secondary sources, notably official data (Romaniuk, 2014: 4). This indicates that knowledge of TF neither is objective nor can be discovered by means of empirical and logical observation. On the contrary, terrorism, including TF, and its countermeasures entail interpretation of their actors' (and their institutions') behaviours and actions. Counter-terrorist financing, in particular, requires developing the current understanding and grasping the subjective meaning of TF through acknowledging the role of human interactions and interpreting the involved actors' (state and non-state actors or terrorists themselves) values, beliefs, behaviours and experiences. These include researchers' perceptions and views because constructivists' own values are reflected in determining "what we see and do not see" and interpreting actors' actions and behaviours (Charmaz, 2014: 240). As an example, is that CTF requirements (such as those measures associated with financial intelligence) attempt to understand terrorists' financial behaviour in funding their activities through gathering and analysing terrorists' financial transactions. This underlines the interpretivist, epistemological assumption of TF, including the knowledge offered by official resources. Therefore, the epistemological assumption of this research is that of interpretivism.

To sum up, this research assumes both constructivist ontological and interpretivist epistemological positions. With that being the case, the qualitative research paradigm is the best methodology that fits my research questions and the aforementioned research assumptions. This is because this research underlines the constructed nature of the CTF regime through interpreting how it is created, implemented, practised and perceived by its involved actors on an everyday basis.

4.4. Research strategy

To achieve my research purposes, I started with a qualitative inductive approach and then abductive reasoning as a strategy to interpret the collected data. The inductive approach begins with collecting data and perspectives from actors involved in the financial sector, following

which l categorise and analyse said data to discover themes and patterns that contribute to theory (Evera, 1997: 22,70, 95). One of the reasons to use an inductive approach is that different findings in the literature can be used to answer my research questions (George and Bennett, 2005: 21; Eisenhardt and Graebner, 2007: 27). A number of authors (e.g. Blaikie, 2007; Yin, 2014; Creswell, 2014) emphasised using inductive strategy in conducting case studies as one of the most promising approaches to building or developing a theoretical proposition through replication logic. Moreover, the inductive method is fitting in answering the research 'how' questions (section 4.2).

Abduction is a grounded theory tool that goes beyond the inductive approach. It integrates what the inductive strategy dismissed "the meanings and interpretations, the motives and intentions, that people use in everyday lives, and which direct their behaviour" (Blaikie, 2009: 89). Abduction is "a mode of reasoning backward that researchers invoke to discover a plausible explanation for a surprising or puzzling case in their data that contradicts or cannot be explained by controversial theoretical accounts, earlier analyses in the study, or their expectations" (Charmaz, Thornberg and Keane, 2018: 431). Abduction, as explained by Reichertz (2010: 3-4), is used to create new and valid knowledge and help social researchers reach new logical findings. Richardson and Kramer (2006: 499) defined abduction as "the process by which useful explanations are developed and is therefore an essential concept within pragmatism." The abductive strategy in this research started by developing the practitioners' descriptions concerning the CTF regime and then interpreting their perceptions and meanings ' as insider' to construct categories and concepts into the central theory of global governance (Blaikie, 2009: 89-92; Charmaz, 2014: 24). Consequently, this method aided me in reaching a theoretical interpretation of the collected data and obtain an explanation that answers the research 'what' and 'why' research questions (section 4.2).

4.5. Research design

To understand how the FATF regime functions in different national contexts, I elected to undertake a case-study approach of three countries that implement and comply with the FATF regime requirements, namely, the UAE, Egypt and the UK.

4.5.1 Case study research

Case studies are part of the growing literature on topics related to the governance field (e.g. Stewart, 2011; Kirsch, Siehl and Stockmayer, 2017). Stake (2005: 443) indicated that "case study is not a methodological choice but a choice of what is to be studied". A case study is a research design that enables understanding of a case within its broader context (de Vaus, 2001: 234). Yin (2014: 3-17) explained that the major reason for choosing a qualitative case study is that it enables a researcher to study a facet of a contemporary problem in-depth and understand or examine specific policy decisions and implementation processes or organisational changes. My research aims to study a contemporary and complex phenomenon, namely, terrorist financing. The practice of the FATF CTF regime renders the regime to be an exemplary case study of the global governance system to respond to global challenges such as terrorist financing and money laundering.

Moreover, interpreting the experience of those involved in implementing CTF regulations in different case studies is essential to my research; a case study approach enabled me to explore the implementation process through different lenses. In other words, a case study is the best approach, as it made it possible for me to understand CTF from a real-world perspective holistically and allowed me to explore the contextual conditions of a successful implementation of CTF measures at the national level (Yin, 2014; Stake, 1995; Gerring, 2011). This goal would not have been achieved through other methods such as experiments or more controlled approaches that aim to test a specific hypothesis through pre-defined variables (Gillham, 2000: 11).

4.5.2 Case study selection

Understanding the international CTF regime practice in depth requires understanding its implementation in different national contexts. Stake (2005: 451) illustrated that "Even though the case is decided in advance (usually), there are subsequent choices to make about persons, places, and events to observe". In this way, national contexts are cases within the case (the international CTF regime). This research comprises (comparative) multiple-case studies (Yin, 2014: 56-57). Comparative case studies "emphasize the use of contrasting observations from varied settings and highlight the development of clear concepts" (Tight, 2017: 13). The central research question (How is the FATF regime implemented in different national contexts?) and the debate surrounding the effectiveness of CTF measures (sections 2.6 and 2.7) guided the selection of the case studies (Klotz, 2008: 43-44).

The strategic selection of cases contributes to literal and theoretical replication (de Vaus, 2001: 239). Replication here refers to replication of findings from one case to a second, third, or more cases, while cases intentionally selected to anticipate similar results —literal replication— or contrasting results —theoretical replication (Yin, 2014: 57). I selected three of the FATF/MENAFATF members to understand the implementation of the FATF regime from different perspectives.

For the first descriptive case, I chose the UAE because it is one of the largest remittance hubs worldwide, and has two global financial centres, namely the Dubai International Financial Centre and the Abu Dhabi Global Market (GFCI 29, 2021). Remittance services, including hawala, are one of the informal transfer systems deemed to be a significant risk of ML/TF, despite the increased global governance efforts to monitor this sector (Cooper and Walker, 2016). In this sense, the regulatory flexibility of the UAE financial centres and the size of its remittance services increase the risk of money laundering (ML) and terrorist financing (TF) activities through the UAE financial system (MENAFATF, 2020: 6). For that reason, I chose the UAE as a case study to understand how it implements the FATF international standards while maintaining the regulative flexibility required for its financial centres. Eventually, there have been too few evaluations thus far in the literature that have considered the UAE a case study. Therefore, this case would allow a novel assessment of how the UAE financial centres

comply with the FATF international standards, including identifying challenges and risks that affect the country's obligation to adhere to the FATF regime requirements.

The second case is Egypt, a developing country in the MENA region that has witnessed a significant increase in terrorism since the government collapsed in 2011. Although Egypt is not recognised as a financial centre or a regional hub for money laundering, it is identified as a jurisdiction of concern due to the large size of its informal economy and corruption (US Department of State, 2018: 99-101). The characteristic of an informal economy puts a considerable constraint upon the national regulatory authorities and financial institutions to implement the FATF regime requirements that rely on monitoring financial transactions through formal financial institutions. Moreover, Egypt was identified by the FATF in 2001 as a non-cooperative jurisdiction (FATF-GAFI, 2001). These facts caught my attention and prompted me to choose Egypt as a case study to understand how a developing country with several economic and political challenges could effectively implement the FATF regime. Understanding this gave me multiple and divergent perspectives of the FATF regime implementation. It also enabled me to compare the practice of a developing country with developed and financial centres such as London and Dubai.

The third case is the UK, a developed country and a cofounder of the FATF regime. Like the UAE, the UK capital city, London, is the second top financial centre globally, exposing it to the risk of attracting illegal financial flows (GFCI 29, 2021: 4; HM Treasury and Home Office, 2017). More notably, the UK has experienced thousands of terror acts since 1970 (GTD, no date). Due to this, the UK was one of the first countries that adopted CTF measures before the global scale application of the FATF international standards against TF following the 9/11 terrorist attacks in the US. The difference in experience among states in practising the CTF measures anticipates different outcomes of the regime implementation process. In this way, understanding the implementation of the CTF regime in the UK enabled me to compare the experience of the UK as a cofounder of the FATF regime with the UAE and Egypt practice as associate members.

To sum up, each of the three countries indicated above has distinctive characteristics, but they all apply the same international standards introduced by the FATF. I have also considered other barriers in choosing cases that could affect the research, such as the language factor, safety, access to data, and, above all, the sensitivity of the topic, which may influence interviewees' willingness to participate. Ultimately, these three were selected in order to triangulate three distinct types of the FATF members, the UAE as the top financial centre in the MENA region, Egypt as a developing country that is characterised by the large size of its informal economy, and the UK as a co-founder of the FATF and a developed country that is ranked as the second top financial centre globally.

4.5.3 Case study limitation

Creswell (2007: 74) explained that qualitative researchers are restrained in generalising from one case to others due to differences in contexts. However, Stake (1995: 4) outlined that the purpose of a case study is understanding a particular selected case, not to understand other cases. Although a case study approach does not enable reaching a generalising conclusion, analytical generalisation (Yin, 2014: 40-44), or what Stake (1982, 1995, 2005) called "naturalistic generalizations", is applied to my research. Naturalistic generalisations are "conclusions arrived at through personal engagement in life's affairs or by vicarious experience so well constructed that readers feel as if it happened to them" (Mills, Durepos and Wiebe, 2009: 599). Within this approach, my objectives are more about generalising lessons learned from those who practise and apply CTF measures in the financial sector, searching for similarities and distinctions between cases, which eventually led me to identify the factors that explain these distinctions (Yin, 2014: 40-44). Multiple-case study across different sites could optimise generalising probability (Herriott and Firestone, 1983). This is in addition to a valid modification of generalisation through triangulation (Stake, 1995: 8). Nevertheless, qualitative case studies aim to generalise to a theory rather than a population, so cases should not be representative (Yin, 2014: 40; de Vaus, 2001: 247; Schwandt, 2001: 5, 105-107; Silverman, 2013: 146). Therefore, my purpose is to develop the understanding

concerning the implementation of the international CTF regime within the context of global governance, not to test a theory. Ultimately, using analytical generalisation and thick description improves transferability or relatability. These approaches would enable others to judge the research relatability based on the provided thick description of whether findings are related (Blaikie, 2009: 193).

As explained in the next section, I apply in this thesis the constructivist grounded theory introduced by Charmaz (2005, 2012, 2014) for data collection and analysis. Grounded theory is a systematic approach that entails guidelines for collecting and analysing data so as to generate concepts from the data to construct or develop a theory. As Charmaz (2014: 1) explained, the constructivist grounded theory "begins with inductive data, invokes iterative strategies of going back and forth between data and analysis, uses comparative methods, and keeps you interacting and involved with your data and emerging analysis". It uses the same inductive approach as that put forth by Glaser and Strauss (1967), but addresses several criticisms raised about their preceding edition of grounded theory in terms of relativity and subjectivity (Charmaz, 2014: 13; Charmaz, 2005: 507-512).

4.6. Data collection and theoretical sampling

4.6.1 Data collection methods

My choice of data collection was first guided by which data would best answer my research questions, in terms of the FATF regime implementation and compliance (King, Keohane and Verba, 1994; Blaikie, 2007; Bell and Waters, 2014; Charmaz, 2014; Creswell, 2014; Yin, 2014; de Vaus, 2001; Silverman, 2013). Following this, a systematic approach to the collected data was employed to define and categorise facts and observations in a comparative fashion across cases (King, Keohane and Verba, 1994: 50). I used a multiple-method approach of "triangulation" (Yin, 2014: 119-120; Bryman, 2016: 386). Triangulation is "the use of two or more independent sources of data or data collection methods within one study to help ensure that the data are telling you what you think they are telling you" (Thornhill

cited in Cassell, 2015: 5). Laws (2003: 281) pointed out that "the key to triangulation is to see the same thing from different perspectives, and thus to be able to confirm or challenge the findings of one method with those of another". Moreover, triangulation is designed to avoid the disadvantages of applying a case study approach, such as subjective judgements and bias. However, it is worth mentioning that researcher reflexivity could still impact the stated triangulation approach. As Richardson (2005: 963) indicated, "what we see depends on our angle of repose"; therefore, we crystalise data rather than triangulate it. In such a concept of crystallisation, there is no single truth while texts validate themselves.

Within the above-stated context, researchers may utilise different sources of data that include both qualitative and quantitative data, namely, narrative and numerical data (Creswell, 2007; Yin, 2014). I collected data that was derived through the following methods:

Documents are considerably important to research projects whether required for the literature review or as secondary data sources (Laws, 2003: 301). I first used extensive documentary data from various forms of written texts, which were defined by Charmaz (2014: 45-54) as extant documents. These include: official reports, national laws, regulations, policy papers, UN conventions and resolutions, technical manuals, and the FATF international standards for AML/CTF. For example, the FATF texts of its 40 recommendations and states national legislative texts indicate the activities and behaviours required from the regime's practitioners. These documents emphasise how terrorist financing should be governed and, together with the primary data collected through interviews, indicate actors' roles, implementation and compliance requirements to CTF.

The second form of documentary data I used in this research comprises public records and media data. These two sources of data were employed in the present research to indicate qualitative but most notably, quantitative data, e.g. records about terrorist attacks, cases of money laundered or transferred to terrorists, and published calculations of confiscated and seized terrorist funds. Furthermore, the FATF mutual evaluation reports contain different qualitative and quantitative data regarding the FATF regime implementation and compliance in the UAE, Egypt and the UK. This data relates to, for example, the number of suspicious

transactions reports received by national Financial Intelligence Units (FIUs), the number of regulators inspections on regulated bodies, and these countries level of compliance with FATF 40 recommendations. This method emphasises certain findings and explanations of the behaviour of money launderers, terrorists, and the response of state and non-state actors involved in the FATF regime implementation. Moreover, it either affirms or contradicts qualitative data collected from the practitioners, which enabled me to compare, add further layers to data analysis, and interpret the data from different perspectives.

Most of the documents used in this research are collected from reliable resources such as libraries and official websites. However, official reports and written texts are not always considered as objective facts, since they reflect their authors' views and purposes (Prior, 2003: 30-48; Bryman, 2016: 552-562; Charmaz, 2014: 45-46). For this reason, textual analysis through interpretation and comparison between the style and content of these documents is implemented to increase the validity and credibility of this research. This is in addition to a comparison of the documentary data indicated above with the data collected from the practitioners in the fieldwork. It is worth noting; however, that the purpose of this thesis is not to establish texts' credibility in terms of trustworthiness, but rather to interpret and illustrate the similarities and differences in the research findings.

The third kind of data comes from intensive semi-structured face-to-face interviews with state and non-state actors. Qualitative interviews enable the researcher to get closer to the participants' meaning, experience, and interpretation of their views (Blaikie, 2009: 207, Laws, 2003: 286). Grounded theorists aim to understand interviewees' meaning and actions, including their attitudes (Charmaz, 2014: 58). This method is described as "the art of hearing data" (Rubin, 2012).

Therefore, in-depth face-to-face interviewing is the more appropriate method for interpreting on-going process, such as the CTF regime when compared to other approaches (Charmaz, 2014: 58). Semi-structured interview provided thorough and analytical data and was preferred in my thesis due to several reasons. The first reason relates to the sensitivity of the subject—individuals are usually more comfortable with revealing certain details in face-to-face

interviews rather than in questionnaires (Gilbert, 2008: 248). Second, a questionnaire can be misunderstood or restrict the answers to closed-ended questions, which would not provide me with the required details and clarity (Gillham, 2000: 62; Bell and Waters, 2014: 179-180). Third, in-depth interviewing enabled me to reconstruct and understand how the FATF recommendations are implemented in practice through obtaining knowledge, experience, motives, and opinions of the actors who are involved in the implementation process (Gillham, 2000: 62; Gilbert, 2008: 246-251; Beitin, 2012: 250; Bell and Waters, 2014: 177-194).

Kvale (cited in Opdenakker, 2006: 174) defined the qualitative interview as "an interview whose purpose is to gather descriptions of the life-world of the interviewee with respect to interpretation of the meaning of the described phenomena". The purpose of the interviews in this thesis is to obtain data on how the practitioners of the FATF regime understand and perceive the implementation and effectiveness of the regime. The interviews were designed to address the research questions stated earlier in this chapter in different forms and sub-questions, as detailed in (Appendix 3: Sample of interview questions).

4.6.2 Sampling

It was important to me to learn about and understand the implementation of the FATF regime from the experience and the perceptions of the actors involved in the regime implementation process on a daily basis. Therefore, my purpose in sampling was to engage the practitioners and experts from the field of AML/CTF. Creswell (2007: 125-126) highlighted that the sample size could be changed during the research. de Vaus (2001: 240) indicated that there is no correct number for sampling size in a case study design. Furthermore, Charmaz (2014: 105-106, 213) explained that grounded theorists are hardly able to determine the precise number of interviews before analysing the data, because they follow the emergent ideas and concepts until the properties of the data's theoretical categories are saturated. Therefore, the number of interviews depended on the research purposes and the analytical level.

Theoretical sampling is usually associated with grounded theory. I utilised a grounded theory approach because it is specifically designed to explore participants' meanings and attitudes to their actions (Charmaz, 2014: 58). Theoretical sampling is different from initial sampling, which establishes sampling criteria and characteristics for choosing specific individuals or settings (197). It is a strategy to interpret data, not a data collection procedure (205). Theoretical sampling is "the process of data collection for generating theory whereby the analyst jointly collects, codes and analyses his data and decides what data to collect next and where to find them in order to develop his theory as it emerges" (Glaser and Strauss, 2004: 45). Charmaz stated that theoretical sampling is used when categories are missing some data or answers and require refinements as well as the development of some of their properties until no new data emerges, and those categories become saturated with data. Such an approach requires researchers to stay open to data and consider all possible theoretical interpretations of the collected data. Simultaneously, they question, compare codes, form and examine hypotheses for data explanation, make inferences, and go back and forth between data throughout the entire analysis process using the strategy of abductive reasoning (2014: 192-206).

Theoretical sampling is more concerned with obtaining data that develops categories and benefits filling out these categories' properties (Charmaz, 2014: 192-198). Therefore, saturation in grounded theory means that "no additional data are being found whereby the sociologist [researcher] can develop properties of the category" (Glaser, 2004: 61). In this way, saturation focuses on the identified categories in the data by sampling until these categories and their properties are sufficiently defined and completed, instead of the broad concept of sampling until no new data emerge (Charmaz, 2014: 213-216). For this reason, theoretical sampling is not representative of a population or aims for statistical generalisation rather than conceptual and theoretical development (198).

For the purposes of this research, I was able to obtain this thesis primary data from 34 participants: 8 interviewees concerning Egypt case study (one of these interviewees was interviewed for both Egypt and the UAE case studies), 17 participants concerning the UAE case study (13 interviewees, including the aforementioned interviewee in Egypt case, and four practitioners who participated only through emails), and lastly 10 interviewees for the

UK case study. It is worth noting that the sensitivity of the topic prevented some actors of the private sector and NGOs from meeting me or responding to the interview request. In addition to this, interviews with official authorities required many administrative procedures to obtain gatekeepers' approval for the participants to meet me. However, those practitioners I interviewed were senior officials and experts who worked at public authorities and in the private sector, in addition to law enforcement agencies. The variety of this sample enabled me to thoroughly understand the implementation process of the FATF regime from different perspectives. Furthermore, it allowed me to make a comparison and connection, at the time of data analysis, between the perspectives of actors from supervisory and regulatory authorities (which introduce policies, instructions, regulations and supervise the implementation process) and the perspectives of the regulated entities (which are subject to these regulations), besides security professionals at law enforcement agencies who punish non-compliant parties. However, as Gilbert (2008: 255) indicated, participants may provide politically correct answers, particularly regarding a sensitive topic (such as terrorist financing). Therefore, interpretation of participants' contradiction was considered in this research.

4.6.3 Ethical considerations and informed consent

Meeting human subjects to discuss a sensitive topic such as terrorism and ML involves many ethical considerations to protect the participants as well as the integrity of the research. Therefore, the interviewees were advised that their participation could be anonymous or confidential and they could also withdraw their participation at any point before publication. The interview recordings and transcripts were encrypted. A brief description of the purpose and scope of my research was sent to the interviewees before the interviews to give them sufficient time to decide whether or not they wanted to participate. At the meeting site, a list of consent questions was given to the participants to clarify major ethical issues such as confidentiality and anonymity, data protection, permission to use a recorder, and the extent of the data that I can use in my thesis. The majority of the interviewees agreed for the interview to

be recorded, and they did not ask for further consent or communication concerning publication purposes.

Despite these considerations, some ethical challenges surfaced during the fieldwork. For example, many potential participants in Egypt refused or hesitated to meet me when they found out that I was a foreign researcher and not studying at a local university. Several interviewees preferred to have discussions and exchange experiences rather than answering direct questions. The interviewees, in some circumstances, assumed that I had knowledge of, or knew the response to, my question. For example, they used phrases such as 'as you know', 'you probably know that [...]', and 'you know better than me that […]'. This fact highlights researcher reflexivity in the grounded theory method, as will be explained in the next section. For this reason, I limited my answers so that they would not influence the interviewees' thoughts, especially when it came to specific central issues. I focused on listening and encouraging interviewees to talk. However, in some circumstances, controlling the interviews was necessary. The interviewees had different styles of interaction. Some of them would directly answer my question while others would not give me a chance to ask and would start the interview with pre-set views. In such a situation, I would intervene to redirect the interview by, e.g. using one of the interviewees' words to start my question or a new context.

4.6.4 Transcription: An approach to data analysis

Rubin (2012: 190) emphasised that "the first step in analysis is to prepare a transcript that contains a full and accurate word-for-word written rendition of the questions and answers". I transcribed the interviews and made reflective notes following each interview. I revisited recordings several times to ensure that the interviewees' wordings were reflected as intended. As I was looking for meaning and actions, I removed anaphoric repetition of specific words in addition to filled pauses, with a view to not affecting the meaning or context. The first challenge in the transcribing process was lack of time while being abroad. Transcribing is an extensive process which takes hours or, for some interviews, even days. It is well recognised in the academic field that transcribing can take from 4 to 10 hours per hour of recorded inter-

view (e.g. University of Leicester, no date). The interview transcripts in this research ranged from 45 to 90 minutes, which produced 2,000 to 7,000 words for each interview. In total, 22 of the 30 interviewees gave me their consent to record the interview, which improved the quality of transcribing.

The second challenge in the transcribing process was translation from Arabic to English for the interviews conducted in Egypt and the UAE, including reflecting the meaning of some proverbs. Certain words could have been lost in translation, or further layers of interpretation could have been added; as such, I was cautious in choosing the words which most closely reflected the interviewees' meanings. However, the participants from the sample chosen in this research were all involved in the financial sector; this sector has common language and jargon that can be used to validate the understanding and interpretation in many circumstances.

Due again to sensitivity, several statements were expressed in the passive voice, and a few were off-record. As was expected, the majority of the interviewees asked for their identifiable information to be kept confidential, with the exception of four interviewees in the UAE, and another four in the UK. I revised the transcriptions to ensure that the interviewees' statements and quotations would not be recognised by other people or refer to their identifiable information. In some sensitive quotations, I reflected them in reporting by referring to the interviewee as a 'participant', whether his/her data was anonymous or confidential.

Eventually, as I applied Charmaz' (2014) constructivist grounded theory in analysing the data, accurate and detailed transcriptions enabled me to visit the data several times and go back and forth between data to reach the most appropriate interpretation. Although listening to interview recordings many times and transcribing interviews myself were time-consuming, it enabled me to thoroughly approach the data and detect several patterns and emerged concepts during interviews and before the process of data analysis.

4.7. Data analysis

To analyse the data, I used the constructivist grounded theory (Charmaz, 2005, 2012, 2014). This method assumes that reality is multifaceted and constructed rather than discovered, including the research position, perspective, and interactions (Charmaz, 2014: 13). It was important to utilise this method. Constructivist grounded theory enables me to use my inductive data collected from interviews in a comparative analysis that moves from studying the practice of the FATF regime to interpreting conceptual understanding of its implementation and effectiveness (Charmaz, 2012: 347). Grounded theory is "a fundamentally interactive method", which means the data is not naturalistic and the researcher is part of it (Charmaz, Thornberg and Keane, 2018: 418). The researcher's language in coding reflects meanings and perspectives that the researcher has learned from the empirical world (Charmaz, 2014: 114). Therefore, my values, perceptions, decisions on data collection, and interaction with participants have a role in shaping data analysis.

Within this context of data collection that influences the process of analysing, it is indicated in the literature (e.g. Beer, 1997; Opdenakker, 2006; Blaikie, 2009: 163; Cassell, 2015: 51; Bryman, 2016: 34-35, 388; Richardson, 2005: 959-967) that it is impossible to separate qualitative researcher interaction and effects from the processes of social research, because qualitative research, including interviewing is not an objective or precise process. However, an interview protocol and form of standardised interviews could minimise the impact of the interviewer interaction and effects (Beer, 1997). Moreover, and as recommended by Beer (1997), I used an open style of interviewing and followed the interviewees' answers while also shifting the questioning order when necessary so as to allow the interviewee to influence the direction of the interview. Furthermore, as I explained earlier in the present chapter, I used the multi-method approach of "triangulation" to collect data throughout the research process. This means using multiple sources of evidence so as to avoid the influence of my judgments or bias and to verify my interpretation of the data analysed in this thesis.

In connection with the data analysis process, I followed Glaser and Strauss's (2004) guidance of being aware of my preconceived ideas and started the process of data analysis with a clear mind, and without being influenced by previous studies. In addition to this, Charmaz (2006: 68) explained that researchers should use the research study's preconceived theoretical con-

cepts only as a starting point for considering the data but not in coding and analysing the collected data. As Charmaz (2014) advised, I analysed the data line by line, and phrase by phrase. I used initial and focused coding, which describes the practice and the implementation of the FATF regime, as well as theoretical coding, and NVivo. This was in addition to annotations, fieldnotes, and analytic memo writing.

A code in qualitative research "is most often a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of language-based or visual data" (Saldaña, 2016: 4). Initial and focused coding is the first two steps in the analysis process to define, reflect, and describe what is happening in the data through assigning labels to the data and sorting those labels as points of departure to make a comparison between the segments of data (Charmaz, 2006: 3, 42-47). Such a process produced thick descriptions of the AML/CTF regime (Geertz, 1973). Examples of these are: 'an open financial centre', 'country instability', 'corruption', 'ethical values', 'internal conflict', 'integration', along with others. Several codes were employed as per the interviewees' expressions, and others according to my own words and interpretation. The majority of the codes consisted of analytical or process coding—codes with the gerund to capture actions (e.g. 'avoiding sanctions', 'doing business', 'losing reputation', 'passing the FATF exam', 'ticking the box'). In some contexts, multiple codes were utilised for the same data to reflect different meanings and perspectives. In others, sub-codes were needed to describe different types of the same code (e.g. instability, included two sub-codes, 'regional instability' and national instability').

From coding, I moved onto categorising and filling properties or characteristics belonging to these categories and the emerging concepts, with a view to conceptualising and defining the core category. Richards and Morse (cited in Saldaña, 2016: 14) explained that "categorising is how we get 'up' from the diversity of data to the shapes of the data, the sorts of things represented. In other words, codes enable the data to be collected and then linked to other similar codes to form category 'families' of codes sharing the same characteristics (Saldaña, 2016: 9-10). An example of these is the category "Implementation of the FATF international standards' (section 5.5.3), which includes similar codes and sub-categories that describe parts of implementing the FATF regime in the UAE. Sub-categories are "part of the overall hierar-

chical coding scheme" (Silver and Lewins, cited in Saldaña, 2016: 10). For example, 'identifying the risks of ML & TF' was classified as a sub-category to the aforementioned category because it is one part of the implementation process, in conjunction with four codes that described the said risks.

Concepts are how we get up to more general, high-level, and more abstract constructs". After categorising initial and focused codes, I pursued the analysing process using theoretical coding, which defines the relationship between categories that can be integrated into a theory (Charmaz, 2006: 63). Examples of concepts that were developed from my theoretical coding are 'a Matter of Ethics', 'culture of compliance', 'theoretical practice', 'the carrot and the stick', and so forth. Moreover, through the process of analysing, I wrote several analytic notes—a technique which has been defined by Charmaz (2005, 2014) as memo-writing. These memos included my notes and ideas on codes, concepts, patterns, themes, and overall analysed data. This step was valuable in the analysis process because it enabled me to make comparisons and connections between the identified codes and categories which were employed later in writing the draft of the research findings. As an outcome of coding and recoding, categorising and recategorising, analytic reflection and memo writing, I identified final themes in the data (section 5. 3, 6. 3, 7.3). A theme is a phrase, sentence, or statement that describe behaviours or summarises meaning and what is happening in the data (Saldaña, 2016: 199-200). Lastly, sorting related themes led to identifying the theoretical constructs in the data (e.g. punishment– or the threat of punishment – changes behaviour).

In said context, the process of data analysis is described in the next figure:

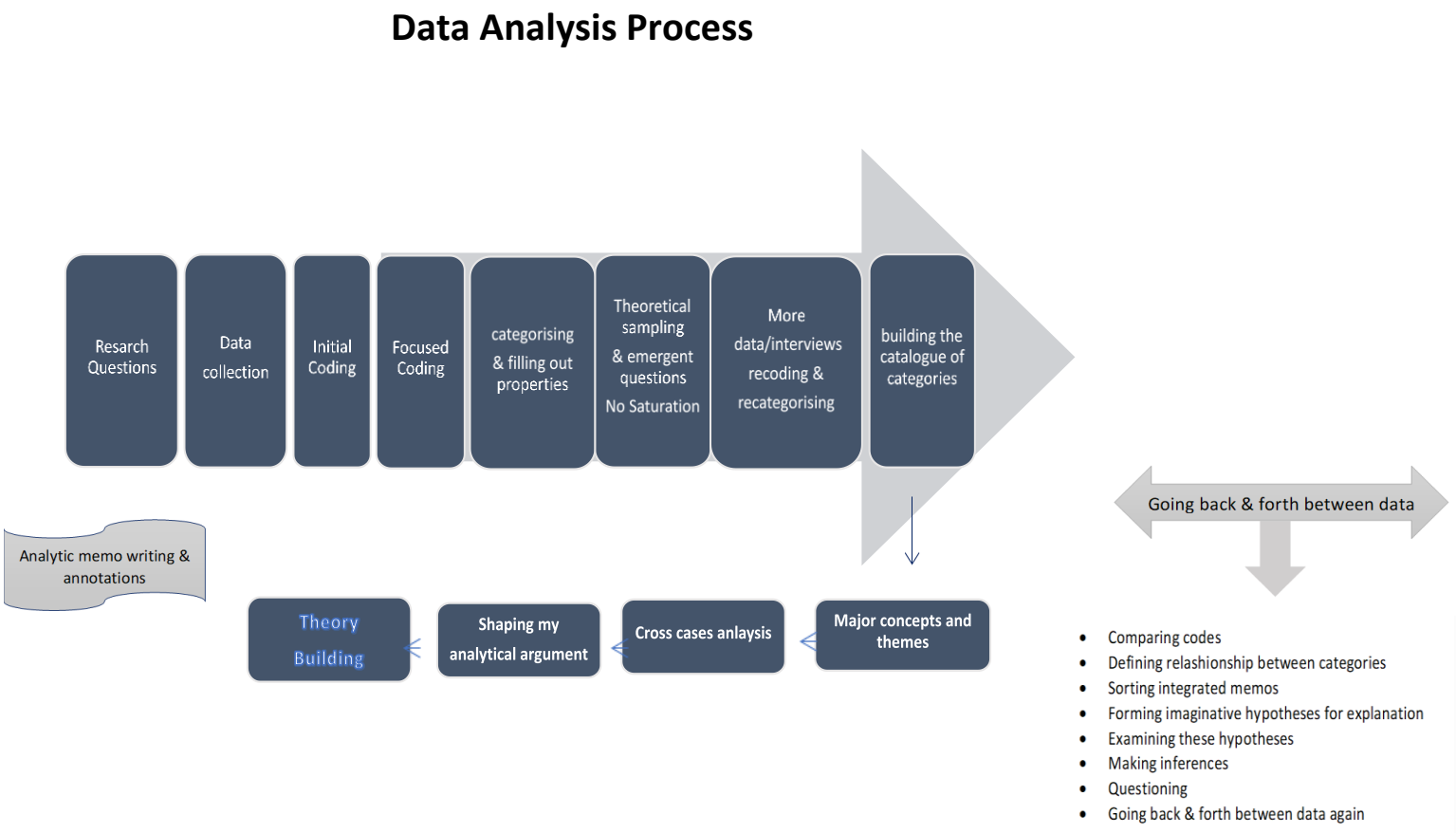

Figure 1 : Data analysis process, inspired by Charmaz (2014, p.18)

4.8. Conclusion

This chapter discussed this research methodology, including the research methods employed in data collection and analysis. Comparative case studies are chosen as a research design in order to develop the understanding of how the FATF CTF regime is implemented in three different national contexts. The nature of the research questions and purpose influenced the research's philosophical assumptions and paradigm, with a qualitative paradigm, as well as both constructivist ontological and interpretivist epistemological positions, being deemed to be the best fit in answering those questions. This research strategy involved starting with a qualitative, inductive approach and then using abductive reasoning in interpreting the collected data. This strategy included utilising triangulation in the collection of primary data from interviews and secondary data from documentary sources. Within the ontological and epistemological positions of the research, constructivist grounded theory is used to analyse the data collected from the fieldwork because this method assumes that reality is multifaceted and constructed from social actors. This is in addition to its merit in using the inductive data in a comparative analysis between the three chosen sites in this study.

Chapter 5

Implementation of the International CTF Standards in the UAE

5.1. Introduction

In the preceding chapters, I explained how the Financial Action Task Force (FATF) international regime for anti-money laundering (AML) and counter-terrorist financing (CTF) emerged as a form of global governance in combatting the financing of terrorism. This chapter explores the implementation of the FATF CTF measures in the UAE. The UAE is one of the MENAFATF's 21 members. The MENAFATF was established on 30 November 2004 in Manama, Bahrain, as a FATF Style Regional Body (FSRB) to monitor and evaluate the implementation of the FATF regime in the Middle East North Africa region (MENAFATF, no date).

This chapter aims to thoroughly understand the implementation of the FATF standards in the UAE and identify domestic challenges that emerged during the implementation process and could impact the FATF's regime outcome. To support my research aim, I managed to secure in-depth interviews with 13 state and non-state actors between March and April 2019, in addition to receiving short answers on my primary questions from 4 participants through emails. The data collected from these interviews will develop the understanding of how the FATF regime is practised on an everyday basis in the UAE. This case study, together with the other two cases examined in this thesis, would ultimately answer my central research question: How is the FATF regime implemented in different national contexts?

From the thick description offered by the data analysed in this chapter (section 5.5), it is possible to argue that the probability of the UAE's utmost compliance with the FATF CTF regime is low due to the country's national characteristics and the lack of knowledge and experience of the new regulated sectors. This is in addition to the problem of information asymmetry regarding TF transactions due to the difficulty of identifying terrorist legal transactions

and the insufficient national resources and experience required to increase the level of UAE compliance. Furthermore, although practitioners in the UAE have illustrated both their intrinsic and extrinsic motivations to comply with the FATF international standards, extrinsic motivation appeared in the data to be a genuine motive for their compliance. Intrinsic motivation, in this argument, refers to actors' motivation or conviction to fighting money laundering and terrorist financing. In contrast, its extrinsic counterpart refers to actors' motivation to avoid the international political and financial sanctions and fines that could be imposed on non-compliant parties and result in them being withdrawn from accessing the international financial system. This thesis considers intrinsic motivation to be important to the durability of actors' compliance with the regime requirements because extrinsic motivation depends on the continuing threat of punishment (sanction) and adequate supervisory role, which may not be coherent or sustainable.

5.2. Country outlook

The UAE is a federal union of seven emirates. According to the UAE's Constitution, the operations of the government are assigned between the federal and the local governments of each emirate (The UAE Government Portal, no date, a). Besides federal laws, each emirate has its local laws in addition to free zone laws. Therefore, maintaining dynamic coordination between the federal and local governments is crucial to harmonise legal provisions and their requirements for implementation, including the AML/CTF law. The UAE aims through its foreign policy to strengthen its position as a global example of leadership and excellence (The UAE Government Portal, no date, a). In this manner, the UAE's commitment to international standards and norms (including AML/CTF) is crucial to its international standing.

The UAE is one of the largest remittance hubs in the world and a major trade hub between Asia, Europe, the Middle East and Africa (KNOMAD, 2019: 4). It also comprises two important global financial centres, namely the Dubai International Financial Centre and the

Abu Dhabi Global Market (GFCI 29, 2021). The country was listed by the European Union Commission on 5 December 2017 as a non-cooperative tax jurisdiction due to insufficiency to apply an appropriate tax governance regime that meets the European standards. However, the country was removed from the EU said list on 23 January 2018 while remaining subject to close monitoring. Such flexibility of the UAE financial system could increase the risk of moving and disguising illegal money overseas through the UAE financial system. Within this context, the MENAFATF illustrated the UAE's exposure to the "inherent ML/TF risks" (MENAFATF, 2020). These inherent risks identified by the MENAFATF are the UAE cash-intensive economy, the large size and openness of its financial centres, the large size of the remittances and trade sectors, and the high value of the trade-in gold and precious metals and stones (6)– inherent risks of ML/TF are coded in this thesis as national characteristics.

The country's demographic structure and its geographic location in a destabilised region are also parts of the UAE's inherent ML/TF risks (MENAFATF, 2020: 19). The UAE has one of the highest migration rates globally, where approximately 88% of the UAE population are expats from over 200 nationalities (The UAE Government Portal, no date, b; MPI, no date). The largest resident community is Indians, followed by Pakistanis, Bangladeshis, other Asians, Europeans and Africans. Simultaneously, India and Pakistan, for example, have the second and third largest number of unbanked adults in the world (The Global Findex Database, 2017: 35). As a result, the remittance service in the UAE is crucial for said communities. The UAE was recorded as the second-largest outward remittance globally in 2017 (KNOMAD, 2019; The World Bank, 2017). Therefore, it is understood that while this sector is significant and vital for the migrants of the UAE, monitoring said sector is crucial for the successful implementation of the AML/CTF regime objectives.

As the interviewees will explain further (section 5.5.1), the UAE's regional instability could increase the risk of ML/TF by misusing the UAE financial system. For example, the imposed sanctions by the United States on Iran's economy and officials due to its nuclear program could lead Iranian financial institutions to abuse its neighbour financial system, the UAE. Similarly, due to the UAE's involvement in the civil war in Yemen, the Houthis movement threatens the security and the financial infrastructure in the UAE (Financial Times, 2022). Up

to the time of writing, the UAE designated on its national list of terrorists (45) entities and (75) terrorist organisations– Including Al-Qaeda, ISIL, Hezbollah, the Houthis Movement in Yemen, and the Muslim Brotherhood (UAEIEC, no date). Nevertheless, MENAFATF (2020: 39) noted that some of the presented cases concerning TF in the UAE and risk mitigation measures (including regional risk) were more focused on terrorism and designated terrorist groups than TF. Similarly, four state and non-state interviewees elaborated that the UAE government's effort to tackle the concepts of terrorism and extremism is more required than the FATF regime in CTF per se because it eliminates the roots of terrorism and, consequently, the phenomenon of TF.

The UAE did not experience terrorist attacks that led to significant fatalities or injuries on its land (GTD, no date) – Aside from the recent terrorist attacks by Yemen's Houthi rebels on three petroleum tankers in Abu Dhabi that resulted in three fatalities and six injuries (CNBC, 2022). Within the context of TF, the UAE identifies the terrorist financing risk as a medium-high threat, except for one terrorist organisation as a high threat (MENAFATF, 2020: 21).

According to the 9/11 commission report (no date: 237), part of the money used for the 9/11 attacks passed through bank accounts and traveller's cheques purchased in the UAE and used in the USA. However, these transactions were legal and in small amounts, so no suspicions were detected at the time. The UAE issued its first Federal Law (No. 4) regarding Criminalization of Money Laundering in 2002. Although it included provisions against terrorism, it did not specifically address terrorist financing and focused more on anti-money laundering. In 2004, the UAE issued its Federal Law No. 1 on Combating Terrorism Offences which criminalised the act of TF and punished it with life or provisional imprisonment (Articles 12-13). Thereafter, the MENAFATF's published its first-time evaluation of the UAE AML/CTF regime in 2008. Such details imply that the UAE's motivation for applying both the AML and the CTF regulations came as a result of the change in global CTF policy following the 9/11 attacks and emphasises the FATF's role in ensuring states' compliance.

Currently, terrorist financing offences are punished by life or temporary imprisonment for no less than ten years (Federal Law No. 7 of 2014: Articles 29-30). A breach by financial institutions, non-profit organisations (NPOs), and designated non-financial businesses and professions (DNFBPs) of the AML/CTF regime's requirements is punished by administrative penalties of no less than AED 50,000 and no more than AED 5,000,000 (Federal Law No. 20 of 2018: Article 14). Additionally, a breach of the directives of the UN Security Council concerning the financing of terrorism and the proliferation of weapons of mass destruction is punishable by imprisonment (no less than one year and no more than seven) and a fine of no less than AED 50,000 and no more than AED 5,000,000 (Federal Law No. 20 of 2018: Article 28, and its amendment by Federal Law No. 26 of 2021). Nevertheless, the MENAFATF's (2020) last evaluation of the UAE AML/CTF regime assessed both the effectiveness of the UAE TF preventive measures and the range of imposed sanctions on non-compliant parties as moderate. Following this result, the UAE has imposed different sanctions on non-compliant financial institutions (CBUAE, 2020-2021). These are in addition to the Cabinet Decision No. 16 of 2021, which explains measures and administrative fines imposed against the AML/CTF requirements violations. Thus again, this act emphasises the FATF's role in ensuring states' compliance with the global governance approach of AML/CTF.

In conclusion, although the UAE does not record major terrorist attacks, the UAE has an adequate regulatory framework to criminalise and punish the act of terrorism financing. Throughout this chapter, data interpretation will underline the UAE's commitment to the international CTF standards, whether for intrinsic or extrinsic motivations, but mainly as an international obligation to the FATF(as a part of its foreign policy). Nevertheless, as will be explained in this chapter, the effectiveness of the UAE CTF regime was blurred to both MENAFATF and the practitioners interviewed for the purpose of this thesis. The data suggests that the reason for the indistinct effectiveness of the UAE AML/CTF regime is relative to the country's inherent ML/TF risks, in addition to the lack of knowledge and experience of the new regulated sectors and immaturity of the recent legislative change.

5.3. Data collection and sampling

My objective in data collection throughout my research process was to engage with regulators, regulated entities, and law enforcement agencies to understand the complete implementation process of the FATF regime from the perspective of the practitioners. In this case study in particular, since it was the first case study in my research, I collected documentary data and the literature review before conducting the fieldwork in the UAE. Glaser and Strauss (2004: 37-39) advised delaying the literature review of grounded theory research to focus on the emergence of new categories and not import preconceived ideas and concepts to the fieldwork. Nevertheless, Charmaz (2014: 306-310) pointed out that Glaser and Strauss's approach could be problematic in practice. As the author explained, the researcher could use the literature review to "specify who did what, when and why, and how they did it" and uncover gaps in the current knowledge concerning the research topic. In line with Charmaz's clarification, I needed to shape my data gaps before meeting the participants to obtain sensible and new data from the field. This approach also allowed me to identify the actors based on their professional experience and involvement in regime implementation.

I contacted 26 potential participants from both public and private sectors, in addition to law enforcement entities and NGOs. Ultimately, as detailed in Table 2, I met 13 participants and received short answers for my primary questions through emails from 4 senior officials. However, the data collected through emails did not provide me with an in-depth understanding of the implementation process, since the questions were answered briefly and did not reflect the participants' personal opinions, experience, and perspectives. This situation emphasises the benefit of using in-depth interviews. The face-to-face interview method was deemed preferable for my research aim because it provided a deeper understanding of the implementation process from the practitioners' perspectives. Therefore, using the interview approach in my thesis was affirmed to be useful to construct different meanings from the data and to capture participants' opinions, attitudes, and challenges of daily practices (Gillham, 2000: 62; Gilbert, 2008: 246-251; Beitin, 2012: 250; Bell and Waters, 2014: 177-194).

Eventually, I reached my saturation with the sample stated in the following Table due to the variety in this sample which enabled me to thoroughly understand the implementation process of the FATF regime in the UAE from different angles. It also allowed me to compare perspectives of state and non-state actors. The majority of the participants in this case study have significant experience in the financial market for more than 20 years, including implementing the FATF regime. Moreover, using the grounded theory method in data analysis through writing memos and annotations as well as moving back and forth between the collected data allowed me to verify and develop concepts and categories during and after interviewing and, subsequently, to saturate the properties of categories (Charmaz, 2006: 102-110).

NO.	Interviewees	Organisation	Position	Date (2019)	Interview duration	Using recorder
1	Interviewee 1D	Bank	Head of Fraud Division — Risk Dept	March	60 minutes	Yes
2	Interviewee 2D	Law enforcement agency	Senior Official & Legal Advisor	April	45 minutes	No
3	Mr Omar Kamel	Hamadan Alshamsi Lawyers & Legal Consultants	Senior Associate	April	60 minutes	Yes
4	Interviewee 4D	Supervisory/Regulatory Authority	Senior Official	April	40 minutes	No
5	Interviewee 5CD	Law firm	Legal Adviser & Senior Partner	April	60 minutes	Yes
6	Interviewee 6D	Supervisory/ Regulatory Authority	Senior Official	April	35 minutes	Yes
7	Interviewee 7D	Supervisory/ Regulatory Authority	Compliance official	April	60 minutes	No
8	Mr Stuart Walker	Afridi & Angell Legal Consultants	Legal Consultant & Partner	April	45 minutes	Yes
9	Interviewee 9D	Bank	Compliance Officer	April	40 minutes	No
10	HE. Talal Al Tenaiji	* The Committee for Goods and Materials Subject to Import and Export Control (CGMSIEC)	Director of the Executive Office of the Committee	April	45 minutes	No
11	Interviewee 11D	Supervisory/ Regulatory Authority	Senior Official	April	60 minutes	No
12	Interviewee 12AD	The Federal State Security Prosecution	Senior Official	April	35 minutes	No
13	Mr Osama Alrahma	*Foreign Exchange & Remittance Group (FERG)	Vice-Chairman of (FERG) and the CEO of Al Fardan Exchange	April	40 minutes	Yes
14	Participant 14D	Dubai Police (Law enforcement agency)	Senior official	May	N/A	N/A
15	Participant 15D		Senior official			
16	Participant 16D		Senior official			
17	Participant 17D		Senior official			

Table 2: Participants in the UAE case study.

*The Committee for Goods & Materials Subject to Import and Export Control (CGMSIEC) is responsible for monitoring exports and preventing the proliferation of weapons of mass destruction at the national level through the implementation of relevant regional and global policies and regulations, including the UN Security Council decisions.

*FERG is a non-profit organisation that was established based on the UAE Central Bank initiative. It is a platform used by the largest exchange companies. It consists of more than 90% of all money exchange and remittance business in the UAE.

5.4. Data analysis

As I explained in the methodology chapter, I coded the data line-by-line and phrase-by-phrase (Charmaz, 2014). The first cycle of data analysis created 27 categories associated with 273 major codes. Following the process of recoding, sorting memos, and integrating categories, the final catalogue of categories of the data analysis in the UAE, as illustrated in the following table, included seven concepts which were: Immaturity of regulations, information asymmetry, culture of compliance, collaboration, international obligation, punishment, and trust.

Categories	Core categories	Major and Sub-codes	Concepts	Themes
7	4	52	7	6

Table 3: Number of categories, codes, concepts, and themes in the UAE case study.

Six themes emerged from the data. These were: (1) National characteristics may conform to some of the FATF requirements, but other characteristics challenge monitoring ML/TF risks. (2) The UAE is committed to the FATF standards because they are an international obligation. (3) Threat of punishment drives the involved actors' compliance and compels them to accept the cost of compliance. (4) Information asymmetry and resource capacity affect the performance of the UAE financial intelligence. (5) It is premature to measure the effectiveness of the latest AML/CTF regime in the UAE. (6) National actors' experience and awareness of the FATF requirements affect the regime's implementation.

The following section will discuss the data analysis findings and provide a thorough understanding of the FATF regime implementation in the UAE from the practitioners' perspectives in both the public and private sectors.

5.5. Discussion of findings

This section discusses the analysis of data collected from the fieldwork. It offers a thorough understanding of the FATF (AML/CTF) regime implementation and monitoring process in the UAE, according to the interpretation of the practitioners' perspectives.

5.5.1 National characteristics

This category is the first category I defined in this case study as a starting point for analysing how AML/CTF measures translate into the particular way the FATF regime is introduced.

The first characteristic I coded in this category is **'Social and Cultural Features'**. This code illustrates cultural and social characteristics that could be misused in disguising illegal money or funding terrorists. Three participants exemplified two cultural elements that were interpreted in the data analysis as a challenge for monitoring ML and TF activities in the UAE. For example, Mr Alrahma pointed out: "people in our region from governments or individuals have the culture of helping others. But today the world has changed what you intend to do with good intention may end up in the hands of terrorists". This statement illuminates the risk of abusing charities by terrorists due to the regional culture that promotes donation and helping others. In other words, terrorists exploit or abuse the cultural factor in the MENA region more than the charities sector, per se. Nevertheless, according to MENAFATF, the risk of non-profitable organisations (NPOs) being abused for TF activities in the UAE is low because NPOs' business is subject to a solid licencing system and financial controls— All UAE NPOs that need to transfer funds abroad have to do it through the UAE Red Crescent. (2020: 108-111).

Furthermore, Interviewee 6D — a state actor — indicated that measures concerning customs declarations related to gold focus on gold bullion more than jewellery carriers due to social and cultural factors, whereby "most of the UAE society members love and possess jewels". In addition to this, Mr Walker — a non-state actor — elucidated that many of the UAE society members, in particular the wealthy families, prefer to hold and move with a large amount of physical cash due to the luxurious lifestyle in the UAE. He highlighted that "such

behaviour for average persons could be seen as suspicious, but culturally some of these people [wealthy] like to have hard currency, and this is legitimate, cash is legal". In these remarks, both participants indicated the cultural element of adopting a luxurious lifestyle in the UAE, which leads regulators to adopt lax measures in regulating jewellery and cash movement, and so they accommodate the society's requirements. These views were interpreted in the data analysis as a challenge to the AML/CTF implementation process, since said elements are difficult to monitor and could be misused by money launderers and terrorists. It should be noted that the FATF introduced, in its recommendation number 32, measures to regulate cash couriers, in particular cross-border couriers, while it allows movement of gold and precious stones under each country's customs laws and regulations, "despite their high liquidity and use in certain situations as a means of exchange or transmitting value" (FATF, 2012a: 108). The UAE customs law regulates cash carriers, such as the declaration of any amount that exceeds AED100,000 —which is approximately equivalent to GBP20,000 (The UAE Government Portal, no date, c). Other countries, such as the US, limit the declared amount to only USD10,000, and the UK to GBP10,000 (US Customs and Border Protection, 2020; UK Gov, no date, a). Therefore, the variation between countries which all apply the same international standards is noted here in the data. Nonetheless, the UAE issued different circulars in 2021 to enhance DNFBPs control measures and their obligations towards the AML/CTF regime requirements, including dealers in precious metals and stones (e.g. Circular No. 2 of 2021). Still, in terms of using cash, the UAE has been recently placed on the FATF's list of jurisdictions under increased monitoring over concern of cash smuggling and hiding illegal wealth in the country (FATF, no date, g; abcNEWS, 2022).

Succinctly, it appears from the data that the UAE complies with the FATF recommendations with respect to possession of cash, gold, and precious stones. However, this code defines the cultural aspect, which is explained here as the social lifestyle, as a challenge to monitoring ML and TF activities in this regard. This is significant elucidation because it underlines how national characteristics, such as culture and social behaviours, could impact monitoring ML and TF risks and, consequently, the country level of compliance.

The second characteristic I coded in this category is **'An open Financial Centre'**, which focuses, in particular, on the Emirates of Dubai and Abu Dhabi. Five participants in this case study had mixed attitudes when describing the UAE financial market as an open economy and a major global financial centre. On the one hand, for example, Interviewee 9D indicated that Dubai, as an open and major financial centre, put the UAE at risk for ML and TF activities, since financial centres, and in particular free zones, promote the easiness of setting up a business. Therefore, free zones could accidentally allow for establishing non-operational offices as a front for illegal activities. On the other hand, Mr Kamel trusted that the business environment in the UAE as a financial centre relies on velocity and credit. Therefore, it increases the financial sector's maturity level and practitioners' knowledge, not only in terms of finances, but also the legislation maturity that aligns with the sector's requirements. Ultimately, Interviewee 7D — a state actor — explained that "the fact that the country is a financial centre raises the risks of attracting more of these [illegal] funds. However, this does not necessarily mean it is a bad thing; it is wrong only when we cannot mitigate these risks". This statement emphasises the role of risk mitigation through monitoring measures. It clarifies that the UAE's financial centres should not be understood as a risk for illegal funds (as in Table 12) when said measures are in place.

The above is particularly evident when we compare the anticipated risk of attracting illegal funds and the difficulty of monitoring this risk in an open economy or a major financial centre such as the UAE with the risk in closed or less opened economies. Still, such a risk could be tackled through adequate monitoring measures.

The third characteristic I coded in this category is **'Federal Complexity'**, which refers to the UAE federal system of government. Three out of four participants described the UAE's federal system as a challenge in implementing the FATF requirements at the national level. On the one hand, HE. Al Tenaiji believed that the UAE federal system allows for specialisation rather than problems. On the other hand, Interviewee 11D stated "they have centralised regulations [states such as Egypt and the UK] not a federal system like us. Therefore, the biggest challenge now is the quick application of the new rules". This participant also added "there is a need to harmonise local authorities with federal and

supervisory authorities". These two statements reflect the challenge in the UAE to implement the FATF standards on time through its federal system since it has to engage many actors who are involved in the implementation process, such as federal and local authorities, including free zones. There are 105 relevant AML/CFT competent authorities in the UAE (MENAFATF, 2020: 24). What the participant meant by quick application refers to the time that is required to coordinate with all the involved actors in the UAE following the circulation of the FATF's new requirements (of 2012) and before the latter's periodic assessment of the UAE's compliance.

Interviewee 7D also pointed out that "having a federal system creates a challenge in the implementation of the regime requirements related to DNFBP provisions. We may have some local laws that conflict with federal laws. Such a situation occurs in most federal systems, e.g. the US. However, the federal law must prevail over the local law, and the latter should not conflict with the former. Therefore, there is no legal concern, but the real practice is the problem". This statement identifies another significant challenge in the UAE's federal system, namely the anticipated conflict between federal and emirates' local laws. Although the participant stated that local law should not conflict with federal law, the participant also stated at the end that the real practice is the problem. This implies a challenge in practice to implement the FATF regime in the UAE due to the latter's federal system.

In brief, this code stressed the third national characteristic that could affect the implementation process of the FATF regulations in the UAE because there is more anticipated complexity of the implementation process of the FATF requirements within the UAE government federal systems than in the centralised governments.

The fourth characteristic in this category is '**Regional Instability'**. When I asked about the challenge in implementing the FATF regime, four participants in the UAE referred to the regional instability that could make the UAE a hub for illegal activities. For example, HE. Al Tenaiji replied, "We have a regional challenge where the region surrounding the UAE is unstable". In addition to this, Mr Alrahma opined, "being in a country which is in the middle of a lot of regional conflicts that are happening around us". Another participant clarified that

"the UAE is located in a destabilised region; Iran is under international sanctions where they have many suspicious activities in transferring money from and to Afghanistan". This statement implies that Iran, as an example, due to the imposed international economic sanctions on its financial system, may misuse its neighbour financial system, the UAE, in transferring money to terrorists' base in Afghanistan. Mr Walker also had the same geopolitical point of view and indicated that many individuals who are located in corrupted or unstable countries might find in the UAE financial system a haven for their assets. Interpretation of these statements is consistent with what was reported by the UAE authorities, for example, concerning the increased attempts of smuggling money during 2017-2019 due to political instability in the Gulf region (MENAFATF, 2020: 82).

The last characteristic in this category was coded as '**A Remittance Hub**', which describes the UAE financial system as a global hub for remittance. Both Mr Alrahma and Mr Kamel underlined the vital role of remittance service in the UAE because it serves people abroad who live in outlying areas and do not have bank accounts. For this reason, as Mr Alrahma explained: "that means there are a lot of rules we need to do to make sure that this money that is going out is genuine money from real sources and is going to the right people". It is understood from this statement that there is a greater need to monitor both banks and remittance services in the UAE than in other countries that primarily rely on banks. Similarly, Mr Kamel outlined that "the UAE did not [previously] license those companies [hawaladars] practise. However, these companies were under the supervision of the Central Bank. When things developed in TF, and some people were abusing this practice, the UAE decided to restructure and regulate this sector to prevent companies and individuals from abusing this it". These statements are important because they reflect how the national characteristic of the UAE as one of the largest remittance hubs in the world drives it to adopt the required measures, including the FATF regime, to prevent this service from being misused by terrorists. Nevertheless, the MENAFATF underlined the vulnerability of this sector to the risks of ML/TF because the UAE did not concisely quantify the exact number of Hawaladar activities and that several hawaladars were still function outside the regulatory regime (2020: 28).

In conclusion, national characteristics could affect the implementation of the FATF regime. As illustrated in the second and fifth codes, the FATF regime benefits the UAE in regulating the latter's global financial centres and its global remittance hub. However, national characteristics such as geographic location and the society's culture and lifestyle could challenge monitoring ML/TF risks and, consequently, the successful implementation of the FATF requirements.

5.5.2 Understanding TF and its countermeasures

This category is associated with four major codes to address participants' understanding of the TF phenomenon, including its risks and countermeasures.

The first code that I identified in this category is '**Global Changeable Phenomenon**'. Five participants in this case study described TF as a global problem that constantly changes due to the rapid shift in the global financial market and emphasised the role of international collaboration in tackling terrorist financing. For example, Interviewee 12AD stated: "There are serious efforts to combat ML and TF. However, CTF requires regional and international cooperation. If there is any defect it will affect all." Interviewee 2D underlines the change in the financial market that affects the regime requirements in his/her statement: "The financial sector is always in development; therefore, the regulators and laws must keep up with this development and make sure that the regulations reflect the real practice." In this way, the participants , in this case, have the same as this thesis understanding of TF as a global problem that is to be solved through global governance.

The second code I identified in this category is '**Understanding the Differences**', which describes participants understanding of the differences between ML and TF activities in practice. Eight participants in the UAE illustrated their understanding of the difference between ML and TF transactions in the same way discussed in the literature (section 2.6.1). For example, Interviewee 7D explained, "The definition of ML crime is entirely different from TF […] Mixing both ML and TF leads to a problem in practice due to their differences". Similarly, Mr Alrahma emphasised that the difference in transaction amounts between ML

and TF should be understood by the practitioners when they monitor these transactions to detect terrorist financing activities. However, he also explained that, despite this difference, ultimately ML and TF are interlinked: “In terminology, we talk about two issues, but in reality, it is one, and many times they have a kind of correlation with each other.” The interpretation of what Mr Alrahma stated here affirms that terrorists use both legal and illegal methods in their activities.

In terms of what Interviewee 7D stated earlier concerning the difference between ML and TF definitions, Mr Alrahma also referred to the problem of terrorism definition and the importance of reaching a universal definition, so it is not used politically under the label of terrorism. On the contrary, when I asked Interviewee 2D — a law enforcement agent — to verify this problem, said participant explained that “Regarding the difference in definitions and terrorist lists, we do not have a problem because it is recognised internationally. According to the FATF recommendations, the state has the right to issue its own terrorist list and raise it to the UN Security Council. Therefore, the problem here is not the national list, but when a state does not classify or circulate the international list at its national level”. Interviewee 2D here implies that not reaching a universal definition of terrorism does not necessarily impact CTF practice because countries can designate a terrorist act. Nevertheless, he/she refers to state’s rights in designating terrorists but does not indicate how terrorism definition could affect the practitioners’ view of designated terrorists and their actions.

The third code that I identified in this category is ‘**Perception of the CTF Objective**’. Two participants for this code defined CTF measures not as disruptive tools but as preventative measures that aim to prevent terrorist attacks. Such understanding affected those participants’ perception of the regime’s effectiveness and undermines the global efforts of CTF. For example, Interviewee 9D illustrated: “You find those [TF] transactions after months or even years. There is no use of such information after it happened.” This statement, in particular, implies the participant’s deep-rooted belief that CTF measures cannot prevent an act of terror from occurring. Such an interpretation is critical because it deems the regime to be counterproductive because it is linked to the act of terror. In other words, the practice of the regime is reactive rather than proactive. As explained by the MENAFATF in its evaluation

report, associating the perception of CTF with the presence of terrorist attacks could mislead the national assessment of TF because it conflicts TF with the risk of terrorism (2020: 39). For this reason, as explained later in the following category, increasing awareness and educating the practitioners of the CTF regime's objective of disrupting TF planning and the growth of their network, could improve actors' understanding of the regime requirements.

The last code that I defined in this category is '**Inadequate Consideration of TF Risks**'. This code refers to the unintended consequences of combining both CTF and AML measures under the same mandate. For example, Interviewee 2D illustrated in his/her explanation of the new regulatory reform of the UAE's AML/CTF that the "legislator made sure that the new articles cover both ML and TF. Therefore, whenever there is an obligation or commitment related to AML, it is also associated with CTF." Such a statement implies that the new regulatory reforms did not deal with TF risks separately from ML risks so that the applied measures address TF risks according to terrorist financing nature and the differences explained earlier in this category between ML and TF. That might be the reason for Interviewee 9D suggesting the following: "In banks there should be a policy of CTF only which is built up by the Central Bank. We can say almost all countries today are committed to the FATF regulations. But there are different views to find TF transactions."

In conclusion, given that this thesis primarily aims to understand TF and the implementation of its global countermeasures, it was clear from the data that the UAE participants understand TF as a global problem that needs to be approached through global governance. However, despite that and participants' understanding of the differences between TF and ML activities, data interpretation of four participants' views uncovered a misperception of the CTF regime's objective. It also anticipated weakness in addressing TF risks separately from ML risks to ensure that the applied CTF measures effectively deal with national TF risks. As explained in the next category, this could be due to a weakness in implementing the FATF recommendation concerning conducting national risk assessment.

5.5.3 Implementation of the FATF international standards

I classed the third category in the data as a core category (together with the fourth and fifth categories) since it answers the primary research question of how the FATF regime is implemented within the national context.

The first sub-category in the 'implementation of the FATF international standards' is 'Identifying the Risks of ML & TF'. Identifying ML/TF risks is processed through conducting '**National Risk Assessment' (NRA)**, including a '**Risk-based Approach' (RBA)**, which is part of the country national risk assessment to identify high to low risks at the sectoral level (section 3.5). All participants in this code emphasised the importance of identifying the risk of ML and TF on a case-to-case basis. This means that each institution has its own risks according to its sector, customer type and volume, particular products and services, and delivery channels.

The first gap I identified in the UAE practice in terms of 'Identifying the Risks of ML & TF' I coded as **'Undetermined Potential Risks'**, which singles out 'digital currency' as a potential risk to ML and TF in the UAE. Four participants in this code believed that digital currency is a significant risk, particularly when it comes to TF. For example, when I asked the participants what challenges the UAE is facing today to achieve the FATF CTF regime's objective, Participant 15D — law enforcement actor— answered: "The latest trend in crime 'FINTECH'. Criminals use cryptocurrency globally to move the cash without a trace through anonymous accounts, which looks like a global challenge to be regulated". The participant here underlines money launderers and terrorists' abuse of the advanced technology in moving and disguising their funds through what is known in the financial market as Financial Technology (FINTECH). This method represents a risk to countering terrorist transactions because it is out of the financial institutions' control, and so it cannot be detected or regulated.

Furthermore, Interviewee 7D explained: "Sure; it [digital currency] is an international challenge. We have not thoroughly studied it, but we considered it in the national risk assessment. There is no high risk now that requires imposing measures". The phrase, it has not been "thoroughly studied" yet at the federal level suggests a weakness of the UAE's

AML/CTF regime in dealing with the emerged risks of ML/TF in practice so that control measures are placed on time. However, following the interviews and the MENAFATF assessment, the UAE has amended (in September 2021) some of the AML/CTF law provisions to include the risk of digital finance (Federal law No. 26 of 2021). Such a change in legislation implies that the UAE is motivated to tackle the emerging risks in practice or enhance its compliance with the FATF. While both are related, the new measures require time for the involved actors to practice them effectively, as explained in the following code.

The following major code in 'implementation of the FATF international standards' is '**Closing the legislative Gap**', which emerged from the data as a pattern in this category. Nine participants repeatedly focused on the changes adopted by the UAE in the implementation of the FATF regime in light of the last version of the UAE AML/CTF law (Law No. 20 of 2018). They all deemed these changes as a productive step in improving the practice of the FATF requirements in the UAE. One of said improvements was identifying supervisory authorities and their role, as well as new state and non-state actors that are subject to the regime. This was in addition to other amendments on the practice of hawala, charities, defining corporates' beneficial owners, and other provisions related to the FATF's latest standards (of 2012). As Interviewee 2D explained, "We need to divide that [the practice] into two stages: before the new law and its executive regulations [2014], and the later stage [2018]." It was clear from what the participant explained that the UAE changed its old version of the AML/CTF law to increase the law's clarity and introduce more provisions that offer a better understanding to the regulated entities and close the gaps already exist in practice. Other participants also affirmed this interpretation. All of the participant's statements suggest that the change implemented by the UAE legislators in amending the AML/CTF law (theoretically) solved the problems that emerged in practice. However, the participants' statements could also refer to gaps between the old law version and the FATF requirements, rather than only relating to the practice.

Within said context, Interviewee 7D also opined that "There are several laws in the UAE related to ML. We aimed to close any existing gap in these laws through the new law because new laws prevail over the old ones". While this quote affirms the legislative change

mentioned earlier, the first phrase was interpreted in the data as the second gap in the UAE implementation of the regime, and I coded it as '**Missing a Unified Law**'. For example, one participant expressed: "We do not have a unified law in this area, and this is another challenge." Therefore, it is understood that the UAE changed its AML/CTF law to close the existing gaps in the practice and increase the clarity and understanding of the regime's requirements. Still, not regulating all the provisions of AML/CTF within one unified law could cause confusion. This could be linked to the UAE federal system complexity; however, no further data appeared to reaffirm this understanding within the current code.

Within the context of closing the legislative gap, I defined the code '**Immaturity of the New Regulations**' as a short-term challenge. The last version of the UAE AML/CTF law was issued in late 2018, and its executive regulations designate competent authorities to supervise the implementation of the new law provisions. The AML/CTF law also requires financial institutions to assign at least one compliance officer to their compliance department. As Interviewee 4D explained, "Some financial institutions previously did not dedicate people to handle this matter". Interviewee 11D reflected: "We haven't practised this role before." Moreover, Interviewee 2D opining that "Another challenge is the NRA; the new law has obligated all regulators and sectors in the country to conduct this assessment. Such a requirement might be difficult to achieve for the first time […]. All of these requirements are new to the state and need time to be absorbed". These statements highlight the importance of actors' understanding of the FATF regime requirements to implement their role successfully. Moreover, they refer to the UAE's recent AML/CTF regulations' immaturity that limits the actors understanding and their role in implementing all the new FATF requirements in the interim, such as conducting a risk assessment at the national level. This suggests that understanding the national risks of ML/TF requires an adequate level of experience from the actors in the field, which may vary from one sector to another.

As indicated earlier in the first category, the UAE (incorporating major global financial centres) may accelerate the experience level of practising global regulations in its financial centres, including amongst the practitioners of the regime. Therefore, it could be understood that lack of experience in practice is a temporary condition due to the current prematurity of

the last version of the UAE AML/CTF law that was built on the latest FATF requirements. Nevertheless, lack of experience of the new regulated sectors would anticipate inconsistent implementation and outcomes at the sectoral level in the UAE between the previous experienced regulated industries and the new ones. Therefore, I identified the lack of experience of new sectors as the third implementation gap in the UAE's practice of the FATF regime. This challenge necessitates educating the new involved actors on the regime's requirements to gain adequate experience that can be applied in practice, as explained in the next code.

While this category thus far has emphasised the major gaps in implementing the FATF regime in the UAE, the next two codes suggest how these gaps could be improved in practice by means of **'Raising Awareness'** and **'Communication and Collaboration'**.

In a general sense, three out of nine participants outlined the importance of public awareness and understanding of the AML/CTF law provisions, whereas ignorance is the most noted element in breaching the law. For example, Interviewee 6D explained, "We think that these travellers did not intentionally attempt to elude the law, but they did not report due to their misunderstanding or ignorance of the law". Mr Kamel shared the same perspective when stating that "What we noticed was that the majority of cases happened due to the ignorance of laws. Even if that [ignorance] is not an excuse, the intention is the factor that enables the judge to decide the appropriate sanction". These statements underline the lack of public awareness about the law's application and emphasise the regulators' role in raising public awareness and understanding of the AML/CTF law in the UAE.

The other participants pointed out that awareness of the law provisions is required for the actors who are involved in the regime implementation process, particularly the new actors. For example, Interviewee 4D stated, "There is a need for raising the awareness and stakeholders' interest, and it is also essential to absorb and understand the new regulations, as there are some financial institutions that previously did not have dedicated people to handle this matter". In addition, HE. Al Tenaiji highlighted that "Raising the private sector's awareness of the current measures needs more efforts". All participants emphasised that

raising state and non-state actors' awareness of the AML/CTF law is crucial for the UAE's compliance with the FATF requirements, especially with the changes brought to the law provisions on its last version in 2018. Thereby, increasing actors' awareness, including understanding the law requirements, improves the regime implementation in the UAE and, ultimately, its compliance with the FATF.

The final code in this category is 'Communication and Collaboration'. Five actors used the word 'communication' in particular, which was interpreted within this code. The other participants explained several forms of communication, such as meetings and seminars, conducted to improve the implementation process of the AML/CTF regime in the UAE. For example, Interviewee 7D explained that "They [non-state actors] are the ones who are in the field and implement these regulations. Therefore, they have a practical perspective. Regular communication between the private sector and their regulators facilitates the combatting of crimes". These statements underline the private sector's role in the regime implementation process from the regulators' perspective. From the perspective of non-state actors, Interviewee 5CD positively perceived the regulator's role, stating that "Here [in the UAE] they are very successful in getting this information to you and also in convincing you of this information, besides clarifying any aspects you don't understand". This statement is consistent with what the state actors opined in the earlier notes.

While communication could be a channel of collaboration, the latter is a more focused concept in terms of drawing actors' attention towards efficiently implementing the regime through all available tools within the FATF network, such as cooperation among actors with regard to exchanging suspicious information related to TF activities. For example, Mr Alrahma stated: "We believe this [CTF] is about collaboration between different entities, it's a matter of everybody and exchanging information more in advance. Those things will allow more ability to CTF". Such a statement affirmed the role of exchanging information between the involved actors, including the international ones, and cooperation is needed to promote the gathering of information concerning TF successfully.

In conclusion, identifying the country's risks of ML and TF at all sectoral levels is essential in designing and implementing the appropriate measures required to mitigate these risks. Thereafter, it is crucial for the country to tackle the identified risks through, for example, closing technical and legislative gaps that have emerged in the market or practising the FATF regime. The data interpretation showed that compliance is accomplished not only through issuing the AML/CTF law but also through comparing the law with the current practice and the FATF requirements and then resolving these gaps. Therefore, it has been conceived from the data that legislation is an important element in the successful implementation of the FATF regime. However, actual compliance relies on practice and taking action towards the shortcomings that have emerged. Simultaneously, with such change to tackle the legislative gap identified, new regulations and the involvement of new actors are required to implement measures designed to address these shortcomings. The data in this regard anticipates inconsistent implementation within the regime network in the UAE until these new regulations are practised and understood by all of the new actors involved. Therefore, raising actors' awareness of the regime's requirements is crucial in closing this gap of implementation.

The data also highlighted the role of communication and cooperation between the actors involved in the regime as a way to facilitate understanding the regime and gathering information. These two concepts were identified in the literature review chapter as being essential forms of global governance networks. Nevertheless, some aspects of collaboration, such as exchanging information within the FATF network, are limited, as explained in the following category.

5.5.4 Financial intelligence

As indicated in the third chapter (section 3.5), the CTF regime's function of identifying and analysing information related to TF transactions is the cornerstone of the regime. This function is exercised through financial institutions' role in gathering sufficient information about their customers, detecting suspicious activities, and reporting them to the national

financial intelligence unit (FIU). However, the data in this category underlines several challenges in performing the said role effectively.

First, no unified internal system connects all the relevant authorities, and a similar system for non-state actors. Interviewee 1D suggested establishing a centralised information platform for all the financial institutions involved. Therefore, it is understood that these unified or centralised platforms could facilitate access to information for both state and non-state actors. The absence of such platforms, especially given what was explained earlier concerning the number of actors involved in the regime implementation, would lead to a long process of collecting and verifying the required information. Then, as Interviewee 9D explained, "You find those [TF] transactions after months or even years. There is no use in such information after it [the transaction] happens", which means the collected information would not be productive.

The second challenge is information asymmetry regarding financial institution customers. For example, Interviewee 2D stated, "The problem we have is defining beneficial ownership. The new law has solved this issue to some extent as it requires the competent authority to obtain the information of beneficial owners". This statement is crucial because it affirms the problem of information asymmetry when authorities cannot identify who the ultimate beneficial owners of a business are, following which a sham business could create a corporate bank account and use it in disguising illegal activities or funding terrorists. For this reason, the FATF stressed the importance of collecting sufficient information regarding beneficial owners before establishing the business. However, following the interviews and the FATF assessment, the UAE accompanied the AML/CTF law with Cabinet Resolution No. 58 of 2020, which regulates and necessitates the collection of business and corporate beneficial owner information. Such revision indicates the improvement in the UAE AML/CTF practice and, more importantly, the FATF's role in enhancing financial information transparency and guiding states in implementing its related measures.

The third challenge also emphasises information asymmetry but focuses more on the acts of ML and TF than on customers. For example, Participant D1 underlined the following: "The

bank employees here [when there is uncertainty or lack of sufficient information] cannot know and will never know, but the front desk has guidance to follow". This statement highlights that, despite the difficulty in detecting terrorist transactions, financial institutions still need to obtain any available information about their customers. However, it also underlines how the problem of information asymmetry challenges financial institutions in understanding terrorist behaviours and patterns, and consequently affects the successful implementation of the FATF regime. This finding is consistent with the literature concerning the lack of information about TF transactions, including the complexity of identifying money launder and terrorist behaviours and patterns (e.g. Barrett, 2012; Rudner, 2006; Strange, 1998).

The last challenge in this category is '**Resource Capacity**', which is associated with three sub-codes. The first sub-code is 'Qualified Resources', as state and non-state actors emphasised the critical role of having qualified resources in the regime implementation process, including the role of gathering and analysing information related to terrorist suspicious transactions. Sufficient resources in this regard appeared as a gap in the implementation process of the CTF regime. For example, Interviewee 9D expressed the need for resources to sustain the automated systems work, stating, "Resources, you need a standard team for this policy". Moreover, Interviewee 11D emphasised: "The problem is not resources but also qualifications". Therefore, it is understood that the availability of qualified resources is essential to investigate and create different scenarios that help identify suspicious activities.

However, lack of resources appeared as a pattern in the data, particularly at the state authorities. For example, Interviewee 7D explained that "Lack of resources is everywhere, and in all sectors […] Furthermore, the subject of the AML/CTF regime is a new matter not only to the UAE but all over the world as well." This statement links the lack of resources to the absence of qualified resources and experience in the field of AML/CTF. Notwithstanding, Interviewee 6D highlighted that the problem is the shortage of resources, as the resources involved in this implementation process are also involved in other tasks. Indeed, said participant stated: "I think all the governmental authorities suffer from a lack of resources. The AML division is not the only task we have; we have several other functions. So, we have

a problem in this matter, and all entities experience that". Simultaneously, Mr Kamel reflected the non-state actors' perspective on this matter through his clarification that "The private sector is highly aware of that [hiring qualified resources]. If you review today the wanted resources [jobs] for big or small companies, you will find the reoccurrence of compliance, risk management, and AML officer. […] this matter is not a joke, and it could have serious consequences". Therefore, it is understood from the participant that non-state actors are aware of the importance of resources in the field of AML/CTF and are keen on hiring sufficient resources so that they do not risk the risk of non-compliance. Such a commitment and understanding by non-state actors also indicate the institutional culture of compliance adopted by financial institutions to comply with the regime requirements.

In sum, the data shows that state institutions may have less qualified resources than non-state institutions. The above suggests a challenge to successfully implementing the FATF regime in the UAE because it jeopardises the state supervisory and regulatory intended role (section 5.5.5).

The second sub-code in 'Resource Capacity' is 'Trained Resources'. Seven participants in this code stressed the importance of training for all the actors involved in the regime implementation in the UAE. For example, Interviewee 11D pointed out that "The essential requirement is to assign a liaison officer who has sufficient knowledge and training in this matter, so that said officer can detect suspicious transactions". The same perspective was shared by Mr Alrahma, who alluded to "Making sure that the new people coming [new employees] are being fully trained, understand their roles and obligations, and they can detect those kinds of ML/TF practice". These statements indicate that resources qualification is not enough for implementing the regime's requirements; employees in all sectors should also receive training to improve their knowledge and skills. Training is a constant process, as the participants emphasised, so that the actors understand and stay informed of the regime changes. In this way, training employees in regulated entities enables them to perform their role and practise the regime's requirements efficiently. Nevertheless, this would increase the institutional cost of compliance.

The third sub-code in ‘Resource Capacity’ is ‘Software & Systems’. Both state and non-state actors outlined the role of automated systems in the regime implementation process. Monitoring systems, such as profiling, screening and filtering systems, are required to alert financial institutions when there are suspicious activities. However, the participants in the UAE highlighted that although they rely on automated systems in meeting the regime’s requirements, still human resources are more important. For example, Interviewee 9D explained that “We rely on the system, but everything comes from you to bring it up. You are the one who feeds it up with information and the scenario”. Simultaneously, non-state actors, in particular, emphasised the challenge of placing all of the required systems due to their high cost. As Interviewee 1D explained, “I cannot apply a system, for example, that costs me millions of dollars while I have a small volume of clients. […] It would be perfect, yes, but by doing that, I am losing money”. What is understood from the participant here is that institution size and the volume of customers are the factors that determine the need for monitoring systems. Thereby, these factors are connected to the cost of compliance versus the institution’s profit. Nevertheless, the participant’s statement also implies that financial institutions would not place a “perfect” system with a high cost. In other words, financial institutions would place the required systems to comply with the regime but not necessarily achieve utmost (perfect) compliance when it affects the institution’s profit.

In the final analysis, it was noted in the MENAFATF mutual evaluation report that the majority of suspicious transaction reports (STRs) in the UAE included fraud and ML indicators. In contrast, identifying suspicious activities related to TF was very low (2020: 56). Ultimately, it was also reported by the MENAFATF that the UAEFIU has a limited role in reporting TF STRs, with only six disclosures to State Security and 27 requests for information received from State Security in 2018 related to TF cases (61). Furthermore, the quality and effectiveness of the STR regime were open to interpretation. This is because banks submitted the majority of the total STRs in the UAE — roughly 80% to 85% of the total STRs, 60% of which were provided by only five banks.

The MENAFATF noted that the law enforcement agencies did not investigate 98% of the STRs disseminated by the UAEFIU due to insufficient evidence or the absence of identified

criminal activity. This note is crucial because it implies not only the difficulty in gathering sufficient information to condemn criminals and terrorists but also the poor quality of the disseminated STRs. Both the fieldwork data and the MENAFATF assessment implied that the reason for this quality is the lack of the UAEFIU's resources — whether human resources, software, expertise, or training. Therefore, as indicated by the MENAFATF, it is inferred that the STR regime in the UAE is not effectively active and beneficial to investigations and prosecutions. In other words, financial intelligence in the UAE is not exploited to the extent that it benefits internal investigations and criminalises individuals and entities that launder money or finance acts of terrorism (2020: 52-65).

In conclusion, obtaining and exchanging financial information plays a vital role in financial intelligence performance. Nevertheless, both documentary and fieldwork data underlined several challenges in collecting and analysing the required information for detecting the behaviour of money launderers and terrorists effectively. Ultimately, it is inferred that the gap of information within the context of the CTF regime is not only recognised in identifying and understanding terrorist behaviours in respect of their funding activities, but also related to the resource capacity in both regulatory and regulated institutions. However, improving resource capacity would increase the cost of compliance, consisting of recruitment, training, and employing the required software that could facilitate the function of gathering and analysing information.

5.5.5 Compliance and Monitoring

This category completes the first and second core categories concerning implementation of the FATF international standards, whereby offering a comprehensive understanding of how the regime is implemented and monitored in the UAE.

The first code in this category is '**Culture of Compliance'**, which underlines the necessity of creating the culture of compliance among the regime actors. Culture of compliance here means clearly understanding the requirements of compliance with the FATF regime and

accepting the cost of compliance that was indicated earlier in the preceding category. As Mr Alrahma exemplified, “We also conduct workshops for the compliance and operation people to create a culture of compliance”. In addition, he added, in another context, the following: “So, do we implement what is being requested from us? Yes, and it is there now as a culture and dedicated responsibilities”. This statement indicates that the implementation of the FATF regime in the UAE became an institutional culture at the regulated entities. Moreover, Interviewee 4D believed that one of the steps required to improve the current practice of the regime in the UAE is “The role of compliance officers in doing their job completely, as is required, including their institution’s awareness and culture”. This means that institutions should adopt said culture by educating their employees and providing them with the required systems, training, and workshops that help raise their awareness of the regime’s requirements. Finally, an adopted institutional culture of compliance within the context of the CTF regime implies a change in institutions’ culture and behaviour so that they may have accepted the regime’s associated cost of compliance.

However, the perceived gap in this aspect was noted in achieving utmost compliance with the requirements of the regime, meaning that actors may indeed accept the cost of compliance but might comply with only the essential or minimum requirements. For example, recalling what Interviewee 1D stated earlier: “I cannot apply a system, for example, that costs me millions of dollars while I have a small volume of clients.” He/she later added: “But we have *basics* […]. What I need is a certain system that gives me *enough to move*.” Such a statement implies that financial institutions may be inclined to comply with only the basic requirements of the regime when increasing the level of compliance could anticipate increasing institutions’ operational cost, thereby affecting their profit.

Furthermore, the concerning matter I identified as adverse to the required culture of compliance is ‘**De-risking**’. I classed this code as an unintended consequence of implementing the FATF regime’s requirements rather than an implementation gap. Because De-risking does not solely address the UAE financial market, it describes financial institutions’ behaviour in the global financial market. De-risking — explained in section 2.6.2— defines the financial institutions’ behaviour when they do not conduct risk analysis

and terminate their business relationships with potential clients and remittance companies located in countries with a high risk of ML or TF (World Bank Group, 2016). Therefore, I interpreted this behaviour in the data as the reverse of the risk-based approach. Mr Alrahma explained the negative impact of this behaviour on the market, in particular remittance services. As per his explanation:

> What is happening is those banks [that apply de-risking] are pulling out from the financial system, and they cut their relationship with correspondent banks, which puts the other party in a catastrophic situation. You should see our compliance regime and if we do not meet your standards, say we cannot deal with you.

Mr Alrahma stressed how de-risking behaviour has become a phenomenon in the global financial market that harms the remittance sector. Financial institutions adopt this behaviour to avoid applying the FATF requirement of the risk-based approach due to the cost of compliance on human resources and systems. Therefore, such institutions prefer to adopt the de-risking behaviour rather than a serious commitment to the FATF requirements and accepting the cost of compliance. Nevertheless, such behaviour harms the financial sector because it moves ML and TF risks to another institution rather than mitigating the identified risks and applying the appropriate measures that can protect the sector.

To sum up, the data thus far illustrated a change in institutions' culture and behaviour in accepting the regime's associated cost of compliance. However, actors may only comply with the regime minimum requirements or adopt de-risking behaviour to avoid the said cost.

Both state and non-state actors have a crucial role in monitoring the implementation of CTF regime requirements. As indicated earlier, non-state actors should identify TF risks according to their institutions' financial systems, including the types of products or services provided to their customers. They do so by utilising their human resources and software to gather information about their customers. Therewith, they will be able to monitor their financial systems and detect suspicious transactions related to ML and TF and then report such transactions to the national FIU. In turn, state supervisory authorities should monitor and ensure non-state actors' compliance with the explained process. As Interviewee 2D

emphasised, “Part of the effectiveness of the current regulations relies on their [supervisory authorities] role of doing that. If the role of the supervisory is effective, all regulated entities will comply with the regulations”. Therefore, it is understood from this statement that the effectiveness of the FATF regime implementation relies largely on the supervisory role of monitoring actors’ compliance. Such an understanding is prominent because it underlines the supervisory role importance in governing actors’ compliance (section 2.2).

The state supervisory role is practised in the UAE through two significant tools. First, through ‘**Punishment & Incentives’.** The supervisory authorities would use different sanctions as a punishment tool to ensure actors’ compliance, either through administrative penalties or penal sanctions. The administrative penalty imposed by the UAE supervisory authorities on non-compliant institutions includes a warning, writing a pledge, and suspension of business temporarily or permanently. The penal sanction issued by a criminal order in the UAE includes financial fines and/or a prison sentence. However, it is worth noting that sanctions could be imposed by the UAE regulators and courts or international regulators when financial institutions use the foreign currencies of other countries. Ultimately, most of the state participants in this code shared the perception that sanctions constitute a negative incentive to encourage actors’ compliance. The only exception was Interviewee 4D, who added tools he/she believes represent positive incentives such as workshops, questionnaires, and raising awareness, which, in his/her view, improve actors’ understanding of the regime and, therefore, their compliance.

The second tool is through ‘**Auditing & Inspection**’, which describes the supervisory role in conducting field visits and inspections of the regulated entities and internal auditing. For example, I asked the participants in the UAE what would encourage actors’ compliance. Interviewee 11D outlined the role of inspection and auditing, stating: “Through liaison officers and inspections to verify that the company does not have any suspicious transactions. What is essential in this practice is the role of auditing”. The participant here underlines steps that precede the imposing of sanctions: inspections and auditing corporate transactions to trace any suspicious activities. Interviewee 1D also shared the same perspective: “The Central Bank audits our work annually, and all the banks in the UAE, all departments,

including compliance. After auditing, we receive some modifications or requirements". The participant here emphasises the outcome of the auditing process, which could detect inappropriate performance during the regime implementation process.

Within the context of the national supervisory role required to monitor non-state actors' compliance with the CTF regime, I identified '**Hegemonic and International Supervision**' as a relevant code. Two participants referred to the relationship between national authorities and international supervisory and law enforcement entities, such as the FATF and the US Treasury Department Attaché in the UAE. For example, Interviewee 1D pointed out the "US Treasury Department and Department of Foreign Affairs, which are always concerned about those things [TF]. They do what is called supervision on banks all over the world." Moreover, Mr Alrahma stated that "sometimes we invite the Attaché to speak on behalf of the Treasury about their initiatives and what's happening. We believe that this is about collaboration between different entities. It's a matter of everybody and exchanging more advanced information. Those things will allow more ability to CTF." Such statements are crucial to this thesis because they underline the hegemonic role to maintain actors' compliance with international regimes. Therefore, it is understood that not only a national supervisory role is essential within the context of implementing global policies, but also a hegemonic role such as the US and international supervision such as the FATF mutual evaluation, as explained in the following category (5.5.6).

Ultimately, the fieldwork data and data collected from the MENAFATF evaluation of the supervision role in the UAE indicate a moderate quality of supervision in monitoring actors' compliance (MENAFATF, 2020: 131-167). Within this context, I identified the code '**Enhancing the Supervisory Role**' in the fieldwork data as being an area of improvement.

For example, one participant referred to the need to receive quick responses from regulators concerning money transactions. As per his/her statement, "we need a competent authority that is responsible for providing rapid responses to such transactions". Another non-state participant referred to a weakness in the supervisory role in relation to state authorities' role of punishing and imposing sanctions on non-compliant institutions. As per his/her statement,

"I think more public examples need to be taken. They just need to find enough dirty money and make very public cases against that to deter other people from abusing the system. But I also think that should happen in an ideal world; it doesn't happen in London or New York either." Lastly, another non-state actor stated: "I think supervisory authorities should focus more on new technology and blockchain." The participant here suggests that supervisory authorities broaden their typical mandate according to new developments in the financial sector. The last two statements are consistent with the explained documentary data in this chapter (section 5.2). As pointed out earlier, the UAE has started to impose several financial sanctions on non-compliant financial institutions. Furthermore, the country has amended the AML/CTF law to include the risk of digital finance (Federal law No. 26 of 2021).

The final code interpreted within the context of this category is '**Trust**'. I classified this code within the context of compliance because it is related to 'responsive regulation theory' — indicated in chapter 2, which underlines the perception of trust in regulatory relations and compliance. Braithwaite and Makkai (1994: 1) illustrated the "dynamic regulatory strategy of dialogue and trust as a first choice followed by escalation to more punitive regulation when trust is abused". They underlined the probability of high compliance when regulated bodies believe that regulators trust them. In parallel, the probability of voluntary compliance is high when regulated entities trust their regulators (Murphy, 2004). Within this framework, Six (2013) conceptualised how regulators' concept of trust and tools of control complement each other in their effect on regulated entities' compliance.

Four participants used the word 'trust' in their description of their relationship with each other. For example, Interviewee 1D — a non-state actor — affirmed that "We highly trust the Central Bank, and we have a good relationship with it". Moreover, Mr Kamel reflected the same meaning when he said, "I don't think at all that a court or any governmental entity could leak this information for commercial purposes". Simultaneously, Interviewee 6D — a state actor — opined: "From our side, we know that the private sector is willing to commit with any legislation measures and there is only a small category that may get around the law". This statement emphasises that trust among the actors is a reciprocal relationship, since non-state actors trust state actors, and vice versa. Therefore, regulators in the UAE rely not

only on monitoring tools such as punishment and inspection but also on their perception of trusting regulated entities to comply with the CTF regime. In this way, the UAE regulators combine both monitoring tools to punish non-compliant actors and the concept of trust, which appeared to be a reciprocal perception between state and non-state actors. Such an understanding suggests another explanation for the UAE's lack of imposing sanctions in practice on non-compliant institutions.

Trust also emerged in another context, namely when non-state participants deal with customers who are employees of a government entity. For example, Interviewee 1D stated, "However, in some big companies, we don't need to do CDD because they have already done that to hire our customer; you will never be better than them in checking the personal background. However, this doesn't also mean that I don't follow the procedures". The participant here was describing the process of due diligence related to their customer. The said participant explained that when the customer is an employee at one of the most trusted — as it is known to the participant — government entities, then the bank will follow the regular procedures, but is not as thorough with other unknown entities. Therefore, the participant here trusts the employees of government entities on the basis that these entities have already implemented the required due diligence before hiring their employees. However, as described by the participant's statement, trust was not only interpreted in the data as a feature of the relationship between actors, but also as a risk. This is because trusting or having the perception that another entity has carried out the required procedures might affect the examiner's judgment — e. g. the front or the back office in a bank — of customers' behaviour and consequently their ability to detect any suspicious customer activities. This interpretation was developed from FATF recommendations, specifically numbers 12 and 22, which require countries to ensure that financial institutions apply the AML/CTF measures to politically exposed persons (PEPs). This means that no special treatment should be given to politicians or, as per the data interpreted here, corporates that the government owns, including these corporates' employees.

In conclusion, when it comes to state and non-state actors' role in monitoring ML and TF risks and complying with the AML/CTF regime, the data interpretation underlined the change

in the institutional culture of compliance while utmost compliance might still be affected by its associated increased cost. This interpretation, together with the findings of the next category with regard to actors' motivation for complying with the regime, would illustrate that international pressure, including the FATF's role as a tool of global governance, changed institutional behaviour towards complying with the regime and accepting its associated cost. Furthermore, international and hegemonic supervision and involvement at the national level of the UAE appeared in this category to emphasise their role in facilitating compliance and cooperation and states combining the threat of punishment with trust. Considering the increased level of UAE compliance noted between 2008 and 2020 according to two mutual FATF evaluations conducted in said years, it could be assumed that the concept of trust and the tools of punishment together increase the level of compliance. However, such an assumption needs further dedicated research, especially as it did not appear in the two other cases examined in this thesis.

5.5.6 Actors' Motivation for Compliance

This category is associated with five major codes to capture actors' motivations and reasons for compliance with the FATF international standards in the UAE.

The first motivation I coded in this category as '**Avoiding Sanctions**', as illustrated by nine participants. This code and the following one represent the most weighted motivations for actors' compliance in the UAE with the FATF standards. For example, Interviewee 9D commented "Sanctions are important. This matter is horrible". Moreover, Mr Kamel highlighted the cost of non-compliance when he said "I usually measure this matter [cost of compliance] with the consequences. Imagine that you receive a fine related to this matter, so you will pay millions and lose your business […] Decision-makers in private companies fear falling into that [non-compliance] and consequently they want to comply with the laws". This statement emphasises the role of sanctions in financial institutions' decisions, and so they would accept the cost of compliance rather than being penalised or losing their business. In addition to this, Mr Walker exemplified "they [law enforcement agencies] may impose fines

[on the non-compliant firm/institution] in some cases". Said statements stress the importance of using sanctions (punitive fines) as a tool for punishing non-compliant institutions. As a result, financial institutions comply with the CTF regime requirements due to their fear of being subject to the regime punishment. Therefore, it is understood from this code that sanctions imposed by national or international regulators drive the regime actors' compliance and compel them to accept the cost of compliance.

The second most weighted motivation in this category I coded as '**International Obligation'**, which I identified from the data provided by 11 participants as the reason for the UAE's compliance with the FATF standards. For example, HE. Al Tenaiji stated that "In addition to our [the UAE] obligation to implement the FATF measures, we made significant progress on showing our commitment to the decisions taken by the UN Security Council regarding CTF". He also added, in another context, that "The FATF evaluation is critical to us". These two statements reflect that the UAE government is keen on adopting international standards, including both the FATF and the UN Security Council. However, the importance of the FATF evaluation, emphasised by the participant, suggests that the UAE complies with the FATF requirements due to the FATF's tool of punishment, which is known as a diplomatic sanction against non-compliant countries. A diplomatic sanction includes ranking and naming and shaming countries that fail, as per the FATF evaluation, to implement and comply with the latter's requirements (Pattison, 2018b: 1-5; FATF, 2012d: 29-31). This tool could also affect the country's reputation, as will be explained shortly in this category. Likewise, Interviewee 9D — a non-state actor — affirmed the interpretation put forth by HE. Al Tenaiji, when the former stating, "We are committed to these measures because the FATF can grey list the country". This statement may refer to financial institutions' interest in the country's image and reputation. However, the most appropriate interpretation refers to the effects of the country receiving a negative ranking on the financial institutions, since they will be prohibited from benefitting the international financial system as long as they operate in the country. Moreover, Mr Alrahma added "That will allow us to transact globally". Thereby, he clarified that the primary reason for compliance is conducting transactions

globally since the FATF network could prevent non-compliant financial institutions from accessing the international financial system.

Furthermore, Interviewee 6D replied to my question concerning the objective of the regime implementation with the following:

> First, because it is an international obligation, the UAE is keen on complying with international requirements. When it comes to this matter, there is no room for discussion. Secondly, we need it [international standards], and there is no international obligation without reasons. Internationally, there is a bad reputation concerning the free zones in the UAE, and we have to admit that. Therefore, we worked on where we could be targeted for ML/TF, which was also one of the issues in the national risk assessment.

This statement is vital in understanding actors' motivation for compliance because the data interpretation implies that the participant mixed both intrinsic and extrinsic motivations. Said participant referred to the international obligation, stating that it could harm non-compliant countries' reputation. The participant also referred to not being a destination for ML activities from the ethical point of view of not being a resort for illegal activities. The affirmation of this interpretation is consistent with the participant's emphasis on the notion that "there is no international obligation without reasons". This suggests that the participant believes in the FATF's international objective of AML/CTF.

Therefore, this code emphasised that the majority of both state and non-state participants comply with the FATF regime because it is an international obligation that could punish non-compliant parties. It is worth noting that most of the participants used the words 'obligation' and 'commitment' to describe their compliance with the FATF requirements. Those exact words were expressed repeatedly by nine participants in the UAE. This suggests that the actors here comply with the international requirements as a duty more than an intrinsic value or personal conviction because both obligation and commitment in these contexts result from the international pressure and threat of punishment. Within the framework of this interpretation, the change in the UAE AML/CTF law, indicated earlier in this chapter, could be perceived as a result of the country obligation to the international requirements.

Therefore, the AML/CTF national law, with its executive regulations, was formed on the FATF international standards, as affirmed by eight participants.

Since the word 'reputation' appeared in the previous code several times, the third code I identified in this category was '**Reputation**', which was used by three participants. Reputation in this code refers to the UAE's legitimacy and its international standing among other countries (Pattison, 2018b: 3) as well as financial institutions standing as trustworthy and honest institutions for their customers. In addition to what Interviewee 6D explained earlier, two non-state actors highlighted the importance of a good reputation for their institutions. For example, Interviewee 9D stressed his/her institution's aim within the context of the FATF as follows: "We should not be penalised or risk our reputation". In addition to this, Mr Walker stated, "We do not do that [accepting less legitimate or suspicious clients] here; there is too much risk to our reputation if we come close to that line". These two statements highlight the relationship between compliance with the international standards and maintaining the institutional reputation, and so financial institutions would not risk losing their genuine clients.

The fourth code I identified was '**Country Image**', which is also relative to the former code since both reputation and country image refer to the UAE's international standing. For example, when I asked Mr Kamel if imposing the FATF restrictions could constrain or put more pressure on the business since the private sector primarily aims to make a profit, he replied, "This matter became more about the image of the country, not the profit. That is why we should not tolerate this matter under any circumstances." This statement confirms that compliance with the FATF requirements is essential to maintain the UAE's international standing and refers to the relationship between state and non-state actors in sharing the same objectives. Mr Kamel is neither a state actor nor an Emirati citizen, and he used the pronoun "we" in speaking about the UAE. In another context, Interviewee 5CD stated that "They [the UAE government] care more for individuals' security and country integrity". Country integrity was interpreted under the same code since both country image and integrity refer to the UAE's international standing. The participant's perception here affirms the above-mentioned conclusion on why the UAE government complies with FATF requirements.

Having described all extrinsic motivations that were explained by the participants for the UAE's compliance with the FATF regime, the last code in this category interprets the actors' intrinsic motivation for compliance, which is '**Limiting Illegal Activities**'. Five participants in this code considered the AML/CTF regime is crucial to combat illegal activities related to ML and protect the financial system from being abused by terrorists. For example, both Mr Walker and Interviewee 5CD used the same phrase: "They do not want the dirty money". Besides, Interviewee 6D also mentioned, "To attract trade and clean money to the country". Therefore, it is understood from the data that three state and non-state actors out of the five participants in this code shared the same perception of why the UAE complies with the FATF requirements. The other two participants believed that the CTF regime is required to protect charities from being abused by terrorists and consequently limit TF. For example, Mr Kamel described the leading role of the UAE as a significant donor globally. He added, "All of these circumstances [humanitarian projects] reflect the fact that if the UAE was not organised legally, we would have seen a devastating impact. But, because the banking sector is regulated, and the movement of money is regulated as well, this helps in limiting the phenomenon of TF and suspicious activities". This statement suggests that the primary aim for the UAE in limiting TF through regulating its financial sector is consistent with the international regulations, and so the global objective in CTF would be achieved.

Nevertheless, some participants' statements were interpreted in the data as a lack of intrinsic motivation. For example, Interviewee 1D stated: "Our job is only to report suspicious persons or transactions and all related information. We do not need to follow up on what happens later." Such a statement suggests a lack of actors' interest in following up and verifying that suspicious reports submitted institutionally were productive in disrupting terrorist activities. Simultaneously, some statements suggest an unintended consequence of international pressure in removing actors' intrinsic motivation. For example, recalling what Interviewee 11D stated previously in this chapter, "the biggest challenge now is the quick application of the new rules". This statement suggests that actors' focus is upon achieving states' compliance with the international CTF standards before the time of the FATF mutual

evaluation, rather than the implementation of appropriate CTF measures that could effectively disrupt TF transactions, regardless of the time required to do so.

In conclusion, participants' statements in this category suggested intrinsic and extrinsic motivations for compliance with the FATF requirements in the UAE. Said interpretation is important to this thesis because intrinsic motivation is more sustainable for actors' learning and compliance than the threat of punishment (e.g. through sanctions). In other words, actors' intrinsic motivation would encourage the successful implementation of the FATF regime requirements, regardless of the threat of punishment. However, as explained in this section, the extrinsic motivation, such as the FATF pressure or avoiding sanctions, was more appealing to the actors and ensured their (minimum) compliance. Moreover, as discussed in the literature review chapter (section 2.3), the threat of punishment is still required to ensure that actors (particularly those who lack intrinsic motivation) comply with the regime.

5.5.7 Practitioners' perception of the CTF regime effectiveness

This category answers the last research question concerning practitioners' perception of the CTF regime effectiveness. Interviewees' perception of the regime effectiveness was relative to the code 'Closing the Gap', since measuring the effectiveness of the law is connected to the last amended version of the UAE AML/CTF law that was issued in late 2018. Eight participants had positive perceptions of the UAE laws to AML and CTF. For example, Mr Walker stated: "I think the legislation that we have here is pretty good". Simultaneously, five out of eight participants stressed the importance of practising the new regulations in measuring effectiveness. They felt that making the regime effective requires closing the existing gaps in the law and practising the provisions of this new law, and consequently having the required statistics that could measure the effectiveness. Since the new version of the UAE AML/CTF law was issued in late 2018, all participants in this code stressed that it is premature to measure the current AML/CTF law's effectiveness at the time of the interviews. For example, Interviewee 11D stated that "If you do not practise and have enough time for feedback, you will not improve the regime. Therefore, we need to practice". In addition to this,

Interviewee 6D replied to my question with: “Currently, I still need more time to evaluate the new law based on practice. However, in theory, it includes everything [...] I can say we have closed 100 per cent of the gaps, but we have to practise first the new regulations to see how effective they are”. Besides this, Interviewee 12AD explained that “Effectiveness is connected to practice and the result of these laws and measures.” Therefore, it is understood from the data here that practising the law provisions is a crucial element to confirming whether the existing gaps are closed and defining any new risks or challenges in the field. This act of practising consequently makes it possible to measure effectiveness.

However, as emphasised by the participants, the practice needs time to provide the data and results required for measuring effectiveness. Needing time to practise the new UAE law emerged as a pattern in this code. Time is still needed to conduct the national risk assessment, as well as to hire and train resources in the new departments requested by the law, and to allow the newly identified actors to gain experience. For example, Interviewee 2D explained: “Some supervisory authorities did not practise their role as a regulator in this area before […]. These authorities need more time to absorb the new regulations and effectively execute their role. Such a process will not happen in one day; it needs time”. Therefore, it is understood here that the required time is needed to practice implementing the new changes in the law and for the novice actors to understand the regime requirements and gain experience from this practice. The same interpretation was affirmed by Interviewee 6D, stating: “We still need time to move from understanding to practising, then to actual results”. Interviewee 11D also explained that “We have more than 30,000 establishments categorised under designated non-financial businesses and professions. We need time to apply this commitment before the FATF assessment”. The participant’s statement here implies the relationship between the time required to practise the law, followed by measuring its effectiveness, and the FATF assessment as a primary purpose.

The second pattern that emerged in this code related to statistics availability. Five different participants stressed that statistics availability is necessary to identify the gaps in the regime implementation and consequently to measure its effectiveness, such as number of suspicious activities reports, investigations, public orders, trials, and convictions. However, since the

practice of the new law provisions is still premature, the data have indicated that the absence of statistics is a challenge in measuring the regime's effectiveness. Simultaneously, the data did not interpret the absence of these statistics as information asymmetry because they are relative to the practice more than information asymmetry between parties.

In conclusion, the UAE adopted several changes to the UAE AML/CTF law, so that said law meets the international standard requirements and closes the functional gaps that emerged in past practice. Simultaneously, the data identified different challenges to the implementation process and the effectiveness of this process in the UAE, such as lack of the novice actors' experience, insufficient awareness, absence of statistics, and the prematurity of the AML/CTF new law. As a result, at the time of interviews in this case study, the data did not deliver a precise answer concerning the regime's effectiveness in the UAE due to the aforementioned reasons, mainly the prematurity of the UAE AML/CTF law. Similarly, despite the MENAFATF commending the UAE legislative changes to the AML/CTF regime, the effectiveness of the legal framework and its associated technical compliance was not obscure to the MENAFATF evaluation team since said framework had been updated before the time of the evaluation. Ultimately, the UAE was rated as compliant with 11 out of the FATF 40 recommendations, largely compliant with 23, and partially compliant with six (2020). The UAE evaluation, in general, is considered an improvement, particularly given its first mutual evaluation, as the UAE was rated compliant with only five recommendations, largely compliant with 15, partially compliant with 18, and non-compliant with 11 recommendations (MENAFATF, 2008).

5.6. Conclusion

This case emphasised how national characteristics such as geographical location and society's culture and lifestyle could affect the implementation of the international CTF regime, including monitoring requirements. These are in addition to countries' technical and legal capacities. Moreover, while it appeared in the data that the CTF regime may have changed the institutional culture of compliance, accepting the regime's requirements and its

associated cost, the data suggests that actors' utmost compliance with all of the regime requirements remains relative to the cost of compliance.

Furthermore, practitioners in the UAE indicated a challenge in obtaining information about financial institutions' beneficial owners and collecting sufficient information that could detect the behaviour of money launderers and terrorists. As a result, information asymmetry could affect the performance of actors' role in identifying the risks of ML/TF and raising suspicious transaction reports (STRs) to their regulators and, consequently, their compliance with the requirements of the CTF regime. However, the data also suggests that the difficulty of identifying terrorist transactions is related to the lack of resources, experience and expertise, particularly in new regulated sectors. This means actors could have more capability to detect ML and TF transactions if they have more experience and dedicated resources in the field of AML/CTF. Resource capacity would also improve states' supervisory role in monitoring non-state actors' compliance.

Despite that the participants understand and explained the differences between AML and CTF measures, it seems from the data that they address the two phenomena as one threat; therefore, identifying national risks of TF separately from risks of ML did not appear in the data. This could be due to the international standards design of the CTF measures based on the AML mandate. Simultaneously, what appeared in the data as a matter of concern is actors' perception of the objective of the CTF regime, as it aims to prevent an act of terrorism, which affected their perception of the effectiveness of the regime. This thesis suggests that a misperception of the regime's aim could affect actors' motivation towards increasing their level of compliance with the regime, while perceiving it to be counterproductive. Therefore, such data underlines the role of raising awareness among the regime network of not only the requirements of the regime but also its objective and anticipated outcome.

Lastly, the data indicated that the international pressure and sanction tools involved in the regime encourage actors to improve their institutional culture of compliance and accept its cost. Nevertheless, only five interviewees out of 13 expressed their intrinsic motivation as

being to limit illegal activities. This thesis considers intrinsic motivation is more sustained for actors' compliance than the threat of punishment through sanctions. Extrinsic motivation may lead to negative behaviour such as de-risking or limiting the level of compliance to the minimum requirements.

In conclusion, the fieldwork data failed to illustrate a precise inference concerning the effectiveness of the FATF regime in the UAE due to the legislative changes to the AML/CTF regime that was updated (in late 2018). Similarly, the effectiveness of the UAE AML/CTF regime was obscure to the MENAFATF evaluation team (MENAFATF, 2020: 6). In other words, up to the time of interviews and the MENAFATF evaluation visit, the effectiveness of the new CTF regime in the UAE was blurred.

Chapter 6

Implementation of the International CTF Standards in Egypt

6.1. Introduction

In the preceding chapter, I explained how the Financial Action Task Force (FATF) regime is implemented in the UAE, which I chose due to the regulatory flexibility of its financial centres and the size of its remittance sector. This chapter aims to interpret how the FATF regime is implemented and monitored in Egypt.

As explained in the methodology chapter, my objective throughout my research process is to thickly describe the implementation process of the FATF regime in different national contexts (including Egypt) to learn about the regime itself and answer my research questions (section 4.2). To achieve my objective in this chapter, I utilised the data collected through interviews from the practitioners of the regime in Egypt to interpret their understanding and practice of the regime on an everyday basis. The purpose of these interviews was to obtain data on how those responsible for implementing the FATF regime in Egypt understood and perceived the FATF regime. In particular, by using intensive semi-structured interviews, it was hoped that they may reveal their personal perspectives on the FATF regime's effectiveness in combatting the financing of terrorism and whether they believe it is successfully implemented at the national level as the FATF intended.

From the thick description offered by the analysed data in the present chapter (section 6.5), it is possible to argue that the probability of Egypt's utmost compliance with the FATF regime is low due to the country's national characteristics. These characteristics are identified in the present chapter as: geographic features, country instability, corruption, and cultural differences. These are in addition to limitations in the banking core system, the large size of the informal economy and the underground market. Such national characteristics also affect financial intelligence performance to identify terrorist transactions and monitor their associated risks effectively. Furthermore, the data appeared to show that the actors involved in the FATF

regime implementation in Egypt have extrinsic rather than intrinsic motivation to comply with the FATF regime. As I explained in the UAE case study, this thesis considers intrinsic motivation to comply with the CTF regime as important to actors' learning and performance because extrinsic motivation depends on the continuing threat of punishment and adequate supervisory role, which may not be sustainable or practised effectively.

6.2. Country outlook

Egypt is a sovereign state of 27 administrative governorates under a republican system. The President of the Republic is the head of state and the head of executive power (State Information System, no date, a). Egypt's constitution has had several amendments, most notably following the 2011 Egyptian uprising. A referendum on the last version of the constitution was approved in 2014 with amendments through 2019 (State Information System, no date, b). Nonetheless, the Egyptian revolution that led to the Mubarak regime's fall has considerably impacted the country's political and economic stability and security (Rutherford, 2013; Paciello, 2011).

The Muslim Brotherhood (MB) is an Islamist party in Egypt founded in 1928 and was an influential opponent to the Mubarak government. The group gradually increased its public popularity and political aim after the constitutional reforms in 2005 that enabled political parties to elect their candidates in the presidential election (Menza, 2012: 11; Paciello, 2011). Following the 9/11 attacks, and to limit the MB group's power, the Mubarak regime, once again, amended the constitution to allow the government to "refer crimes of terrorism to any judicial body established by the Constitution or the law"– including military trial (Egypt Constitution, 2007: Article 179; Paciello, 2011). Moreover, the Mubarak regime started to target the financial and operational networks of the group (Menza, 2012). This approach did not trace the group's financial backing (71). However, tens of millions of dollars of assets value were either frozen or seized under the charge of money laundering (84). Still, the group possessed significant financial support provided by its adherents throughout the country and abroad (Lampridi-Kemou and Azaola 2012: 129-130).

Following the fall of the Mubarak government, Mohamed Morsi, a president of the Muslim Brotherhood's Freedom and Justice Party, was the first elected civilian president of Egypt in 2012 (Rutherford, 2013: 10). A year later, the military overthrew the Morsi government, led by General Abdel Fattah El-Sisi, Minister of defence and commander-in-chief of the armed forces (The National, 2019). El-Sisi became the president of Egypt, getting more than 96% of the vote in the 2014 election, and was re-elected for his second term in 2018 (CNN, 2021). In 2013, the MB was designated as a terrorist organisation in Egypt (National list of terrorists and terrorist entities, 2022; The Washington Post, 2013). As in the UAE and Saudi Arabia in 2014 (UAEIEC, no date; The Washington Post, 2014) and the US in 2015 (Muslim Brotherhood Terrorist Designation Act of 2015). Subsequently, the Egyptian government introduced different measures (Such as the Anti-Terrorism Law No. 94 of 2015) to fight terrorism, imposed several penalties, and accelerated trials of terrorist act suspects (US Department of State, 2019). Therefore, following the Egyptian revolution, counter-terrorism policies became a priority to maintain and protect the current political system stability from designated terrorists and extremists, including the Muslim Brotherhood party. It could also be understood that the designation of the MB as a terrorist group by the aforementioned countries signals sharing the same threat or the common interest of protecting Egypt's political system against the MB group.

Unlike the UAE and the UK, Egypt is not recognised as a financial centre. Egypt is a developing country that is recognised by its large informal economy and its high level of corruption (US Department of State, 2018: 99-101). This observation anticipates a considerable constraint upon the national regulatory authorities and financial institutions to implement the FATF regime successfully. This is in addition to its vast land area and the high population, which is estimated to be over 102 million, the largest population among other Arab countries (World Bank, 2020, The National, 2022). Moreover, Egypt is located in the Middle East, where the country shares borders with the Gaza Strip, Israel, Libya, and Sudan. Egypt's regional political instability exposes the country to transnational criminal and terrorist activities (MENAFATF, 2021: 5). The interviewees in this chapter acknowledged that the country's location in a conflicted region facilitates the smuggling of artefacts and arms, both considered

sources of ML predicate offences. There is also a terrorist threat concerning Egypt's Sinai Peninsula becoming a sanctum to ISIL terrorist group (US Bureau of counterterrorism, 2021: 118; 2019: 115-116). Thus again, said observations here constrain the country's compliance with the international CTF and, more importantly, threaten its security and the stability of its political regime. Nonetheless, Egypt showed a substantial compliance level with the FATF CTF regime (MENAFATF, 2021), making it an interesting case study to understand how a developing country with several economic and political challenges implements the FATF international regime.

Since the 1970s, Egypt has been a target of extremist activities associated with different groups and movements (GTD, no date). In 2017, Egypt was one of the ten most impacted countries by terrorism globally and recorded the second-largest terrorist attack– executed by Sinai Province of the Islamic State (GTI, 2018: 27). Nonetheless, similar to the UAE, Egypt did not issue CTF measures before the 9/11 attacks. Egypt adopted its first law concerning criminalising the act of money laundering in 2002 (Law No. 80 for 2002 Promulgating Anti-Money Laundering). Article 2 of said law prohibited the act of terrorist financing under the proceeds of money laundering predicate offences. A number of subsequent amendments were passed to strengthen the legislation against ML/TF within the framework of the FATF international standards (Chapter 8: Table 9). These were in addition to Anti-Terrorism Law (2015: Article 13) which includes a strict punishment for TF ranging between life imprisonment (if the fund was for a terrorist) and death sentence (if the financing was for a terrorist group). Violation of the Egyptian AML/CTF law by legal persons leads to a fine of an amount no less than 100.000 and no more than five million Egyptian pounds, and a suspension of the business if the offence has been proceeded by one of the company employees (The Anti-Money Laundering Law no. 80 for 2002: Article 15). Moreover, the natural person who managed the company shall be imprisoned for no more than seven years and fined twice the laundered amount (Articles 14-15). Violation of the AML/CTF law by financial institutions or non-financial professions and businesses would result in the suspension of the business, but no fines are stated in the said law (Article 16). Nonetheless, according to the Anti-Terrorism Law (2015: Article 20), anyone who conceals or deals in money obtained for terrorist acts

shall be punished by imprisonment for no less than ten years. Failure of reporting any information related to a terrorist act by any person while knowing or possessing such data is punished by imprisonment and a fine of no less than 100.000 and no more than 300.000 Egyptian pounds (Article 33).

Egypt is one of the MENAFATF's 21 members, the FATF Style Regional Body (FSRB) was established in 2004 to ensure an effective AML/CTF regime in the MENA region (MENAFATF, no date). In 2000, the FATF introduced its initiative of listing non-cooperative jurisdictions with the international AML standards to reduce the financial system's vulnerability to ML (FATF, no date, d). Among the examined 47 countries of concern to ML, 23 countries were listed as non-cooperative jurisdictions between 2000 and 2001, including Egypt. As a result, the FATF called its members' special attention to businesses and transactions with financial institutions and companies in non-cooperative jurisdictions due to their failure to comply with the regime's core requirements (FATF-GAFI, 2001). In 2008, the MENAFATF conducted the first mutual evaluation of the Egyptian AML/CTF regime and noted its development since its considerable shortcoming indicated in 2001 (MENAFATF, 2009). Thereafter, in 2014, the MENAFATF recognised many positive steps that the Egyptian government has taken to increase the effectiveness of AML and CTF measures (MENAFATF, 2014). Egypt achieved substantial progress, particularly in terms of CTF, according to the recent MENAFATF (2021) evaluation of the Egyptian compliance with the FATF AML/CTF standards.

As this chapter will discuss within the context of the fieldwork data, such gradual progress in the Egyptian compliance with the AML/CTF international standards indicates the FATF's role in aligning state's systems with the global aim of AML/CTF. Still, according to the country's national assessment, the risk of TF in Egypt is high due to the presence of terrorist groups in Egypt that possess and use different legal and illegal activities to collect and move their fund, including funds from abroad (MENAFATF, 2021: 14). Ultimately, it could be understood from what has been discussed so far that said progress in the Egyptian CTF measures is related to the political regime's motivation in eliminating terrorist activities and protecting its political stability. This is in addition to improving Egypt's international stand-

ing, notably following the FATF listed the country as non-cooperative jurisdiction and the fall of the previous government.

6.3. Data collection and sampling

To canvas elite opinion on the FATF regime in Egypt, I contacted 28 potential practitioners from different sectors in Cairo. Ultimately, I managed to secure interviews with eight participants; of these, six were non-state actors, and two were senior officials. I started with five participants; however, significant concepts and new questions emerged during data analysis concerning views and perceptions of supervisory and regulatory authorities in addition to industries that were recently regulated in Egypt, such as exchange houses. Therefore, I went back to the field to obtain further data and verify specific concepts and points of view until the identified categories in the collected data and their properties were sufficiently defined.

The major difficulties in achieving a larger sampling of participants included the sensitivity of the topic, the time available for the research, and the ethical considerations stated in the methodology chapter. It should be recalled here that small sampling or population representativeness does not mean that qualitative research is not rigorous (Mason, 2018: 54, 61). What was important to me is to capture actors' experience (Beitin, 2012: 250) and to follow, as Mason explained, an 'illustrative logic' by determining the sample that will provide me with a better understanding and sufficient illustration of the FATF regime implementation in Egypt. For this reason, my focus in sampling was on the adequacy and appropriateness of participants who can generate meaningful, rich, varied, sufficient and relevant data to my research questions (Rapley, 2014; Cleary, Horsfall and Hayter, 2014; Gentles et al., 2015; Patton 2015, Nicholls, 2017). Eventually, I reached my saturation with the sample indicated in Table 4 due to the variety of perspectives offered by the practitioners I interviewed. These practitioners reflected the supervisory and regulatory authorities' role in regulating the Egyptian financial market and the regulated bodies subject to these regulations. This is in addition to using the grounded theory approach of theoretical sampling, wherein saturation focuses on

sampling until the identified categories in the data and their properties are sufficiently defined and completed. (Charmaz, 2014: 213-216).

Therefore, I met the participants detailed in the following table, on two field visits to Cairo in April and November 2019. The sample included actors from both the public and the private sectors, which enabled me to understand the complete implementation process of the FATF regime in Egypt from different perspectives.

Interviewees	Position	Organisation	Date (2019)	Interview duration
Interviewee 1C	Compliance Officer	Bank	April	60 minutes
Interviewee 2C	Civil Society Representative	NGO (charitable organisation)	May	45 minutes
***Interviewee 3C**	Head of Compliance Division	Bank	May	90 minutes
***Interviewee 4C**	Head of Regulatory Compliance & Monitoring			
***Interviewee 5CD**	Legal Advisor & Senior Partner	Law firm	April	60 minutes
Interviewee 6C	Owner & Managing Director	Exchange house	November	60 minutes
Interviewee 7C	Senior Official	Supervisory and Regulatory Authority	November	97 minutes
Interviewee 8C	Former Public Prosecutor	Law enforcement agency	November	75 minutes

Table 4: Participants in Egypt case study.

*I conducted the interview with Interviewee 3 and Interviewee 4 simultaneously.

*I met Interviewee 5CD in Dubai; he/she works as a legal advisor in Dubai and has a private law firm in Egypt.

6.4. Data analysis

The first cycle of data analysis of (8) interviewees' input created 17 categories associated with 155 codes. The focused codes process concentrated on making decisions and selecting the most frequent and significant codes that develop categories and lead to developing my argument. Therefore, the number of categories and codes shrank following focused coding, sorting and integrating memos. The final catalogue of categories of the data analysis in Egypt, as illustrated in Table 5, included five concepts which were: theoretical practice, culture of compliance, international cooperation, international obligation, and punishment.

Categories	Sub-categories	Major & sub- Codes	Concepts	Themes
7	6	61	5	5

Table 5: Number of categories, codes, concepts, and themes in Egypt case study.

Five themes emerged from the data. These were: (1) national characteristics constrain Egypt ultimate compliance with the FATF requirements. (2) inconsistent implementation of the regime requirements. (3) Institutions' difficulty and uncertainty in identifying terrorist transactions. (4) The threat of punishment involving sanctions drives state and non-state actors' compliance. (5) Financial institutions altered their behaviour and culture of compliance due to their fear of being punished.

6.5. Discussion of findings

This section discusses the analysis of data collected from the fieldwork to develop the understanding of the FATF anti-money laundering (AML) and counter-terrorist financing (CTF) regime implementation in Egypt.

6.5.1 National characteristics

This category describes elements that interviewees believe to be causes or facilitator factors of money laundering (ML) or terrorism, and challenge monitoring terrorist financing activities in Egypt.

The interviewees stressed eight domestic factors that enable ML and terrorism in Egypt. According to data interpretation, four of these factors are directly linked to the AML/CTF regime. The first characteristic in this category I coded as '**Geographical Features**'. This characteristic defines both geographic vastness and the large population of Egypt, which make it difficult for authorities to control crimes. The second characteristic is '**Country Instability**' was coded to reflect the perspective of four interviewees who referred to country instability as a challenge to counterterrorism and combatting ML. Instability here includes two subcodes, regional and national instability. For example, Egypt borders destabilised territories such as Libya, Sudan, and Gaza, thus meaning that the country is a hub for arms smuggling. Moreover, Interviewee 5CD stated that "The lack of security in Egypt following the Arab Spring and the national revolution that ended up with the government of the Muslim Brotherhood has made Egypt a fertile ground for terrorism". In this statement, the interview refers to Egypt's instability at the national level due to the Egyptian revolution that affected national security and increased terrorism. However, Egypt has been experiencing terrorist acts since the 1970s (GTD, no date). In this way, the consequences of the Egyptian revolution in 2011 may indicate an increase in terrorism risks rather than to be interpreted as a root factor for terrorism.

The third characteristic in this category is '**Corruption**'. Six interviewees linked ML to corruption. Corruption was seen either as a cause or as a result of ML, which made the interviewees believe that AML measures are also anti-corruption. Three interviewees used the word "corruption", while the rest referred to different types of corruption that I coded under the same code. For example, Interviewee 5CD affirmed that "we [in Egypt] have struggled with corruption for a long time". Interviewee 2C remarked, "there are corrupted people in this field [charities in Egypt]". Further, Interviewee 8C stated that "The revolution indicated a

vast amount of illegal money that was moved in or out the country." In the same perspective, five interviewees used phrases such as misappropriation of public assets, bribery, racketeering, and inequality of wealth or opportunities. The data in this code shows a strong relationship between corruption and ML. Egypt has a high ranking in the corruption perceptions index, as its corruption position relative to the other countries ranks it as 117 out of 180 countries (CPI, 2020: 3). As a result, the views of 6 out of the 8 interviewees in Egypt outlined the impact of corruption on the financial sector practice. The data shows that the relationship between corruption and ML is clear due to the fact that ML is the process of cleaning or disguising the illegal money generated by predicate offences– "offence whose proceeds may become the subject of any of the money-laundering offences" (United Nations Office on Drugs and Crime, 2008: 119). For example, corrupted politically exposed persons usually launder the money they have gained from crimes or offences such as bribery. However, the relationship between corruption and terrorist financing (TF) was obscure in the data, as none of the interviewees referred to it. Nevertheless, it could be argued that corruption is relative to the implementation of the CTF regime, because heavy regulation may lead to more corruption, and therefore affect the regime implementation (Holcombe and Boudreaux, 2015; Clarke, 2014). For example, corrupted actors who are involved in the implementation process might turn a blind eye to some AML/CTF regulations if they receive a bribe or have been subject to racketeering.

A few interviewees outlined other factors as a cause of ML and terrorism, such as poverty, unemployment, the high rate of crime, and social and moral factors that lead to ignorance and religious misconceptions. I coded these elements as '**Social & Economic Factors**'. However, it is worth mentioning that although the interviewees deemed these factors as elements that facilitate ML and terrorism, such relationships between, e.g. poverty, unemployment and terrorism, are contested (e.g. Burdette, 2014; Sterman, 2015). For instance, it was argued that economic factors like poverty and unemployment do not cause terrorism, as a high rate of terrorist operations can be seen in both wealthy and poor countries (Ehsan, 2019; Groves, 2008). Instead, it is suggested that the relationship is actually between political freedom, democracy and terrorism (Abadie, 2004). Nevertheless, it is also advocated that poverty has an

indirect role in increasing the probability of recruiting poor individuals in terrorist groups (Burdette, 2014; Ehsan, 2019). Therefore, it could be understood that economic factors are not directly linked to terrorism but are still relevant.

The interviewees' views so far suggest indirect factors that could constrain the implementation of the AML/CTF, such as geographic vastness, country instability, and corruption. The following four codes reflect national characteristics that directly impact the implementation of the CTF regime requirements.

The fifth characteristic in this category is '**Culture**', which includes two sub-codes. ''Ancient culture' refers to abusing Egyptian artefacts, which are considered one of the ML predicate offences in Egypt. The interviewees did not explicitly refer to the abuse of artefacts in TF as in ML. However, as illustrated in chapter 3 (section 3.3), terrorist groups such as ISIL engage in the illicit trade of artefacts and antiques. The second sub-code is 'Individual culture', which is deemed by the interviewees a significant challenge in Egypt in terms of implementing the regime monitoring requirements. As expressed by Interviewee 3C, "The problem for the Egyptian society or us as financial institutions concerning AML/CTF is the culture issue". In addition, Interviewee 4C elaborated: "The most difficult challenge is culture. Any question you ask the client, he takes it as a personal offence that I am accusing him of something". Similarly, Interviewee 6C pointed out, "according to most customers' mentality, the words instruction, or ML/TF will terrify them". Interviewee 7C gave an example of a case that included the same statement when a bank employee asked a customer about the source of his funds, and the customer replied: "it is not your business". The interviewee added, "We have many problems due to some cultural considerations […] we can say that awareness between individuals does not exceed 30% due to some cultural considerations". The interviewees also explained the customer's fear of disclosing due to their considerable belief that envy existed or to avoid tax investigations, in addition to other reasons. For example, as revealed by Interviewee 7C, it was found in practice that some clients did not disclose all their financial statements because they are divorced, and their ex-wives may go to court asking for higher alimony payments.

Interviewee 3C explained how individual culture challenges scrutiny and verification of customer information and could also raise many false alarms that affect the efficiency of reporting suspicious activities (STRs). For example, customers who believe that someone else is envious may resort to opening an account with a bank that adopts lax regulations or a bank outside the city to avoid having an account at the same institution where their relatives have accounts. This is because the customer does not want his/her relatives to know how many times he/she goes to the bank to spend or receive money. The problem with this behaviour is that when a customer leaves all of the banks in the location where he/she resides and switches to a bank account out of the city, this will raise a red flag for ML/TF. Interviewee 3C stressed that "I think 70% of the suspicious ML cases are filed due to that reason – the culture". The interviewees' statements appear to show a crucial inference in the data analysis, namely that financial institutions have a significant challenge in the FATF regime implementation at the institutional level due to the national variation in individuals' attitude and behaviour towards the regime monitoring requirements. This variation was also found at the society level in Egypt as the interviewees outlined an individual culture difference between Cairo, the capital, and the countryside. Interviewee 7C opined that "Awareness in the capital may reach 70 or 80%, but it is shallow in other cities". Interviewee 4C described this difference as "highly challenging".

The sixth characteristic describes being a '**Developing Country**', as Interviewee 7C stated, "In the end, we are a developing country. We [as regulators] go step by step with the regulated bodies because if we applied a lot of restrictions, it could harm the market". This statement indicates that regulators in developing countries might be cautious when they regulate the financial market, including applying the AML/CTF regulations. So that not to drive businesses out of the country while it needs capital flows and the financial services industry for economic growth. Moreover, Interviewee 4C implied that these regulations have a problem in their application at the national level due to differences between Egypt and developed countries that introduced the FATF regime. As he/she said, "So, think about the fact that the US, European countries, and countries like Egypt, Yemen, and other developing ones, are all applying the same standard of regulations". Therefore, it is inferred from said statements that

the FATF standards may have challenges in Egypt due to the difference between developing and developed countries. This implies that developed countries might have more appropriate financial infrastructure to implement the FATF regime.

The seventh code in this category is '**Cash-Based Economy**', which is interlinked with the previous code. Interviewee 4C explained that, in Egypt, the size of the informal economy is significant. So, society relies on cash more than bank accounts. As a result, the bank comes across many unjustified cases and suspicions of ML or TF, but they are not related in reality. Interviewee 3C added that many people in Egypt work as freelancers and receive different amounts from several parties, which could raise false alarms for ML/TF. Interviewee 7C confirmed that most money launderers use the informal economy in their activities because no one will ask them about the source of their money in this sector. They then use official documents for their purchase activities in laundering the money through banks and financial institutions. Therefore, it could be inferred from the data here that the size of the Egyptian informal economy undermines the country's monitoring function of ML/TF risks. Such an interpretation is consistent with the MENAFATF (2021: 14) data which indicated that 68% of cash transactions in Egypt are processed outside the financial sector. This suggests that the probability of monitoring the AML/CTF regime in countries that have a large informal economy is lower than in developed economies since the informal economy is more associated with developing countries (World Bank, 2019).

The last code in this category identifies the third implementation challenge in terms of monitoring trading in currency due to the practice of the underground market. Thereby, I coded this challenge as '**Shadow Economy**'. Currency traders in the shadow economy can facilitate the transferring and exchanging of money through informal channels. Interviewee 6C believes that "Competition in the underground market could significantly affect the application of the central bank procedures". As the interviewee stated, the shadow economy could affect monitoring trading in currency because it does not work under the government's radar, and therefore cannot be regulated. However, it could be argued that the dilemma here is that AML/CTF regulations restriction on currency trading in the official market could also drive many consumers to the underground market. Due to the strong relationship between the size

of the shadow market and regulations on the official market (Winton, 2018). This dilemma suggests that regulating and monitoring the ML/TF risks are interlinked with the country's economic circumstances and the size of the shadow economy, and governing this matter would vary from one country to another.

To sum up, data interpretation underlined that national characteristics affect implementing the regime monitoring requirements differently. For example, national factors such as country instability could motivate the Egyptian government to adopt the FATF standards against the financing of terrorism when the FATF regime serves the government's interest in combatting national terrorist groups. Simultaneously, national and regional instability limits the country's ability to monitor ML/TF risks and implement the AML/CTF regime requirements. Moreover, Egypt's high degree of corruption could offer incentives such as bribes to corrupted officials to exempt the implementation of the AML/CTF regulations. The data interpretation also illustrated national factors that directly constrain Egypt's utmost compliance with the regime requirements. These factors include individual culture of compliance in terms of responding to financial institution requests of information.

Lastly, the data highlighted further deficiencies in monitoring the risks of ML/TF in Egypt associated with the Egyptian economy's circumstances. Namely, Egypt's developing economy could drive Egyptian regulators to adopt a lax AML/CTF regime if the FATF regime requirements affect the business and capital flow at the national level. Moreover, the informal and shadow economies where most of the individuals in Egypt do not have access to the formal banking sector could also direct individuals' preference in Egypt to use less regulated institutions or the underground market. Therefore, it is understood from the data that Egypt might have a lower probability than developed economies of compliance with the FATF regime. This is relative to this thesis in pointing up the variation between states in implementing and complying with the FATF requirements due to state's national characteristics and challenges, including those described here concerning Egypt's developing economy.

6.5.2 Understanding TF and its countermeasures

This category addresses participants' understanding of the TF phenomenon, including the difference between ML and TF.

The first code in this category is '**The Problem of Definition**'. This code reflects the problem with the definition of terrorism as an essential by contested concept (Gallie, 1955). The interviewees expressed different views on how they define terrorism or terrorists. For example, Interviewee 2C described terrorism as "vague concept" while Interviewee 5CD defined terrorism as extremism. Another interviewee emphasised that "Governments usually define and categorise terrorist individuals and groups according to their interests". The interviewee implied that a government may define opposition individuals or groups as terrorists because they could jeopardise the government's power or stability. The significant pattern noticed among the three interviewees in the banking sector was their statement that the only guidance they have for identifying terrorist transactions is terrorists who are listed (on an international or national list of terrorists), while they have a significant challenge in identifying potential terrorists. For example, I asked how they can locate terrorist transactions. Interviewee 1C replied: "The question here is can I identify or recognise the terrorist, if his name is not listed, there is no way to know that." This statement addresses the problem of information asymmetries which is identified by the fact that the actors in the financial system know less about terrorists, and consequently their financial transactions, which may impact their decisions and compliance with the AML/CTF regime (Bertelli, 2012: 28-29).

Moreover, the data in this code appeared to show that each interviewee has his/her own definition of terrorism, which was mostly drawn from his/her personal experience or beliefs. Therefore, these different individual perspectives concerning the definition of terrorism are consistent with the normative gap in the global governance approach. For instance, Interviewee 2C described the restrictions on non-profitable organisations (NPOs) as a war and an act of terrorism; although this was a metaphor, the FATF standards and interviewee perspectives from financial institutions and regulatory authorities deem this restriction as necessary to respond to corrupted charities that are involved with terrorist activities.

The second code in this category is '**Understanding the AML/CTF Regime Purpose**'. This code reflects interviewees' understanding of the AML/CTF purpose in protecting the market from the risk of illegal money. Both state and non-state practitioners have the same perspective that financial institutions may profit from money laundering proceeds. Nevertheless, they will lose it long-term because the money is not settled in the financial system or used for investment purposes. Moreover, Interviewee 7C explained that the purpose of the AML regime is not to prevent crime but to control it. As he/she added, it is "to intimidate criminals who have the intention of carrying out a ML crime. So, money launderers should consider that when they enter any financial institution, they will be at least asked about their source of the fund". This perspective suggests that AML/CTF measures are more concerned with controlling criminals' access to the financial system by applying the AML/CTF measures. Said measures would ultimately achieve the regime's primary aim of protecting the integrity of the market by deterring criminals from using the system to disguise or move their funds.

Eventually, the participants showed great knowledge of the difference between ML and TF. According to the participants' views, the last section in this category explains the differences between ML and TF transactions in terms of regime implementation and monitoring. The '**Differences between ML and TF**' describes the higher complexity and divergence of TF transactions than ML. The interviewees illustrated the challenge they face at the national level in tracing suspicious terrorist transactions. They compared TF with ML transactions since the law combines both. Their perspectives were identical and coded in five codes that could be described as follows:

Differences	Terrorist financing (TF)	Money laundering (ML)
Source of fund	Legal	Illegal
Clarity of identification	Complicated; difficult; feasible only with listed terrorists	Easier Has some illogical indicators of behaviour
Probability of detecting suspicious activities	Low Less than 10% of suspicious transaction reports (STRs)	Higher
Amount in transaction	Small	Higher
Sensitivity	Enormous cost of lives lost (as perceived by the interviewees)	Financial crime (intriguingly, no indication of lives lost by the interviewees)

Table 6: Differences between money laundering and terrorist financing transactions, according to the participants' views.

The interviewees from the financial institutions highlighted, as in Table 6 above, the differences between ML and TF transactions. They illustrated that tracing terrorist transactions or behaviour is complicated and challenging. Moreover, Interviewee 4C expressed that "We still [since 9/11] have this difficulty up to now", which indicates that this difficulty is global, not only in Egypt. The data in this section suggests that the differences between ML and TF lead to complications in the regime functionality at both international and institutional levels. Moreover, it implies that AML measures are impractical when it comes to TF. As Interviewee 7C articulately stated:

> The majority of the TF cases that we found are entirely separated and different from ML. I mean, so far, the cases we found are either ML or TF […]. I think the international standards linked them to give importance to both of them. I personally believe even the wording that is used [Anti-money laundering *and* Counterterrorist financing] is wrong. I think it

should be ‘Anti-money laundering *or* Counter terrorist financing’ based on reality. However, this linkage might exist abroad, and we have seen some cases like this, but in Egypt and many Arab countries, we don’t have such examples. That’s why I am saying, up to now, and according to practice, there is no connection between them.

The interviewee implies that although there might be a link between ML and TF activities in some countries, Egypt is different. He/she acknowledged such cases somewhere else. Nevertheless, the interviewee opined in his/her statement that, based on his/her experience, he/she did not encounter cases that combine both at the national level. This view implies that the FATF standards that combine AML and CTF measures as one set of regulations vary in practice among states. Nevertheless, the notion that terrorists have no connections with money launderers or organised crime, as the interviewee stated, is arguable. As illustrated in chapter 3 (section 3.2), terrorists, at the very least, need weapons and equipment that clearly cannot be purchased from the official market. More importantly, the Egyptian government acknowledged such a connection in its national assessment of TF risks by emphasising that terrorists finance their activities by using different legal and illegal activities to collect and move their funds (MENAFATF, 2021: 14). Nevertheless, the most used methods in financing terrorists in Egypt are funded through public donations and legitimate income of people in business who are adherent to designated terrorist groups (32). Ultimately, as discussed in this thesis (sections 2.6.1, 2.6.3, 3.3), the connection between the financial measures against ML and TF is often blurry and varies in practice among states.

In conclusion, the data in this section illustrated the challenge in the AML/CTF regime implementation, wherein the financial institution has no guidance for dealing with or identifying terrorist transactions unless they are listed. This could be linked to the difficulty of identifying terrorist (legitimate) transactions. The data also suggests that AML regulations are not satisfactory for the actors involved in the regime implementation in CTF in Egypt due to the differences between ML and TF transactions. This is in addition to the variation in practice among states in witnessing cases that could combine both ML and TF activities. Ultimately, according to the participants, they did not experience cases that combined both ML and TF activities. This should mean that they identify TF risks individually from ML cases. While

such inference did not explicitly appear in participants' statements, it was indicated in the documentary data concerning Egypt's national risks of TF (MENAFATF, 2021).

6.5.3 Implementation of the FATF international standards

The preceding category has made it possible to interpret the interviewees' understanding of ML and TF. This category is a core category that answers the first research question of how the international CTF regime functions in Egypt and reflects practitioners' perspective on the regime implementation.

I identified the first code in this category as '**Imitating the International Standards**'. Data interpretation in this code illustrates that AML/CTF national law in Egypt is built on the FATF international standards. As interviewee 7C affirms, "All AML/CTF regulations in Arab countries are based on the FATF 40 recommendations". Interviewee 4C described the regulatory cycle as follows: "At the international level, they [the UN/FATF members] reach measures or recommendations that they deem as the best and most appropriate efforts to AML and CTF. Then, at the national level, the regulatory authorities interpret these measures in their laws and local regulations, and then these regulations come to us to be applied. Through this, they have taken control of ML and TF in the best way they think, and we have helped in implementing that". This statement suggests that the interviewee feels that the AML/CTF measures might be the most appropriate efforts against ML and TF, according to the international community, but not necessarily the financial institutions. As the participant used the words "they […] they deem […] they think". Nevertheless, the interviewee outlined financial institutions' crucial role in the regime implementation process and achieving the global aim.

In addition, Interviewee 3C explained that the Egyptian law of AML/CTF had been issued at a late stage, in 2002, which allowed it to benefit from other laws in addition to the international standard. Similarly, Interviewee 4C illustrated, "The amendments that have been taken on Egyptian law and its executive regulation followed the FATF recommendations and its

modifications. So, they [legislators] updated the law based on the FATF guidance". Therefore, it is inferred from the participants' statements, in addition to what was discussed earlier in section 6.2, that Egypt implements the CTF measures to comply with the international CTF regime requirements. Furthermore, these statements highlight that despite the terrorism history in Egypt, the country did not implement these measures before the FATF introduced them in 2001. In this way, it could be argued that the FATF role is crucial to ensure states' compliance with the AML/International CTF regime; without such a role, states would not voluntarily implement said measures. In other words, said statements in this code emphasise the role of international institutions, such as the FATF, in monitoring actors' compliance with international regimes.

The second code I identified in this category is '**Regulatory Framework**'. Interviewee 3C stressed the importance of the regulatory framework in the regime implementation by emphasising: "The process is always to have a law, and afterwards, you will find your way and learn how to apply the law by practice". This statement suggests that the purpose of the law is completed in practice, but without a law that regulates actors' behaviour, the practice would not voluntarily be applied in financial institutions. On the one hand, three interviewees deemed the national law has no deficiencies in practice and is flexible and reflective of the FATF international standard of regulations. For example, Interviewee 4C stressed that "the law has no deficiency and is consistent with the international standards". Moreover, Interviewee 7C reflected that "the law and regulations have no deficiency in Egypt", and on another occasion stressed that "the law and its regulations are reliable in Egypt".

On the other hand, three other interviewees deemed the law to be vague and rigid. Interviewee 6C highlighted that his/her institution's problem in applying the revised regulations is procedural clarity, as there are some vague provisions in the application. Both Interviewee 2C and Interviewee 5CD believe that national law is rigid and bureaucratic. However, the rigidity of the law is arguably open to interpretation. Interviewee 2C's perception of the law provisions could have been swayed by the increased restriction on NPOs; as quoted earlier in the present chapter, he/she described this restriction stated in the law as a war against NPOs. Interviewee 5CD did not refer to the AML/CTF law in particular; he/she expressed his/her

opinion concerning Egyptian law and its procedures in general terms. Simultaneously, Interviewee 7C reflected on the flexibility of the regulations in his/her statement: "As regulators, we have the perception of revising or cancelling a regulation if we find all regulated bodies are not able to apply it in practice. Besides, for some activities, when we find that they have low risks of ML/TF, we reduce the restrictions on them". He/she also added later that "laws have undergone fundamental changes to keep pace with the FATF guidance".

Data interpretation on law flexibility was consistent with the last statement because other interviewees raised one common problem regarding the defined criterion of 'predicate offence', which existed in the old version of the AML/CTF law and was solved in the new version. Moreover, Interviewee 3C believes that the last version of the AML/CTF law has enabled law enforcement agencies to pursue their work, and consequently, they became more active in this matter. This also is consistent with Interviewee 3C statement: "Previously, the law did not mention the word compliance, it was only AML Department, but now it is intense and part of the regulatory role". Moreover, the MENAFATF reported that Egypt has the necessary structural elements to implement the AML/CTF measures effectively, including the rule of law (2021: 17). Therefore, these statements concerning the amendment on law provisions to fix some gaps emerging from practice are interpreted in the data as flexibility rather than rigidity.

The third code I identified in this category is '**Theoretical Practice**', which underlines the first gap in implementing the AML/CTF regime in Egypt. Interviewee 3C, on the one hand, highlighted that the international standards offer guidance on gathering customers' information and increased the understanding of specific typologies such as transactions that raise a red flag and be considered as possible cases of money laundering. On the other hand, he/she expressed: "In theory, you have perfect regulations, but in practice, you have many challenges". This elucidation indicates that the FATF international standards provide sufficient guidance to support and increase financial institutions' ability to detect suspicious transactions. However, in practice, due to the country's national characteristics, different challenges limit the regime's implementation as it is designed. This chapter explains these challenges in

Egypt's developing economy and the limitation in the banking core system, resource capacity, and cultural barriers.

Interviewee 4C also stated that the FATF international standards "light the way for you. You have more criteria and more prominent guidelines now. Previously, you might have had one or two criteria, but today you have ten or more criteria that you consider and different typologies and scenarios". Therefore, it is inferred from the interviewees' perspectives that the FATF standards are perfectly designed to guide financial institutions in understanding and identifying the risks of ML and TF. Nevertheless, according to practice, national challenges constrain financial institutions from effectively implementing the international regime requirements or detecting TF transactions. As stated by Interviewee 7C (a regulatory and supervisory actor) in another context, "The bottom line, suspicions [on ML/TF transactions] are uncovered by coincidence". This statement implies that despite the different criteria and scenarios that guide financial institutions in identifying suspicious transactions, still, these transactions are detected by coincidence rather than clear indicators. Such interpretation suggests incapability of implementation and captures the continuing knowledge gap about TF transactions and behaviours.

Within the same context of the previous code, the fourth code I identified in this category is '**Inconsistent Implementation**', which underlines the second gap of implementation in Egypt. This code underlines the sectors that do not have sufficient experience in implementing the regime requirements since they were regulated at a later stage. Furthermore, it illustrates how deregulated, or less regulated sectors could affect the monitoring outcome of compliant financial institutions. For example, Interviewee 1C and Interviewee 3C indicated that the property sector is not regulated to apply the AML/CTF requirements. According to the interviewees, this sector has no compliance officer to conduct the required due diligence and scrutiny. In other words, customers are not asked about their source of funds. As a result, banks' customers may go to their banks with a large amount of cash, claiming that the source of this money is the sale of land or property. In this scenario, the customer has an official sales contract, and so the bank cannot report this transaction as suspicious, although it might have been generated from illegal funds. Interviewee 7C confirmed that "Egypt has issued a

law concerning real estate registration to trace owners and buyers, as well as the source of money, including the registered real estate. However, up to now, it has been inactive". Moreover, the MENAFATF illustrated that most of the criminal proceeds in Egypt are laundered through the banking and real estate sectors (2021:14, 21). In this way, both the interviewees in Egypt and the documentary data emphasise the high risk of the real estate sector. Nevertheless, it was not crystal clear in the data if the extent of the said risk involves TF transactions as in ML.

Another sector that has been recently regulated but lacks the experience of compliance concerning exchange house services. Interviewee 3C raised his/her concern regarding exchange houses compliance in Egypt. He/she estimated that banks report 95% of STRs while exchange houses are the most important institutions that should comply with the regime because they have walk-in customers. So they do not usually collect enough information about said customers. Interviewee 7C confirmed the same concern. However, he/she highlighted that Egypt issued regulations on exchange houses business that include maximum fines and penalties in case of breaching these regulations. This matter was verified when I met Interviewee 6C, who showed me a copy of these regulations that had been issued in August 2019. It is worth noting that transactions conducted by exchange houses in Egypt are limited to currency exchange and do not involve money transfers (MENAFATF, 2021: 21).

The insurance sector is another industry in Egypt that do not yet have sufficient experience in thoroughly understanding and compliance with the AML/CTF regime requirements. Both Interviewee 3C and Interviewee 4C referred to the lack of experience in the insurance sector since it was recently regulated. Therefore, the sector's employees do not yet have the experience of gathering the required information and identifying suspicious activities. Moreover, due to their lack of experience, it was thought by Interviewee 4C that "The insurance employee may think that filling STRs will get the attention of the regulator and show that something is wrong with his company". Interviewee 3C emphasised that "compliance is a culture that we have, but for them, it is not, maybe because their exposure to AML/CTF matters is immature yet". Interviewee 7C also added that free brokers could contract anybody and use the insurance certificate with any insurance company. Until recently, those brokers had not

committed to the AML regulations. Similarly, the MENAFATF underlined the insurance sector's insufficient understanding of ML/TF risks, including combating the financing of proliferation of terrorism through implementing the UN measures related to targeted financial sanctions (2021: 8, 26, 80, 114).

Furthermore, Interviewee 7C referred to casinos as a challenge to the monitoring function. He/she expressed that "We are lucky in Egypt that we don't have casinos except in a few hotels. However, in those few hotels, there is a possibility of laundering illegal funds. Up to now, still, there are no monitoring procedures to control this risk. Especially, those who use casinos are often foreigners, and the country encourages tourism to raise its income again after the loss experienced since the revolution". This statement is considerable because it implies that a country could deliberately adopt a lax AML/CTF regime when it affects other significant sectors. Such interpretation was also interlinked to another statement of the interviewee. He/she explained that one of the risks for money launderers' abuse of the financial market in Egypt could be through some of the services that are thought to offer an advantage to the country in attracting business and investment. Such as the service of establishing a company on the same day, and often in three hours. The interviewees believe that this service is an opportunity for front companies that are registered on paper only. Therefore, it could be understood from what the interviewee explained here that some services or sectors are deliberately simplified to benefit the country's economic circumstances despite their risks of ML/TF. More critically, given the high risk of TF in Egypt through legitimate sources of the income of business corporates, in addition to deficiencies illustrated by the MENAFATF team about the unavailability of data related to companies' beneficial owners (MENAFATF, 2021: 153-155). Said observations, together with the interviewee's last statement concerning the risk of abusing companies and the service providers of establishing legal entities, consistently anticipate a risk of abusing the said sector for both ML and TF.

The fifth code I identified in this category is '**De-risking**', which underlines the first unintended consequence of the AML/CTF regime implementation in Egypt. Both state and non-state participants affirmed the practice of said approach within and against some sectors in Egypt. Interviewee 1C explained the adverse impact of the regime implementation, which

leads some institutions to follow de-risking behaviour to avoid any potential risks without assessing their actual risks. He/she outlined that banks' internal policies could prohibit something that is allowed by the law due to the risk that the bank can take. He/she stressed that "De-risking is a double-edged sword. You should consider that de-risking and rejecting some clients might be accepted by other institutions; so it will not stop the crime but will just allow it to happen through another institution". As explained throughout this thesis, de-risking behaviour emphasises that financial institutions comply with the AML/CTF as extrinsic motivation. Therefore, to avoid the threat of sanctions, they employ the de-risking behaviour rather than applying the risk-based approach.

The second unintended consequence I coded as '**Internal Conflict**'. Based on the international standards or international sanction regime, some countries are prevented from benefitting from the international financial system due to political and security reasons. As a result, classifying a state as a high-risk jurisdiction could impact its citizens and financial institutions, such as the Syrian and Sudanese cases. Interviewee 1C explained that Syrian refugees are only allowed to obtain bank accounts, according to the bank policy, but not to have any transactions or transfers overseas. He/she commented on this procedure by saying, "I personally struggle with this". This statement implies a personal struggle with the CTF international regime. The interviewee's statement showed sympathy concerning some nationalities that are subject to the international regime application. The word "struggle" itself could reflect the personal conflict when actors involved in the regime may not be fully convinced of the regime measures. This could impact regime implementation because said conflict may lead the regime actors to violate some rules accidentally. Therefore, consideration should be given to the regulation impact on humanitarian necessities where sanctions or strict regulations are applied to vulnerable innocents such as refugees (Pattison, 2018a: 3-5).

The third unintended consequence I identified in this category is '**The Burden of Implementation**'. This was inferred from the interviewees from the banking sector, who described their obligation to comply with AML/CTF regime requirements as overwhelming or a burden. For example, Interviewee 3C used the same word in his/her statement: "It's a burden that needs resources and appropriate systems". Added to this is Interviewee 4C's statement: "the re-

strictions represent a burden for us because they require extending our scope accordingly" and described the regime requirements as "exhausting" due to the increased regulations or monitoring requirements within the regime implementation process. Furthermore, the interviewees from the banking sector deemed international regulatory bodies a burden in implementation. For example, Interviewee 1C expressed his/her feeling when speaking about the requirements of these international bodies, saying that "Sometimes I feel that I am working for other countries because I give much attention and time to their lists". Additionally, Interviewee 4C stated that "This matter is exhausting because indeed, you have several regulators, and each regulator's job is to control ML/TF". The last statements refer to the regime requirements that involve financial institution compliance with different regulators at both national and international levels. To sum up, the interviewees in this code expressed their negative feeling towards their compliance with the regime's requirements. They outlined how the implementation process is constantly overwhelming and exhausting, and therefore they deemed it a burden. This could suggest that the actors here might be liberated from their obligation once the sanctions, as extrinsic motivation, are removed.

Within the same context of the previous code concerning the increased regulations associated with the regime requirements, I identified the last unintended consequence as '**Restrictions Impact'**. This code refers to the impact of the increased restrictions on non-state actors such as charities and public behaviour. For example, Interviewee 6C considers that "The central bank law on foreign currencies limitation led people to prefer the underground market". This statement anticipates that individuals' behaviour or preference may change towards illegal and underground markets due to the increased restrictions (whether they are directly or indirectly related to the AML/CTF regime requirements). Furthermore, in relation to NPOs and charities, Interviewee 2C stated, "Another problem is the strict supervision on financing, publicity measures and the movement of NPOs. Many NPOs are closed since many donors withdraw their credits. Without foreigner donors, NPOs rely only on Corporate Social Responsibility (CSR) and individual donors". This statement indicates the impact of the increased restrictions on NPOs that led different NPOs to leave the humanitarian field. At the same time, it illustrates the contested views concerning charities within the regime requirements. Despite

what interviewee 2C stated earlier, other interviewees adhered to the new provisions in the related law No.70 of 2017 that restricted the work of charities because the authorities deem them as a channel to fund terrorists. Nonetheless, it was reported by the MENAFA that despite the reduced risks of abusing the NPOs sector for TF activities in Egypt, "the measures taken by the country where the accounts of some NPOs were frozen may not always be proportionate" (2021: 8). Such a note implies that restrictions on NPOs in Egypt might be excessive in some incidents.

Thus far, this category illustrated the major gaps in implementing the FATF regime in Egypt, namely the theoretical implementation due to the difference between the designed AML/CTF measures and implementation in practice. In addition to inconsistent implementation and compliance in Egypt due to the gap in implementation at the sectoral level. The following two codes reflect the participants' perspective on how these gaps could be improved in practice by means of '**Raising Awareness**' **and 'Multi-level Cooperation'**.

The word "**awareness**" has appeared in different contexts in data analysis. I categorised awareness within this category because individuals' and institutional awareness of the regime requirements affect the implementation of the regime and, consequently actors' compliance. Interviewee 1C and Interviewee 3C opined that raising awareness about the AML/CTF regime is needed. For example, Interviewee 1C stated, "If we are going to consider all relevant parties, including customers, suppliers, and others, no, I think awareness might be limited among the people in the financial institutions only". Interviewee 8C believes that individuals' awareness has increased, especially in donations to reliable organisations. Added to this, Interviewee 7C made several statements about awareness and the supervisory role in this matter. For example, he/she stated, "The importance of the AML regime has increased since we considerably focused on raising awareness [...] we do our best to raise the level of awareness and understanding of the regime importance. Our purpose of raising awareness is to make the regulated entities feel and understand the risks by themselves. So, they believe in their active role in the public good". This statement is crucial because it implies that raising awareness and understanding of the regime's requirements could motivate the actors involved in the regime implementation to believe in the regime's purpose as a matter of public good. Such a

statement underlines the importance of the involved actors understanding the regime's purpose rather than theoretically complying with said requirements due to extrinsic factors.

The last code in this category is '**Multi-level Cooperation**'. All interviewees considered cooperation as a solution to the AML/CTF regime challenges. This code is associated with three levels of cooperation, namely 'International', 'Regional', and 'Domestic'. As explained earlier, the interviewees from financial institutions believe that the current regulations could guide them in detecting ML transactions, while the only guidance they have to suspect terrorist transactions is the listed terrorists. Therefore, they concluded that the only way to tackle TF is through international cooperation. Interviewee 1C repeated this point several times. One of his/her statements read: "In my personal opinion and based on my experience in this field for years; international cooperation is the only solution for combatting terrorist financing". Moreover, Interviewee 3C said, "I think in the matter of terrorist financing, international cooperation is the factor that can control it more than the local law enforcement". Neither of the two interviewees explained how international cooperation could solve the problem of terrorist financing. However, the data analysis implies that Interviewee 1C meant cooperation in defining terrorists in the form of states' recognition of other states' national list of terrorists. This conclusion can be drawn from the context of the interviewee another statement that linked cooperation with the international agreement on terrorist lists: "Therefore, I think the only solution is international cooperation and adoption of the national lists by all states". For Interviewee 3C, the meaning of cooperation might have meant solving international concerns. For example, he/she questioned the international efforts against digital currency, which are considered one of the concerns raised by the FATF; his/her question was "how can you tell me that it is used by terrorists when there are countries that allow it? You have something that is not regulated worldwide, so the door is opened for ML and TF".

Although the MENAFATF (2021: 23-24) emphasised the importance of cooperation, particularly international cooperation, due to Egypt's geopolitical and economic characteristics, the official interviewees were sceptical about international cooperation. Interviewee 7C opined that cooperation between the country and others has some weaknesses. His/her opinion was that: "At the international level, we still feel that we are treated worse than other [developed]

states. Although we are keen on being present at any international events or training, there are some states or organisations that conduct events related to the AML regime and do not invite Arab countries to attend despite the fact that they condemn or link most of the TF acts to the region". Interviewee 8C also stated, "we make huge efforts to cooperate but what is shown is that we did nothing, and we couldn't return the money". He/she also explained that international cooperation through the juridical systems is carried out through agreements and protocols, which are not easy processes and may take years. However, he/she emphasised the concept of reciprocity when he/she added: "cooperation is extreme when there are common interests between parties".

In brief, while the FATF regime is considered a form of international cooperation against ML and TF, the data in this code suggests that more international cooperation in said area is needed with Egypt. The data did not appear to show what kinds of efforts could be made at the international level. However, it was implied that cooperation is significant when there is a common interest between parties, e.g. cooperation in sharing financial information to condemn criminals or international judicial cooperation in criminal matters such as extradition. This underlines the importance of having the same motivations, interests, and norms against ML and TF among the FATF network. Improving cooperation in the regime network is an important factor in this research, in particular, international cooperation because it reflects a central component of the global governance approach, including the FATF regime. For example, the MENAFATF underlined that cooperation between the Egyptian National Security Agency with its international counterparts has led to arresting different terrorists and disassembling of TF networks (2021: 163).

In conclusion, the data interpretation emphasised the role of the FATF international regime in ensuring actors' compliance. According to the interviewees' illustration, Egypt's AML/CTF regulatory framework was built on the FATF international standards. Nevertheless, the data underlined two significant gaps in the implementation of the AML/CTF regime in Egypt. The first one is the difference between the designed AML/CTF measures and the implementation in practice due to national challenges or, broadly, the difficulty of detecting terrorist financing transactions. The second gap is the inconsistent implementation due to the lack of experi-

ence of the recently regulated sectors or the less regulated sectors (intentionally or unintentionally by the regulators due to the country economic circumstances). This affirms that the implementation of the international standards varies at the national sectoral level since the state has the autonomy to free some sectors from the regime regulations. This matter could affect the ultimate outcome of achieving the regime goals due to the impact of these sectors on regulated ones. These lax industries could jeopardise the outcome of the compliant sectors such as the banking sector due to their insufficient due diligence and verification of customer information as required by the AML/CTF regime. Ultimately, the interviewees suggested two areas of improvement within the context of the regime implementation. The first is to raise both the public and the practitioners' awareness of the regime's requirements and purposes. The second is one of the global governance features, which is promoting international cooperation. International cooperation is necessary to address common challenges faced in the AML/CTF field, such as exchanging information and intelligence and building capacity, particularly for developing countries like Egypt.

6.5.4 Financial intelligence

This category describes the financial intelligence performance in Egypt. It underlines ML/TF risk mitigation process through financial institutions monitoring access to the financial system.

I identified the first code in this category as '**Tools of Financial Intelligence'**, associated with three sub-codes. Monitoring the risk of ML and TF in financial institutions is processed through three tools that were coded as Verification and Screening; Customer Due Diligence and Enhanced Due Diligence (CDD & EDD); and Suspicious Transaction Reports (STRs).

The first tool of verification and screening underlines the monitoring requirements for automated systems in the banking core system in Egypt. The second and third tools of CDD and STRs emphasise the essential role of information accessibility in monitoring and mitigating the risks of ML and TF. Despite the importance of these tools and the MENAFATF reporting

the presence of these tools in financial institutions (2021: 21-22), data analysis uncovered substantial deficiencies in Egypt monitoring process identified by the interviewees as uncontrolled factors. The first deficiency is the size of the informal economy that limits financial institutions, particularly the banks, to gather the required financial information (section 6.5.1). The second deficiency is the impact of deregulated or recent regulated sectors on the other compliant institutions due to the lack of experience in efficiently gathering and analysing the required financial information (section 6.5. 3). These are in addition to a lack of 'human resources' and 'automated systems' due to their associated cost of compliance. Moreover, the unavailability of an 'integrated system' facilitates communication and exchanging information between the involved actors. Besides, the ramifications of the development in technology, particularly, 'new payment methods'. These last four factors are explained in the next sub-category, '**Deficiencies in Monitoring ML/TF risks**'.

The first two critical codes that emerged as a pattern in this category are '**Human Resources**' and '**Automated Systems**'. All interviewees referred to the major qualifications that human resources should have to successfully apply the regime's requirements, such as training, knowledge, experience, and analytical skills. Six interviewees stressed the importance of training to enable employees with sufficient knowledge and guidance to pursue their work effectively. Moreover, it was noted that whenever the word "qualification" was mentioned, it was combined with training. This implies that the interviewees do not mean high degrees of resources requirements. Qualifications then mean knowledge that can be gained through training and specialist certificates. Moreover, knowledge was combined in most cases with experience, which could confirm knowledge gained through experience in the field.

Simultaneously, the interviewees described a significant problem related to human resources in supervisory authorities. Interviewee 2C feels that the supervisory authority on charitable organisations does not have enough and/or sufficiently qualified resources in this field. Another interviewee focused more on the lack of experience, stating that "The inspectors themselves do not have enough experience in the financial market. Some of them are not aware of financial procedures". Interviewee 7C acknowledged the lack of resources and experience in supervisory authorities. He/she also pointed out that not all resources have the experience or

the qualifications necessary to mitigate the risk of ML/TF. However, he/she illustrated that "the year 2016 was the turning point for more and skilled resources flowing into both the supervisory authorities and financial institutions". He/she explained different plans for training and qualifying graduates, including participation in field visits to learn the actual practice. The last statement is consistent with the MENAFATF reporting the increased capacity of human resources in Egypt to implement the regime requirements effectively (2021: 36). Nonetheless, it is understood from the interviewees that both state and non-state actors recognise the lack of qualified and sufficient resources in the supervisory authorities in Egypt (at least up to the time of the interviewees). This matter implies weakness in the supervision function in Egypt, which will be affirmed later in this chapter (section 6.5.5).

The code 'Automated System' reflects the focus of all interviewees from financial institutions on the importance of having adequate software to provide accurate information and run the scenarios required for the AML/CTF regime. For example, Interviewee 1C affirmed that as a condition for compliance, "We need an automated system and profiling systems for all clients, so I can link all the customers and their activities together and find any interrelations between them. Based on specific prior scenarios that I set up on the system, the system will create suspicious cases". Interviewee 3C put forth the assumption that "50% of the banks in Egypt do reports manually, and even if they have the AML system, they don't have the accurate data, which leads to false alarms". His/her significant statement was "Again; this process needs more resources and a core banking system that can trace such transactions." He/she also added that "The first challenge is the cost because you ask a bank that has a profitable aim to replace its system that is already sufficient for its daily operations". Therefore, these statements indicate that automated systems are crucial for financial institutions to monitor the risks of ML and TF transactions. Moreover, it might be more important than the human factor, but having these systems is challenged by their high cost.

The third deficiency that interviewees identified as a critical problem that should be fixed to facilitate the monitoring requirements is the need for an **integrated system**. Four interviewees referred to the problem of not having one database for all economic activities or one platform for all financial institutions, which could facilitate communication verification between

the concerned parties. In this way, financial institutions can verify customer documents related to possessions such as real estate, land, vehicles, insurance certificates, securities, etc. It was suggested by Interviewee 4C that "having such a platform; you minimise the number of procedures and the middle investigation process to verify customer information. Otherwise, you will waste your time in unlimited red flag notifications created by the system in addition to the FIU time". Interviewee 7C raised the same suggestion but among supervisory authorities: "If we have a unified platform, any supervisory authority can locate its customers' information by itself". This deficiency highlights the absence of an adequate database in Egypt that can link all economic activities in one platform. This could be due to several reasons, namely lack of cooperation between the actors involved in the regime implementation, the high cost of establishing such a platform, or the lack of transparency in sharing the required information. However, those reasons were not precisely stated by the interviewees. With this said, half of the interviewees in Egypt from state and non-state actors raised the importance of establishing a unified platform due to the merit of information symmetry in facilitating the flow of information among all the regime actors.

The last challenge to financial institutions monitoring capability, I coded as '**New Payment Methods**'. It pertains to using prepaid cards or internet payment systems in TF. Interviewee 3C stressed that "This process is out of the monitoring system in the financial institution. I think this is the real challenge that we have today concerning terrorist financing". What the interviewee referred to in this statement reflects the difficulty of monitoring terrorist transactions due to the growth of technology. This problem is not a challenge for Egypt only and is a global concern. Indeed, the FATF has reported the 'New payment methods' vulnerability in ML and TF cases since 2006 (FATF-GAFI, 2006c).

The data interpretation so far underlined the deficiencies in financial intelligence function so that financial institutions could effectively gather and analyse the required financial information about their suspicious customer transactions. These deficiencies included the lack of qualified resources and the cost of training them, and the high cost of the technology needed to support their work. According to the MENAFATF, most Egyptian authorities have adequate resources and systems to process and analyse financial information (2021: 31, 40, 49,

58-63). However, the fieldwork data illustrated that at the institutional level, financial institutions in Egypt lack the vital capacity to implement the FATF requirements successfully due to the high cost of compliance associated with improving resource capacity. Interpretation of fieldwork data is consistent with the fact that other than banks, financial institutions and designated non-financial businesses and professions (DNFBPs) submitted a limited number of STRs (MENAFATF: 2021: 40, 62-63). Nevertheless, the last code in this category is '**Communication**', which I identified as a facilitator factor in exchanging and accessing financial information.

I asked the interviewees from the financial institutions in Egypt to describe their relationship with the Egyptian competent authorities or the level of communication, such as whether they receive enough clarification, guidance, and feedback on their STRs. My aim was to understand if communication in the regime implementation at the national level flows from the top down only (autocratic/hierarchical) and regulated bodies are expected to implement the regulations without considering their input or the regime function as a network (horizontal/lateral). All answers were positive or neutral, except for that of Interviewee 6C, who highlighted that there is no direct communication between the FIU and exchange houses.

Ultimately, although statements of the interviewees from financial institutions suggest that communication between the regulatory and supervisory authorities and regulated entities in Egypt is in most cases hierarchal, it is also lateral communication in some circumstances. The significant perspective of the interviewees from the financial institutions was that they do not think it is important to receive feedback or to be involved in each step taken by their regulators, and they are keener on applying the law provision of providing and submitting STRs to the FIU. For example, Interviewee 3C underlined that the compliance team does not receive feedback on its STRs, but the team is happy with that. He/she explained: "The regulator communicates with us to gather information. According to the AML/CTF law, I have no right to follow up with the regulator regarding STRs that I sent. [..] Our role finishes when I find suspicious activity and raise an STR. I cannot also spend more time on following up". In addition to this, Interviewee 4C added: "We all agree that I don't need to know what happens later with the client". This view implies that financial institutions are more concerned with

following the Egyptian law of the AML/CTF but less concerned with receiving feedback and being notified of the outcome. This is important because it suggests that the actors involved in the regime implementation are more satisfied with performing their tasks than considering the result of their work, which could be linked in the data to their extrinsic motivation (section 6.5.6). This means that they intend to perform the work to avoid being punished by their regulators, more than ensuring their active role in AML/CTF.

In conclusion, the data interpretation addressed the key components of financial intelligence performance in Egypt. It also illustrated the critical deficiencies and challenges to an effective financial intelligence role. Most of these challenges are associated with the circumstances of the Egyptian economy and financial sector. These challenges include the inconsistent implementation at the sectoral level and the large size of the underground market and the informal economy, which are often significant in developing economies. The size of the informal economy, in particular, indicates that most of the individuals in Egypt do not have access to formal banking, which limits the performance of financial intelligence. Moreover, the lack of resources and the quality of automated systems used in identifying and detecting the ML/TF risks are associated with the cost of compliance. Such cost of compliance is a significant challenge to developing countries and their financial institutions according to the size of the country financial market and its anticipated profit. Therefore, it is understood from the data that the outcome of the financial intelligence role at the institutional level in Egypt is limited due to the aforementioned national challenges. In this way, the limitation of the financial intelligence performance in Egypt anticipates a less effective outcome at the institutional level than in developed economies. Interestingly, according to the MENAFATF evaluation, Egypt had a better effective outcome regarding financial intelligence (at the national level) than the UK (as a developed economy). Data interpretation suggests that said result indicated in the MENAFATF evaluation is due to the country's motivation to eliminate terrorist (primarily national) groups, including the Egyptian National Security Agency efforts.

6.5.5 Compliance and monitoring

The previous category outlined how financial institutions in Egypt monitor ML/TF risks through CDD, verification and screening, and raising STRs to the FIU. This category describes how supervisory authorities monitor institutions' compliance with the AML/CTF regime in Egypt. In this manner, this category completes the preceding one to offer a thorough understanding of how the implementation of the international CTF standards is monitored through both public and private sectors in Egypt.

The first code I identified in the data related to actors' compliance with the AML/CTF regime requirements is '**Institutional Culture of Compliance**'. The institutional culture of compliance describes financial institutions' policies, procedures, ethics, and behaviour to comply with the AML/CTF regime. Data interpretation uncovered the changing pattern of institutional culture due to the cost of non-compliance. Financial institutions did not pay much attention to compliance due to its associated cost with resources, training, and systems. However, institutional culture has altered due to the potential risks of losing reputation or sanctions imposed on non-compliant institutions. As illustrated by Interviewee 3C, "It is a matter of culture. Previously, many institutions did not have the risk culture; they focused only on business". He/she added, "To build this culture, you need both time and money". These statements are crucial because they indicate that financial institutions did not previously have the institutional culture of compliance with the AML/CTF regime or the tools to mitigate the risks of ML and TF.

Moreover, Interviewee 1C affirmed that "banks did not want to increase the cost of compliance and provide all the needed resources. However, they realised later that the cost of non-compliance is much higher than the cost of compliance". He/she added later: "financial institutions recognise now that there is at least a minimum standard of resources that is required to do this job". Interviewee 4C commented: "It is internationally recognised that compliance requires a great deal of money, and it is the same in Egypt. But, yes, financial institutions have started to realise the importance of compliance and dedicate enough resources to achieve it". He/she also added: "It has become essential, especially when it comes to TF more than ML. Following the new law and the cases we frequently hear, there is no bank willing to risk its reputation or be subject to fines". From the supervisory perspective, Interviewee 7C

confirmed that compliance with the FATF regulations is crucial, and the country has a better understanding of the compliance importance than before because it affects the country and could lead to sanctions. As he/she stated, “today, I can say there is a strong belief in the importance of the FATF standards. I would guess it has reached 100%”. These statements reveal that despite the increased cost of compliance, the institutional culture of compliance with the FATF international standards has changed due to institutions’ fear of sanctions and losing the business. Financial institutions have either accepted the cost of compliance or adopted other behaviours to avoid this risk, such as de-risking, as explained earlier in this chapter. This view suggests that punishment changes behaviour – either directly, by correcting negative behaviour, or indirectly by deterring it.

In other words, financial institutions have altered their level of compliance with FATF due to their fear of being punished, which led to institutional behaviour change in the AML/CTF field. This finding is important because it shows how the FATF initiative of listing non-cooperative jurisdictions changed financial institutions’ culture of compliance with the regime. However, whether these actors aim for utmost compliance with all the AML/CTF regime requirements is still questionable. These institutions can choose only the minimum compliance requirements (as indicated by Interviewee 1C) to avoid punishment, or far worse, adopting de-risking behaviour. We now turn to another two major codes related to the supervisory role of the Egyptian supervisory and regulatory authorities to ensure actors’ compliance through '**Behavioural Control**' and '**Inspection and Field Visits**'.

‘Behavioural Control’ in the regime is exercised at the national level through warning, suspension, and financial and administrative penalties when a financial institution breaches the AML/CTF requirements. In addition to this, inspection and field visits are required to ensure institutions’ compliance and that AML/CTF procedures are in place. For example, Interviewee 7C confirmed that "direct supervision and inspection" is a major task in the supervisory mandate. Ultimately, the fieldwork data showed how supervisory and regulatory authorities in Egypt monitor financial institutions’ compliance through different types of supervision. However, both data collected from the fieldwork and the MENAFATF evaluation of the supervision role in Egypt suggest a moderate quality of supervision in monitoring actors’ com-

pliance (MENAFATF, 2021: 134-152).The following section underlines the weakness in supervision function in Egypt. Interviewees, especially non-official interviewees, have outlined several weak points in the supervision function of regulated bodies in Egypt, which are described in three codes: '**Inadequate Supervision and Governance'**; '**Regulator's Administrative Inaccuracy'**; **and 'the Adverse Impact of Multiple Supervisory Authorities'**.

Although Interviewee 7C (as a regulatory and supervisory authority) explained different types of supervision that the supervisory authorities have, including conducting inspections and field visits, inadequate supervision and governance were explicit among non-official interviewees' interpretations. For example, Interviewee 2C explained how the law obliged charitable organisations to report their final accounts, including conducting an external audit, which should be sent to their supervisory authority. However, as these organisations may take years to prepare and submit their financial statements, no regular official auditing is conducted in practice. As the interviewee concluded: "In theory, the organisation [NGO] could break the law if it didn't report its final financial account. In reality, NPOs may take years until they prepare and submit their financial statements". This view offered by Interviewee 2C implies a lack of auditing on regulated entities but could also imply that some of the AML/CTF regime regulations are impractical.

Furthermore, Interviewee 3C suggested that supervisory authorities should conduct field visits in the insurance and real estate sectors. Interviewee 6C also outlined that, so far, although there is a routine inspection from the Central Bank of exchange houses, no inspection of the AML/CTF regime implementation, in particular, is conducted. Interviewee 4C confirmed that "in reality, the focus on implementation is usually on banks. They may have recently started to focus on all financial institutions, including exchange houses, but only recently". Furthermore, I asked Interviewee 5CD about the AML/CTF requirements imposed on law firms, such as records keeping and reporting. He/she outlined that "In Egypt, there is no such regulation in practice that obliges lawyers to keep their records for any period". In this context, Interviewee 7C confirmed that "there is no obligation on this sector [DNFBPs]; however, we [as supervisory authority] are trying to engage with this sector to encourage them to investigate transaction activities diligently. This gap exists in many countries". The interviewee's

statement outlines that although the country is committed to the FATF regime, it has difficulty complying with one of the FATF regime recommendations that requires the country to regulate non-financial businesses and professions such as lawyers and accountants. According to the MENAFATF evaluation of the country's supervisory role, different Egyptian authorities illustrated the number of their field visits (on financial institutions and NPOs) and violations detected through inspections (2021: 106-125, 144-149). Nonetheless, weakness in the supervisory role of the sector of dealers in precious metals and stones and DNFBPs was noted (134, 149). Therefore, it is inferred that supervisory authorities' field visits focus on the sectoral risks identified in the country's national risk assessment, such as banks and NPOs. Still, there is insufficient supervision on sectors such as DNFBPs, which were recently regulated.

The second weak point is the supervisory and regulator's administrative inaccuracy, explained by Interviewee 6C. He/she stated that "we have a problem concerning some administrative inaccuracy […] sometimes, inspectors change their instructions or feedback". He/she also added that "The law has been circulated to us with no clarification". The last weak point that was uncovered in the data is the adverse impact of having multiple supervisory authorities. However, multiple supervisory here does not describe only domestic multiple supervisory but also international regulatory bodies that control dealing in their currency worldwide, such as the OFAC, which regulates the dollars use, and the European Union for the euro. At the domestic level, the official interviewees implied that having multiple supervisory authorities is a problem when there is no active cooperation or communication.

To conclude, the supervisory role is important in monitoring actors' compliance. Nevertheless, the field work data interpretation uncovered a pattern of how the supervisory role is not entirely exercised in different sectors and sometimes has a problem in communication. The two significant shortcomings interpreted in the data were the lack of inspection and auditing on some industries and the supervisory and regulator's administrative inaccuracy with their regulated bodies. The data suggest that this weakness could be due to the lack of qualified resources at the supervisory and regulatory authorities since it was interpreted earlier in this chapter (section 6.5.4). In this way, it is inferred from the data that Egypt's lack of qualified

resources could affect its compliance with the FATF requirements, since the supervision function is not performed effectively. Despite the MENAFATF illustration of the supervisory role in Egypt, the effectiveness of said role was evaluated as moderate. This means that supervision is exercised to an extent but not highly effective. As discussed throughout this thesis, the problem of insufficient supervision is that the supervisory role in monitoring actors' compliance and punishing non-compliant ones works as extrinsic motivation to ensure actors' compliance, particularly when actors' intrinsic motivation is uncertain.

The following category will explore why the involved actors in the regime implementation changed their institutional behaviour and culture to comply with the AML/CTF regime.

6.5.6 Actors' motivation for compliance

This category describes actors' motivations for compliance with the FATF international standards in Egypt. The interpretation of the data in this section reveals that actors in Egypt are driven by extrinsic more than intrinsic motivations to comply with the FATF regime.

The first motivation I coded was **'International Obligation'**. Five interviewees affirmed that Egyptian law had been issued and modified according to the FATF standards. Interviewee 1C outlined that his/her institution had complied with the AML/CTF regime since 2002, following the 9/11 attacks: "when the US started to act and the FATF began to pressure states, including Egypt, to improve and amend its regulation". Interviewee 7C emphasised that the country has a "strong belief" in the importance of the FATF standards due to the FATF's soft tool of ranking (name and shame) non-compliant countries: "We are convinced that this matter is not negligible nor can it be taken lightly because it will affect the country and could lead to sanctions". This statement indicates that the factor which convinces regulators, including the actors in the financial sector, to comply with the FATF standards is the FATF said soft tools against 'non-cooperative countries'. It is also understood that when the interviewees refer to the FATF pressure or power, they mean the FATF threat of using its diplomatic tools against the country, including the financial sector.

Furthermore, the word “obligation” was expressed several times by interviewees from both financial institutions and supervisory authorities. This suggested that compliance of the involved actors in Egypt, including financial institutions, is driven by obligation. Obligation here refers again to the international pressure by the FATF members to obligate all state members and non-members, including financial institutions, to comply with the FATF standards. In this way, an obligation is interpreted as an extrinsic motivation for the actors to comply with the FATF regime; otherwise, they will be subject to sanctions or banned from benefitting from the international financial system. For example, Interviewee 3C stated that "dealing at the international level has obliged banks to have a serious commitment to compliance" and added that “We are obligated to have a filtering system; otherwise, international banks wouldn't do business with us”. Interviewee 4C did not use the same word of obligation, but I interpreted one of his/her statements under this code when he/she alluded to compliance with regime requirements: “you have to do so, wished or not; there is no choice”. Interviewee 7C used the phrase “no obligation” when he/she described deregulated sectors. Based on the Cambridge Dictionary (no date), the word “obligation” refers to something that one must do or feels morally or *legally forced to do*. Therefore, the code “obligation” here, as used by the interviewees, was interpreted as a duty and extrinsic motivation, not an intrinsic value.

The second motivation I coded as ‘**Financial Punishment’**, combined with the previous code, represents the interviewees’ highest motivation to comply with the AML/CTF regime. Similar to the word ‘obligation’, the concept of ‘punishment’ was used by six interviewees several times. In my interpretation, both codes are interlinked because obligation could be a result of punishment, and together they have covered a pattern that 'punishment and obligation drive compliance'. For example, Interviewee 3C’s opinion on the law was as follows: "I think penalty articles in the Egyptian law are sufficient to punish criminals". In another context, Interviewee 2C stated: "NPOs shouldn't be punished as a result of other wrongdoers". Interviewee 7C used the word “punishment” four times in one answer when describing procedural actions taken against institutions that breach AML/CTF requirements. The significant statement which led me to the central theme in the data was captured when I asked Interview-

ee 7C if he/she thinks the country would have adopted the FATF standards as a best practice if it was not (diplomatically) mandatory for all states. He/she replied as follows:

> I would be satisfied only with my national law. I think this is logical. However, I would like to highlight that if there were no sanctions or penalties in any international or local law, financial institutions wouldn't comply with the law. Even if we raise awareness, it is not enough without punishing non-compliant parties. This concept is everywhere. Any law that is penalty-free, no one would comply with it. AML law is not designed to prevent crime but to control it. I think it is difficult to reach the stage of having enlightened citizens who sense the risk of ML in the country. Humans naturally care for their own interests more than national interests. Maybe this is not right, but this is reality.

The interpretation of the above statement affirms that punishment through the threat of sanctions is a powerful tool to enforce compliance. This conclusion is recognised in the data when the interviewee explained the different administrative and financial penalties applied in Egypt and stated here that financial institutions would not comply with the AML/CTF regime unless sanctions and penalties were in place. The interviewee trusts that no one would wilfully comply with or implement the law unless it involves the threat of punishment. This view also asserts the importance of the extrinsic motivation to change actors' behaviour towards more compliance in the regulatory system, where actors' intrinsic motivation is uncertain. For example, Interviewee 1C asserted that "The terrifying matter for banks is sanctioning". Interviewee 4C also stated that "The first element is sanctions that you might be subject to if you breach these measures". Interviewee 7C added that "If any institution or company has been subject to international sanctions, it could affect the whole sector".

The interviewees' statements in this code give great weight to the importance of sanctions as a coercive tool with which to achieve state and non-state actors' compliance with the FATF regime in Egypt. However, said statements also reflect that those actors comply with the regime due to extrinsic rather than intrinsic motivation, which implies that those actors are not compliant with the regime's moral norms and may change their behaviour without the threat of sanctions. Intrinsic motivation, such as believing in the regime norms, is deemed more vi-

tal because it ensures actors' compliance without the coercive tools and can also assure their compliance when offered incentives out of the FATF network. An example here would be incentives offered by money launderers that could increase the financial institution's profit, considering the high corruption rate noted in Egypt (6.5.1).

I coded the third actors' motivation as '**Doing International Business'**, as highlighted by two interviewees. This code describes the financial institution's ability to conduct business at the international level as long as they are compliant with the international standards of AML/CTF. Interviewee 3C stated, "dealing at the international level has obligated banks to have a serious commitment in compliance". Interviewee 4C confirmed that "when it comes to dealing with a bank or financial institution abroad, they first ask about the regulations that I apply and how I control money laundering". These two statements reflect the international pressure as a global norm against ML and TF, where international financial institutions condition their business with financial institutions that are only committed to the AML/CTF regulations. As a result, the actors in the financial sector in Egypt feel obligated to comply with these norms; otherwise, they would not be able to conduct business at the international level.

The fourth motivation I coded was '**Losing Reputation'**. The three interviewees from the banking sector used the phrase losing reputation due to breaching the AML/CTF regime and being subject to sanctions. Losing the reputation for financial institutions here is understood as losing their standing of being a legitimate and truthful institution, and without this, the institution might lose its genuine clients. Furthermore, if, e.g. the country is named by the FATF as a non-cooperative country, it could lose its reputation and international standing. In this sense, I interpreted the phrase 'country image' used by Interviewee 7C under the same code.

The fifth motivation I coded as '**Losing the Business**', which is interpreted as a result of losing reputation. Interviewee 1C and Interviewee 4C explained that being sanctioned in the banking sector could close their business or shrink the business to specific clients and products. Interviewee 6C underlined that breaching the AML/CTF regime carries the risk of being subject to penalties on exchange houses and the risk of the business being discharged. All of

these views were emphasised by Interviewee 7C, as quoted earlier, that financial institutions could lose their business if the country were listed as non-cooperative jurisdiction.

Having described all extrinsic motivations that were explained by the participants for Egypt's compliance with the FATF regime, the last code in this category interprets the actors' intrinsic motivation for compliance, which is '**A Matter of Ethics**'. I asked Interviewee 1C about what motivates his/her financial institution to comply with the regime. He/she answered, "First of all, ethics"; he/she further explained that although sanctions are an important deterrent, "it is also a matter of ethics and not only profit". This statement is crucial in the data because it was the only incident whereby an interviewee raised the matter of ethics or norms as a motivation, which contradicted the previous finding introduced earlier that highlighted the role of sanctions as extrinsic motivation. However, as stated, there were no further statements from other interviewees to support the importance of ethics as a motivation. Besides, the interviewee statement here is up for interpretation when it is interpreted with the interviewee's other statements. This is because he/she stated earlier that his/her institution complied with the AML/CTF regime following the 9/11 attacks due to the US and the FATF pressure. Thereby, if ethics against ML were a motivation, the institution should have applied any measures against these two phenomena before 9/11 and without the FATF pressure.

In conclusion, data interpretation illustrated that Egypt's regulatory authorities and financial institutions are committed to the FATF regime due to the international pressure, including sanctions that act as the primary motivation for compliance in Egypt. The pitfall of this approach, that sanction is an extrinsic motivation that may ensure actors' (official) compliance, but once it is removed, those actors may return to their previous behaviour. Furthermore, the finding that Egypt complies with the FATF requirements does not necessarily pledge the involved parties to implement the regime effectively, so the regime goal is achieved. According to the FATF categories of its evaluation, compliance varies between compliant, largely compliant, partially, and non-compliant. Therefore, a state that does not have the intrinsic motivation to comply with the FATF regime might choose the minimum requirements for compliance with the FATF regime to evade sanctions rather than upholding the global norms against ML and TF.

6.5.7 Practitioners' perception of the CTF regime effectiveness

This category answers the last research question concerning practitioners' perception of the CTF regime effectiveness. On the one hand, the interviewees from financial institutions believe that the international standards are not effective enough due to the country national characteristics and challenges identified earlier in this chapter. In particular, Egypt's inadequate core banking system required to implement the FATF standard effectively. On the other hand, the official view also believes that the FATF standards are not effective enough, but not due to domestic factors rather than the complexity of understanding terrorists and money launderer's behaviours.

For example, as Interviewee 3C and Interviewee 4C from financial institutions indicated earlier, the international standards offer guidance and increased the understanding of specific typologies of ML and TF transactions. Yet, in practice, those standards have several challenges when it comes to the banking infrastructure, resource capacity, and the difference between national individuals' culture and the global (western) culture. Therefore, these views illustrate the difference between a developing country like Egypt and developed countries regarding capacity and financial infrastructure. This implies that developed countries might have the more appropriate financial infrastructure to implement the FATF regime. Another reason for deeming the AML/International CTF standards as ineffective was offered by Interviewee 7C. She/he stated, "I can say that the current procedures and the international standards are not sufficient to suspect or prevent both ML and TF transactions". This statement offers another interpretation: the international regulations are not effective enough against ML and TF in general, but not necessarily due to domestic challenges. This interpretation is made based on the interviewee's earlier statement: "money launderers are smarter than us". The said statement suggests that he/she might believe that the international standards are not effective because they cannot keep pace with money launderers and terrorists' behaviour. This interpretation is consistent with what the interviewees from the banking sector illustrated earlier concerning the difficulty of identifying potential terrorists and their financial transactions. Furthermore, in another discussion, Interviewee 7C explained that the deficiency in the

regime implementation is not the national law but the human element. He/she stated that "You should note that even for some officers who work in the AML, they genuinely don't believe there is a purpose of the application of this regime". Once again, this statement is significant and interlinked with the preceding category concerning actors' motivation for compliance. It shows that although AML officers are technically compliant with the FATF regime and apply its requirements at the national level, their compliance does not stem from their personal conviction of the regime's purpose. In other words, actors' perception of the regime ineffectiveness could affect their intrinsic motivation to comply with the regime because they do not believe it is productive.

In the final analysis, the MENAFATF conducted its evaluation to analyse the level of Egypt's compliance with the FATF AML/CTF standards through two visits to Egypt in 2020. The effectiveness of Egypt's AML/CTF was assessed between low and substantial in FATF's criteria (MENAFATF, 2021). According to the MENAFATF, Egypt has substantial effectiveness in understanding and identifying the risks of terrorism and TF while ranging between moderate and good in terms of money laundering risks. The banking sector is the most experienced in understanding and identifying ML/TF risks, while such experience is still weak in sectors such as DNFBPs (2021: 6). This could be because the baking industry was one of the first regulated sectors since the regime's establishment. Despite the moderate supervisory role, it appeared to be effective in enhancing actors' compliance with the regime requirements, particularly financial institutions' compliance (9). Such a statement is constituent with what I argued earlier (section 6.6.5) concerning how the supervisory role could ensure actors' compliance through inspections and penalties when actors' intrinsic motivation is uncertain.

Despite what the fieldwork illustrated concerning the limited role of financial intelligence at the institutional level in Egypt (section 6.5.4), it appeared from the MENAFATF data that the effectiveness of financial intelligence is substantial at the state level. Most competent authorities use financial information in Egypt to build and investigate ML/TF cases (MENAFATF, 2021: 43). For example, between 2015 and 2019, the Egyptian Anti-Money Laundering and Terrorist Financing Unit (EMLCU) sent 334 requests related to TF suspicious reports to the

National Security Agency (NSA), while it responded to 299 requests initiated by the latter. This is in addition to the NSA's internal sources of information, efficient resources and expertise. Furthermore, during the period mentioned above, the EMLCU provided the Supreme State Security Prosecution with 295 requests of information related to TF (MENAFATF, 2021: 46-47). Nevertheless, the MENAFATF team noted that the number of STRs related to TF is insufficient, considering the high TF risks identified in the country's national risks report (53).

Ultimately, the effectiveness of the CTF regime in Egypt in terms of investigation and prosecutions appeared to be substantial, while it is low in terms of AML. Similarly, the quality of STRs related to TF is higher than those associated with ML (7-9). Thus again, these two results emphasise how the country's motivation to eliminate the risk of terrorist groups (following the Egyptian revolution in 2011) led to better compliance. In this way, the substantial Egyptian outcome is motivated by the Egyptian government's national strategy of maintaining its security and stability.

In conclusion, data interpretation in this section underlines that the FATF AML/CTF regime is not effective in practice at the institution level, according to Egypt's practitioners' perception. Nonetheless, at the national level, according to the MENAFATF, Egypt has significantly improved its AML/CTF regime since its first assessment in 2008 and MENAFATF follow-up in 2014 (2021: 13).

6.6. Conclusion

This chapter discussed the data analysis and interpretation of interviews conducted with eight state and non-state actors in Egypt. The data showed that state and non-state actors in Egypt comply with the FATF regime not due to their intrinsic value, but because of the threat of punishment. However, the threat of punishing non-compliant actors has led them to change their behaviour and institutional culture to avoid the cost of non-compliance. The data also appeared to show that even if state and non-state actors in Egypt have the intrinsic motivation to comply with the FATF regime, they cannot optimise their utmost compliance due to na-

tional characteristics that affect their compliance capability. These domestic characteristics include regional and national instability, the high level of corruption, limitation in the banking core system and resource capacity, and the challenge of individuals' culture. Besides, Egypt's financial sector is part of a developing economy which is associated with a large informal economy and the underground market. These constrain the financial market in Egypt to monitor ML/TF risks and achieve ultimate compliance with the international AML/CTF regime.

According to the aforementioned factors, it is possible to argue that national characteristics, including countries' economy and financial infrastructure, impact the implementation of the FATF international standards and, consequently, regime effectiveness. In this way, the FATF regime is not entirely capable of achieving its objective of setting effective and practical standards to CTF with a developing country such as Egypt. This is due to domestic challenges that constrain its ability to comply with all the FATF requirements. Still, the FATF's role since listing Egypt as non-cooperative jurisdiction in 2001 and subsequently monitoring Egypt's compliance through the organisation's periodic mutual evaluations has guided the country and enhanced its implementation of the AML/CTF regime.

Furthermore, it was inferred from the data that information asymmetry and uncertainty about potential terrorists are still significant for the financial institutions' compliance with the FATF requirements. Ultimately, the participants in this case study perceive the AML/CTF as perfectly designed but not effective enough in combatting the financing of terrorism in practice. The reason for that is due to the difficulty of identifying and detecting TF transactions. However, most of the participants linked the ineffectiveness reason to the country's national characteristics and challenges. According to the MENAFATF evaluation, Egypt has achieved a more substantial effective outcome in CTF than in AML, including the role of financial intelligence and TF investigation and prosecution. Data interpretation linked such a result to the country's motivation to eliminate national terrorist groups, including the Egyptian National Security Agency efforts. Eventually, the MENAFATF (2021) assessed the effectiveness of Egypt's AML/CTF between low and substantial in FATF's effectiveness criteria.

Chapter 7

Implementation of the International CTF Standards in the UK

7.1. Introduction

In the preceding chapters, I explained how the Financial Action Task Force (FATF) regime is implemented in the UAE and Egypt. In the process, I posited three key factors that affect successful implementation and compliance with the FATF requirements. These factors were: national characteristics, such as regional instability, culture, and the cash-intensive society that constrain monitoring and mitigation of money laundering (ML) and terrorist financing (TF) risks. Second, deficiencies in financial intelligence performance at the institutional level that impact these countries' compliance, including resource capacity. Lastly, actors' motivation to comply with the regime, wherein actors' extrinsic motivation appeared in the data to be a genuine motive for their compliance. Each of these shapes perceptions of the FATF counter-terrorist financing (CTF) regime's effectiveness.

This chapter will explore the implementation of, and compliance with, the FATF regime in the UK. The UK had significant domestic experience in criminalising and tackling TF before the FATF introduced its global CTF measures following the 9/11 terrorist attacks, making it an ideal case study to examine its reflection on the regime implementation. For this reason, I chose the UK as a case study to understand how it implements and complies with the international CTF standards. As with the preceding cases, this chapter aims to utilise the data collected from ten in-depth interviews with the practitioners of the UK's anti-money laundering (AML)/CTF regime. It interprets the said collected data and the documentary data to offer a thorough understanding of how the FATF regime is implemented in the UK.

From the thick description offered by the analysed data in the present chapter (section 7.5), it is possible to argue that the UK anticipates a higher compliance level than the other two cases examined in this thesis. This is due to the UK's experience in understanding the regime requirements, including its historical experience in dealing with TF. Nevertheless, several

gaps in the implementation process were noted during the data analysis as challenges to the practitioners in implementing and complying with the AML/CTF measures. These challenges include an inconsistent implementation of the regime at the sectoral level, CTF measures stagnation against rapid technological change and the development of organised crime and terrorist behaviours. Furthermore, although financial information is considered the backbone of the AML/CTF regime, the UK has deficiencies in its Suspicious Activity Reports (SARs), including lack of resources and feedback. As a result, it could be argued that the regime is not thoroughly successful in detecting and reporting suspicious activities. Therefore, the perception of the regime effectiveness was contested among the participants in the UK. Lastly, actors' intrinsic motivation for complying with the regime has nearly appeared in the collected data. Instead, different extrinsic motivations have appeared as key reasons for the actors' compliance, such as avoiding punitive fines and maintaining a good reputation for business purposes.

7.2. Country outlook

The UK is a parliamentary democracy under a constitutional monarchy headed by the Queen, while the government is headed by the Prime Minister (UK Gov, no date, b). It has three distinct legal jurisdictions; England and Wales, Northern Ireland, and Scotland. Within its central government and parliamentary system, laws go through several stages before being approved by the parliament (UK Parliament, no date). Therefore, developing and implementing legislation requires different levels of coordination among the involved departments (including AML/CTF law).

The UK is one of the G7 founding members which established the FATF in 1989. It was one of the early countries that applied the FATF recommendations concerning AML in 1991 and enforced CTF measures before the FATF introduced its AML/CTF regime. These suggest that the UK could have drawn up the FATF AML/CTF recommendations. The UK is the world's largest centre for cross-border bank lending, and a global hub for trade and services (HM Treasury and Home Office, 2017: 23; Yueh, 2018). The country was the fourth-largest

remittance sender globally in 2018 (The Migration Observatory, 2020). Moreover, its capital city, London, is the second most powerful global financial centre in terms of competitiveness (GFCI, 2021: 4), all of which could increase the risk of the UK attracting illegal money from overseas. Nonetheless, the UK financial sector has a historical experience in leading finance since the seventeenth century (Collins, 2012). Since the early nineteenth century, the UK has become a leading economic power (9-193).

In connection with money laundering, the UK's first Act against criminal offences started with the Drug Trafficking Offences Act 1986, before establishing the FATF and the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances Against Drug Trafficking (1988). Afterwards, the UK extended its scope concerning the criminalisation of ML through the Criminal Justice Act 1991, the Drug Trafficking Act 1994, and the Money Laundering Regulations 1993. These are in addition to the first EU ML directive that the European Parliament and Council adopted in June 1991 (EUR-Lex, no date). The UK government acknowledged, in 2018, that "there is a realistic possibility the scale of money laundering impacting the UK annually is in the *tens of billions* of pounds" (Home Office, 2018b: 12). Simultaneously, NCA (2020: 2) reported: "This year [2019/20] £172m was denied to suspected criminals as a result of DAML [Defence Against Money Laundering] requests – up 31% on the previous year's £132m and over three times the £52m from 2017/18". Therefore, despite the UK AML efforts, they have not yet addressed the current scale of money laundering.

In terms of terrorism, the UK has experienced hundreds of terrorist incidents for decades, particularly associated with the Irish Republican Army (GTD, no date). For example, between 1970 and 2016, the country recorded over 2,400 deaths from terrorism, mostly executed by Irish separatist organisations (GTI, 2018: 45). As a result, the UK adopted counter-terrorism measures, including CTF, before the global scale implementation of the FATF standards against terrorist financing. Examples of these measures were the Prevention of Terrorism Act 1989, which included, in Part III, a section dedicated to the 'Financial Assistance for Terrorism', and the Northern Ireland (Emergency Provisions) Act 1996, which also involved measures to criminalise the act of terrorist financing. Those measures were repealed later un-

der the Terrorism Act 2000 (TACT) and developed into the Criminal Finances Act 2017 (CFA). Therefore, unlike the other case studies examined in this thesis, the UK has significant experience in combatting the financing of domestic terrorism.

Nevertheless, the rapid rise in the number of terrorist threats and groups since 9/11 has provoked different global and national counter-terrorism policies in response to international terrorism. In 2009, The UK updated its national strategy for countering international terrorism and introduced the CONTEST strategy (HM Government, 2009). It comprises four 'P' components to facilitate counter-terrorism; Prevent, Pursue, Protect, and Prepare (Home Office, 2018a). The second pillar in particular (Pursue) aims to maintain and enhance the UK's legislative tools in disrupting the financing of terrorism, including the implementation of financial sanctions and terrorist asset freezes and promoting the public-private relationship in combatting ML and TF. The said strategy was last updated in 2018 to tackle terrorists' changing behaviour and typologies.

Moreover, the UK is committed to the EU common strategy and directives of AML and CTF, which incorporate the FATF AML/CTF recommendations. Despite its exit from the EU, the UK implemented the EU fifth AML directive into national law (MLR 2019)– up to the time of writing, no change has been considered by the UK concerning said directive. The UK ensured that it would continue cooperation with European partners on counter-terrorism during and following the exit from the EU to promote security at both the national and European levels (Home Office, 2018a: 30, 55, 71-73). This regional cooperation is essential since, for example, 80% of the international requests received concerning ML cases in the UK are related to EU member states (FATF, 2018b: 11, 31).

Despite the aforementioned efforts enforced by the UK to CTF, the effectiveness of said measures against modern terrorist groups is challenging, mainly due to the difficulty of encountering these group typologies, including weaknesses in AML/CTF financial intelligence (sections 7.5.2, 7.5.4). The UK assessment of the threat from terrorism (Islamist extremists, Northern Ireland and UK-based extremists) ranged from substantial to severe between 2012- and 2021 – except in 2017, it was critical (Security Service MI5, no date). In relation to the

national risks of TF activities through the UK financial system, the UK government acknowledged that fundraising activities for terrorist groups in the UK are not significant since the costs of the last terrorist attacks were very low (HM Treasury and Home Office, 2017: 26; 2020: 44). This is in addition to the fact that terrorist funding in the UK has involved legitimate methods and self-funding (2017: 26-27) – excluding terrorists in Northern Ireland, who changed their end approach from ideological reasons to generating financial gains from organised crime (FATF, 2018b: 90).

The aforementioned facts may indicate the reason for the low number of SARs (Suspicious Activity Reports) submitted by financial institutions to the UKFIU concerning TF, since the majority of the annual SARs were related to ML. For example, among the 573,085 SARs submitted in 2019/20 and the 478,437 in 2018/19, there were only 501 and 432 SARs related to terrorist financing, respectively (NCA, 2020: 4; NCA, 2019: 4). These findings are crucial to the present thesis because they affirm what the literature discussed concerning the concept of cheap terrorism and the difference between ML and TF, with the latter having proceeded through legal channels. However, it is also not clear from the collected data concerning SARs whether existing resources and expertise in financial institutions were dedicated to TF cases the same way they are to ML cases.

In conclusion, this section highlighted how UK measures on CTF are interlinked with the FATF international standards and the EU directives of AML/CTF. Moreover, it was understood that the UK's experience with terrorism motivated the country to apply CTF measures before the global implementation of the FATF regime. As a result, the effectiveness of the UK CTF regime is higher than in the other case studies examined in this thesis (FATF, 2018b). Nonetheless, said effectiveness is contested among the practitioners interviewed for this case study, mainly due to the complexity of TF and weaknesses in the UK AML/CTF financial intelligence (section 7.5.6). Ultimately, the earlier indicated number of SARs illustrates the difference between ML and TF suspicious activities, which suggests the difficulty of detecting TF transactions, especially when the source of the funds is legal. Besides, of equal importance is the use of methods which are not subject to intense monitoring systems

due to their nature, such as the use of cash and cash-intensive businesses (Chapter 8: Table 12).

7.3. Data collection and sampling

As I indicated in the methodology chapter, my objective of data collection in the three chosen case studies (including the UK) was to engage with actors from public and private sectors to thoroughly understand the implementation process of the FATF regime from the different perspectives of the practitioners. After contacting 46 potential participants in the UK, I managed to secure (online) interviews with ten (former) state and non-state actors, as detailed in Table 7. Face-to-face interviews in this case study were not possible due to the global COVID-19 pandemic. Although I could not obtain data from state regulators and supervisory authorities in the UK, I eventually reached my saturation with the sample indicated in the following table. The majority of the participants in this case study have significant experience in the financial market, which ranged, in most cases, between seven and 30 years of experience and combined the perspectives of both the public and private sectors. This is in addition to the available data published by different British authorities that enabled me to gain further insights and inferences (contrary to the UAE and Egypt, where there are limited published data).

NO.	Interviewees	Sector/Organisation	Title/Position	Date (2020)	Interview duration	Using recorder
1	Interviewee 1UK	Banking sector	Head Anti Financial Crime. Formerly worked at one of the UK's police departments	October	45 minutes	Yes
2	Interviewee 2UK	Financial institution	Head Anti Financial Crime. Former senior manager at one of the UK's government agencies	October	45 minutes	Yes
3	Interviewee 3UK	Banking sector	A senior officer in compliance, financial crime prevention	October	55 minutes	Yes
4	Interviewee 4UK	Banking sector	Financial Crime and Compliance Officer	October	30 minutes	Yes
5	Interviewee 5UK	Corporate & banking sectors, and audit & consulting sector	Compliance and Anti-Financial Crime Evangelist	October	45 minutes	Yes
6	Andy McDonald	National Terrorist Financial Investigation Unit (NTFIU)	Former Head of the UK National Terrorist Financial Investigation Unit	October	50 minutes	Yes
7	Antonio Alonso-Sandoval	Regulatory & Legal Consultancy firm & formerly worked in the UK banking sector	British-Panamanian Regulatory & Public Affairs Lawyer	October	40 minutes	Yes
8	Neil Whiley	Financial institution	Director of sanction	October	90 minutes	Yes
9	Interviewee 6UK	Asset and wealth management institution	Head of anti-financial crime and group (MLRO)	November	45 minutes	Yes
10	Tom Keatinge	The Royal United Services Institute (RUSI)	Director of the Centre for Financial Crime and Security Studies	November	40 minutes	Yes

Table 7: Participants in the UK case study.

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7.4. Data analysis

As explained in the methodology chapter, I applied Charmaz's (2014) constructed grounded theory in analysing the data collected in the three cases studies, including the case study of the UK AML/CTF regime. The first cycle of data analysis created 16 categories associated with 278 major and sub-codes. Following the process of recoding, sorting memos, and integrating categories, the final catalogue of categories of the data analysis in the UK, as illustrated in the next table, included six categories and seven concepts which were as follows: measures stagnation, inconsistency, ticking the box exercise, financial intelligence, reputation, obligation, and the carrot and the stick.

Categories	Core categories	Sub-categories	Codes	Concepts	Themes
6	3	4	46	7	6

Table 8: Number of categories, codes, concepts, and themes in the UK case study.

Six themes emerged from the data. These were: (1) the UK's historical experience in CTF is a significant factor to implement regime requirements successfully; (2) digital finance could be a significant challenge to the implementation of the current AML/CTF regime, as designed; (3) inconsistent implementation of the AML/CTF regime at the sectoral levels; (4) compliance with the regime requirements is practised as a ticking the box exercise; (5) deficiencies of the UK (SARs) system affect the financial intelligence performance; (6) Avoiding punitive fines and maintaining reputation are key drivers for actors' compliance with the regime.

The following section will discuss the data analysis findings to offer a thorough understanding of the implementation of the CTF regime in the UK.

7.5. Discussion of findings

This section discusses the analysis of data collected from the fieldwork. It interprets the practitioners' perspectives on the UK's CTF regime implementation and captures actors' motivations for compliance.

7.5.1 National Characteristics

This category demonstrates participants' views about the UK national characteristics that facilitate its implementation of the international CTF standards in the UK.

The first characteristic I coded in this category is '**A leading Financial Centre**'. The FATF and the UK government highlighted the risk of ML in the UK due to its position as a major financial centre globally (FATF, 2018b: 18-19; HM Treasury and Home Office, 2017). However, the fieldwork data indicates that the UK could encounter such risk due to its experience as a leading financial centre and its capability of developing this experience. For example, Interviewee 3UK commented, "the UK is probably a good example if you look at how the city of London started, which is a financial quarter, and it wasn't always like that. It used to be a financial centre for the empire to let money in and out. But when the empire started to fall, it turned into a global financial centre for transiting money". Moreover, Mr McDonald stated "it was also about our culture, wanting to remain a leader and a global financial centre, so, we put good AML/CTF measures in place". This statement emphasises the culture's role in developing the financial sector in the UK and urging the UK to comply with the AML/CTF measures to remain a respectable global financial centre. It illustrates the UK position as a leading country and a global financial centre as a form of (British) culture. Together with the first statement with respect to the UK historical experience as a financial centre during the British empire, it suggests a cultural heritage in the UK global leadership and marinating its international competitive standing.

Therefore, this code indicates that although the UK's financial centre could increase the risk of illegal money flow through its system, such a risk could be mitigated if proper risk control

measures were in place to maintain the country's leading role as a financial centre. This conclusion is similar to what has been inferred from the case study of the implementation of the AML/CTF in the UAE (section 5.5.1).

The second characteristic I coded in this category is '**Historical Experience in CTF**', which refers to the UK's experience in applying CTF measures before the FATF international standards. Fifty per cent of the sample viewed the UK's experience in combatting the national financing of terrorism as a strong factor that facilitated its compliance with the FATF international standards. For example, Mr McDonald stated, "I think the UK is quite a strong jurisdiction when it comes to its control and compliance. The origin of the whole ML and TF regime in the UK goes back probably earlier than most countries. You can trace it back to drugs crime". Such a statement emphasises how the UK's experience in combatting both illegal money and the financing of terrorism before the application of the FATF global standards has enabled the country to comply with the FATF standards and implement strong measures to control the risks of ML and TF. As Interviewee 6UK affirmed, "so if you looked at the regulations that we had in place, the UK was leading a lot in terms of pushing AML/CTF regulations and harmonisation across Europe". Therefore, it is inferred that national experience facilitates the implementation of the FATF global standards and compliance with them.

Moreover, as Mr Keatinge indicated, "The reason I think the UK is an interesting case study is because the UK has been thinking about TF for a long time. So, before 9/11, with the IRA. That means there are some very inventive thinkers about TF in the UK security world and law enforcement, particularly in Northern Ireland. […] That's allowed the UK to broadly develop a number of approaches that actually might not necessarily fit into the box that the FATF created". This statement is crucial to this thesis because it highlights how the UK's experience in evaluating and understanding its national risks could play a substantial role in reaching appropriate approaches that deal with its own national risks rather than only complying with the global measures as a one-size-fits-all situation, because the global framework may not necessarily fit the national risks. However, as Mr Keatinge commented, "But I guess you should not suffer a terrorist attack in order to be smart about it". In addition, Interviewee 3UK affirmed this, stating that "Experience helps. But also, I think money helps, it is always

useful, and technology helps as well". So, these statements imply that experience does aid in controlling the risks of ML and TF. Nevertheless, it is not the sole factor that helps in improving a country's compliance level with the AML/CTF regime.

The last code in this category that I interpreted as a potential challenge to controlling the national risks of ML and TF and the implementation of the FATF regime in the UK is '**Brexit Uncertainty**'. On the one hand, Mr Alonso-Sandoval felt that Brexit could challenge the UK's compliance with the AML/CTF regime because the financial sector might experience an increase in its operational cost, which could consequently affect the cost of compliance associated with the regime requirements. On the other hand, Mr Whiley, in terms of the UK leaving the EU, was of the opinion that the UK regime is broadly the same as the EU directive concerning AML and CTF. As he stated, "we are one of the co-founders who set the recommendations, and it would be a real mess if we were to apply them in a different format". Such a statement underlines the UK's role in establishing the FATF regime and how it could motivate the country to maintain a high compliance level as a cofounder. Nevertheless, reaching a clear inference regarding whether Brexit will affect the UK's controlling measures for CTF is blurred and beyond the scope of this thesis.

To sum up, the risk of ML or terrorist abuse of the UK financial system because of the UK's position as a global financial centre appeared to be insignificant to the participant perceptions due to the financial market experience in the UK. This is in addition to the UK's earlier experience in applying measures to control and mitigate the risk of TF before the FATF introduced its international standards. Simultaneously, the UK exit from the European Union (Brexit) could impact the current applied controlling measures of AML/CTF at both national and regional levels; however, the data analysis did not precisely infer this matter.

7.5.2 Understanding TF and its countermeasures

This category reflects participants' understanding of the difference between TF and ML and their perception of the CTF regime at both national and international levels.

The first sub-category is 'Understanding the difference between ML and TF', which broadly underlines the importance of understanding financial crime, and particularly the differences between ML and TF. Such an understanding would mean that the financial sector is able to identify and implement the appropriate measures.

Similar to the preceding two case studies (sections 5.5.2, 6.5.2), and what was indicated in the literature review chapter (section 2.6.1), the practitioners in the UK underlined three major differences between ML and TF transactions. The first difference I interpreted as '**Large-Scale of Illegal Money**' describes the large scale of ML, as perceived by three participants. For example, Interviewee 1UK stated, "No matter what we do because of the scale of the problem and the level of capabilities of law enforcement and the rest; we are never going to be on the top of the problem. […]; it is just whether we can manage it". Such a statement underlines the large scale of illegal money compared to authorities' capabilities, so the risk can only be managed rather than eliminated. This code was also linked to another code that I interpreted as '**Unavailing Efforts**', which captured different participants' negative feelings regarding exerting unavailing efforts to tackle the scale of the problem. For example, as Interviewee 3UK expressed, "financial crimes go up, banks' spending goes up, and the ability to stop financial crime, prevent it, detect it or mitigate it is still almost at the same level". The aforementioned two codes underline the large scale of the illegal money flows in the UK and the unavailing efforts of the involved actors towards tackling the problem, which could, in turn, affect the actors' motivation, as well as their perception of the effectiveness of the regime (section 7.5.6).

On the contrary, the second major difference between ML and TF I identified in this sub-category is '**Small-Scale of a Legal Fund**', which shows the difference between ML and TF activities. As perceived by another four participants, the latter are legal and have a smaller scale of legitimate funds. For example, Mr McDonald highlighted that "Terrorist funding is different than mainstream proceeds of crime; funding terrorism is slightly different even though we still talk about ML, and so there needs to be new legal definitions to practically deal with jurisdictional differences". Therefore, such a statement affirms one of the key differences between ML and TF when terrorist activities involve legal money. Consequently,

and as noted by the participants, ML and TF require different control measures that deal with each threat individually.

The last major difference in this sub-category is '**Difficulty of Identification**', which reflects the difficulty of identifying terrorists and their transactions, as a result of which there is also difficulty in prosecuting and condemning them. For example, Interviewee 2UK indicated that "So, if a terrorist organisation is good enough, you shouldn't see what they are doing; you shouldn't see it". As explained further by Mr McDonald, "The financial indicators around that [terrorist activities] are minimal - they are very limited". As a result, the participant later added, "there is difficulty with terrorist legislation and prosecuting it". This code, therefore, highlights the primary difference between ML and TF wherein terrorists use legal and small funds in their financial transactions; thereby, it is difficult for such transactions to be detected by financial institutions and then condemned in courts.

The fourth major code in this category is '**Reactive Measures**', which reflects the perception of four participants who illustrated their understanding of CTF as disruptive measures rather than preventive ones. The reason for this is that the participants do not consider the regime measures as anticipatory or proactive measures, particularly in preventing terrorist attacks. For example, Interviewee 1UK underlined that "TF should be a preventive measure to prevent the attack, but we find that often the true value comes out after the attack". This statement links reactive measures to nature and complexity in most cases of detecting TF activities before the terrorist attack. Interviewee 2UK's statement also affirmed this conclusion, "they [authorities] will use the intelligence and the data coming to it. But it is rare that the data produced is proactive; it is normally a reactive process [….] There is some proactive work, but not in a way which solves anything". Another interviewee sincerely stated that "the UK was the leader in this area and now others are much more proactive and taking this matter more seriously". The last statement focuses more on the UK practice rather than the nature of TF. According to the participant, implementing the regime measures in the UK is not proactive enough to prevent financial crime, including TF. Therefore, this code offers two different understandings of CTF measures. The first one is that TF countermeasures should prevent terrorist attacks; however, due to the complexity of identifying terrorist financing transactions

in practice, they function as reactive measures rather than preventive. The second one highlights the national practice rather than the phenomenon itself, suggesting that national measures might have been loosened. The participant did not explicitly state the reason for his/her perception. However, as will be explained later in this chapter (section 7.5.4), data interpretation suggests that such perception could be linked to the UKFIU weak performance in analysing suspicious reports submitted by financial institutions.

The second sub-category in 'Understanding TF and its countermeasures' explains how the participants understand and view the international CTF standards, and it comprises three major codes. I defined the first code as '**A Framework of Guidelines**'. Eight participants viewed the FATF international standards as a framework of guidelines and principles that facilitate the development of the international norms of AML/CTF. Four participants describing the FATF recommendations illustrated the second perception of the international CTF standards I coded as '**Unbinding Rules**'. As Interviewee 5UK explained, "The FATF standards, since they are not binding in themselves, really leave a kind of choice with regards to implementation measures for the nations". Mr Keatinge also described the FATF recommendations as rules formulated based on the FATF members' agreement rather than coercion or binding rules, per his statement that "it is a consensus organisation". Therefore, 80% of the participants in this case study understand the FATF recommendations as unbinding rules and a framework of guidelines and principles. The third code in participants' perception of the International CTF standards is '**Tool of Harmonisation**'. Four interviewees described the FATF standards as a tool to harmonise and bring states' approaches together in one standardised approach, so that it facilitates cross-checking between the state's practice and best practices or guidelines.

To sum up, this category illustrated the participants' fundamental understanding of the differences between ML and TF, including the perception of the CTF as a disruptive tool against terrorist financing activities. This category also underlined the participants' perception of the FATF international CTF standards, by deeming the FATF standards to be unbinding rules and guidelines or the best available global consolidated approach for AML and CTF. Contrary to this thesis's other two case studies, which considered the FATF standards an interna-

tional obligation and simulated their legislation on those standards. In this way, the practice in the UK gives more weight to the national AML/CTF measures than the FATF international standards, as explained in the following category.

7.5.3 Implementation and compliance

This category reflects the participants' views on the implementation of, and compliance with, the CTF regime requirements in practice. I identified this category as a core category because it answers my central research question: How is the FATF regime implemented (and monitored) in the UK?

The first code I identified in this category is '**Strong Measures**', which reflects a common positive perception among 90% of the sample. Nine out of the ten participants deemed the current AML/CTF laws and regulations in the UK to be strong measures, particularly compliance and controlling ML and TF risks. Half of them used the exact words, and the rest similarly described the measures as "good", "very good", or "strong platform". Conversely, the second code I defined as '**Measures Stagnation**' to capture another common perception, but there was a negative perception among 60% of the sample. Despite viewing the AML/CTF measures in the UK as strong, six out of the ten participants also believed that these measures are "out of date", "old", "quite old", "doesn't change", "falling behind", or, obsolete and old-fashioned, to keep up with the technology or the development of organised crime and terrorist behaviours. As an example, one of the participants explicitly explained, "the framework that we are using very much has a foundation from the 90s, but organised crime doesn't work like that. Organised crime has moved on from the old regulations and legislation that we have got, so we see a big gap between the two". Therefore, it could be understood from these two codes here that despite the UK's strong measures to control ML and TF risks, these measures are still not developed enough to keep up with the criminals' behaviour, especially with the development in financial technology. In this way, measures stagnation is interpreted as the first implementation gap in the UK.

Within the same context, eight out of the ten participants stressed the role of technology in challenging the current AML/CTF measures in the UK and globally. Three of these eight participants explicitly indicated that the current AML/CTF measures are obsolete when dealing with the advanced technology that swiftly facilitates moving money and dealing in digital currency. Therefore, the data interpretation suggests that the current measures are not concentrated or updated enough to deal with digital finance and sufficiently control its risk. As Interviewee 2UK affirmed, "It is a completely different thing; how could the FATF regulate that? I think they are going to struggle because it is regulated somehow but not structured. Potentially, it is going to make everything they [FATF/financial institutions] do today irrelevant in ten years' time. The only approach which makes that work is to integrate with it in a positive way. So, the FATF needs to be in there now". This statement supports the conclusion reached earlier that the current international standards and national measures are old-fashioned when dealing with the threat of misusing technology, through digital currency in particular.

As reported in the UK 2017 national assessment, terrorists' use of digital currency was only a theory, while it may have been used in payments to cybercriminals (HM Treasury and Home Office, 2017: 38-41). Nonetheless, in 2020, "the Government brought certain cryptoasset businesses into scope of the Money Laundering, Terrorist Financing and Transfer of Funds" (HM Treasury, 2021: 26). Such change in the identified national risks affirms the partitioners' aforementioned view. As a result, the risk of financial technology has been considered, including using cryptocurrencies to avoid sanctions of terrorist proliferation financing concerning Iran and North Korea (25, 54). Moreover, the term Cryptoasset has been legally defined in the last Money laundering regulations (HM Treasury and Home Office, 2020: 71). These are in addition to the UK obliging businesses and digital currency providers to comply with the AML/CTF regulations 2017 (Information on the Payer) and register with the Financial Conduct Authority (FCA, 2021).

The third perception I coded in this category is '**Measures Inclusion**', which describes the scope of the AML/CTF regime in the UK. As was explained by the participants, the AML/CTF legislation addresses all types of criminal activities in the UK. Four participants

used the words “extraterritorial reach”, “far-reaching”, “broader” and “covers more areas now” to describe the scope of the current regime in the UK. For example, Interviewee 2UK stated, “Anti-terrorism financing itself is very far-reaching and very impactive and very good and fantastic for investigators”. At the same time, five participants put forth the belief that the regime is excessively applying AML/CTF measures and regulations in the private sector. This perception I coded as ‘**Overloaded Measures**’, as per one interviewee’s statement, which nearly conforms to the meaning of the previous code of ‘Inclusion’ but reflects contradiction in the interviewee’s perceptions. This is because the code ‘Inclusion’ reflects participants’ positive perception of the regime, while ‘overloaded measures’ reflects the participants’ negative perception of the regime requirements. As one interviewee, for example, said, “I think the system is becoming overloaded actually. It’s too complex, too legal, and there are too many risks for it to function normally”. Another interviewee weighed in here, stating, “To be honest, I think it has gone too far towards the private sector”. Therefore, this code captures the participants’ negative feelings towards the current regime’s increased regulations.

The fifth code I defined in this category is ‘**Theoretical Practice**’, which reflects the participants’ perception of the theoretical implementation of the regime, as it is designed, versus the actual implementation in day-to-day practice. Fifty per cent of the sample believed that implementing the regime requirements and the way it is designed to achieve its aim is more theoretical than practical due to different reasons. For example, Interviewee 1UK explained that “It is one of those things where the theory of what we are doing is better than the reality because, for everything that we report, probably less than 1% of it really gets acted on or is taken forward [...] So, the theory is good, but in practice, it doesn’t work”. This statement highlights how, in practice, the reporting system does not achieve its aim effectively in detecting criminal activities. The data suggests that the reasons for this could be a failure in the suspicious activities reporting system — as will be explained in the following category — or, as indicated earlier, the scale of the problem, or lack of enforcement, as stressed by three interviewees.

Moreover, Interviewee 3UK referred to the role of training and experience in actual practice. For example, he/she stated, “So, it is about training, education, and actual implementation on

the ground. In theory, you are going to catch more with billions of resources available. But in reality, how well people actually understand executing this is, from my experience, not great". This statement emphasises the importance of understanding the regime requirements, so that the involved practitioners learn how to implement these requirements successfully. It is suggested by the data here that both training and experience in the field could increase the level of understanding the regime and, consequently, the execution of its requirements.

The sixth code in this category is '**Different Ways of Practice**'. States have the right to choose how to implement the FATF regime according to their legislation system and national risks. The implementation is also delegated to the financial institutions, with the right to implement the regime measures according to their systems and organisational setup and risks. The data suggest that this process might have created a problem due to the different interpretations of the regime requirements and risks, resulting in different implementation methods. For example, Interviewee 2UK illustrated, stating that "So, you have got the industry institutions, government agencies, and legal sections doing their elements. But not everyone has the same aim, nor does everyone have the same view. So, you look at the same thing, but it's completely different perspectives". He/she added later, "they are not interpreting the FATF [regime] the same way […] So, the common purpose gets lost.". It is understood from these statements that, due to the different expertise and aims of the involved actors, they interpret the regime from different angles and points of view. As a result, the implementation process leads to different outcomes that do not necessarily achieve the regime purpose in AML/CTF.

A similar view was expressed by Interviewee 5UK, but at the states' economic level. He/she emphasised, "The major difference is really the understanding of the economic context in each country that implements these standards" and added, "AML is not often a priority for a nation". In other words, the participant indicates that each country has different budget constraints in terms of implementing the regime, and AML/CTF might not be a priority for all states. Interviewee 6UK explained, "in terms of the FATF recommendations, I think if we would follow all of them, that would be great. But what's going to cause a problem, especially if you are a global company, is the way the recommendations are interpreted differently in different countries". It is understood from these statements that having a common under-

standing and implementation of the regime and its requirements is crucial. A gap of understanding eventually creates another gap in the implementation and compliance among countries and financial market institutions, as explained in the following two codes, namely '**Loopholes**' and '**Inconsistency**'.

For example, one participant stated, "I think they deliberately created and left loopholes in the regulations following the implementation of the FATF standards and the EU directive". Another interviewee's statement affirmed this, "I think the biggest thing would be looking at the rest of the sectors outside of banking, especially the property market, because everybody knows about how the property market in the UK is being abused and is full of dirty money, but nothing is done about it". On the one hand, these two statements imply deliberate loopholes in the implementation process to leave some sectors deregulated or with lax compliance and auditing measures. On the other hand, the data also suggests that these loopholes could be unintentionally created due to the complexity and multiplicity of the financial market products and services involved in the implementation process of the AML/CTF regime's multiple regulators, supervisors, and parties. As Interviewee 2UK expressed, "This [AML/CTF] has too many invested interests, and too many people involved [….] the FATF needs one level system among all the involved actors, so that everyone is expected to do the same thing. That's what they need to get. So, it is clear worldwide that this is how we do this, and this is what is going to happen".

As a result, with regard to the different implementation and current loopholes in the regime, 70% of the participants perceived the implementation of the AML/CTF regime in the UK as inconsistent at the sectoral level. For example, one interviewee stated, "I think the focus would be probably way too much on financial services while there is no provided focus on other areas. For example, real estate, where the money is laundered and ultimately could be used for TF". Therefore, it is understood from this statement that the UK's implementation of the AML/CTF regime varies at the sectoral level. For example, the banking sector is one of the most monitored and audited institutions, while other sectors, such as the real estate sector, are lifted or have softer measures of compliance and auditing. It is worth mentioning that the UK assesses TF risk associated with the property sector as low, despite its high risk for mon-

ey laundering (HM Treasury and Home Office, 2017: 54; 2020: 107). Nonetheless, the last national assessment (HM Treasury and Home Office, 2020: 111) acknowledged that estate agency businesses still have different weaknesses to mitigate the risk of ML/TF—mainly due to the cost of compliance, which is consistent with the practitioners' view.

Another relevant statement is what Interviewee 6UK stated, "I think if you are going to launder money, for the most part, especially if it is a large amount of money, you will not necessarily do it from your bank; you can do it from different financial sectors. I always think that the risk is moved from banking into other sectors". This statement is crucial to this thesis because it explains how the risks of ML and TF vary from one sector to another due to the implementation and compliance gap between the well-regulated or largely compliant sectors such as the banking sector and other deregulated or less complaint sectors. This could be due to the different interpretations of the regime requirements, lack of understanding, experience, and training, or the multiple parties involved in the implementation process. However, it could also be created deliberately due to economic circumstances to benefit some sectors. Eventually, the inconsistency of implementing the AML/CTF regime at the sectoral level is interpreted in the data as the second implementation gap in the UK.

The last code in this category is '**Ticking the Box Exercise**', which refers to a pattern of rigid implementation of the regime requirements as fixed compliance criteria, as perceived by eight interviewees. For example, Mr Whiley succinctly explained how compliance practice became an exercise of ticking the box of the regime requirements rather than assessing and identifying each risk of ML and TF to establish the appropriate measures to mitigate the identified risks. As he stated, "there is a rare overwhelming amount of compliance that they [banks] have to do and it does seem to push them into checking the box because there is too much compliance and the trouble with checking the box is that you are following the rules. But that is not good enough". Therefore, the practice of ticking the box for compliance raises a significant problem concerning identifying the actual risks of ML and TF. As illustrated by Mr Keatinge when he stated, "they [other countries] tend to try following them as they are straight laws, by doing 1, 2, 3 rather than a framework or an umbrella under which you should be creative". This code is fundamental to this thesis because it highlights the wrong

path of compliance function by focusing the regime requirements into rigid rules as specific boxes or fixed criteria to comply with the regulator check and the FATF evaluation. This practice is critical because it eliminates the clear vision of evaluating the risks individually based on each case's circumstances. Individual consideration of cases would mean that the measures in place fit the identified risks rather than a set of risks already defined for other institutions and different organisational setups.

In conclusion, the data interpretation in this section reflected the participants' views on implementing the CTF measures in the UK. The participants consider the UK CTF legislation strong in terms of compliance and controlling ML and TF risks. However, there was a considerable weight in the data analysis to the CTF measures stagnation. According to the participants, current national and international CTF measures are obsolete and old-fashioned to keep up with criminals and terrorists' behaviour, especially in terms of digital finance and the development in financial technology. Furthermore, the data analysis showed the different understanding and interpretation of the CTF regime requirements in practice, as noted by the participants. Such variation has led to inconsistent practice at the sectoral level in the UK wherein the participants deem some sectors such as the banking sector as highly compliant while others, for example, the real estate sector, is less compliant or regulated. This variation was also interpreted as a loophole in the current regime practice, whether the regulators deliberately or unintentionally lifted it. The significance of this sectoral variance is that laxly-regulated sectors could be abused in ML/TF. In other words, the risks of ML/TF could be moved from largely compliant sectors to the less compliant ones.

Ultimately, due to the increased regime requirements, some participants viewed the regime to be overburden, which may have resulted in the practice of 'ticking the box'. Such practice could be critical because it affects identifying the actual ML/TF risks at the sectoral level according to the products and services provided by financial institutions. In this way, the outcome of implementing and complying with the CTF regime might be theoretical rather than genuinely effective in CTF.

7.5.4 Financial intelligence

The fourth category identified in the data analysis is 'Financial intelligence', which describes the function of financial intelligence and underlines the gap of information.

The first code which I defined in this category is '**The FIU and SARs System**'. Seven out of the ten participants highlighted the role of the UKFIU in gathering financial information from financial institutions through the SARs system, following which this information should be verified and analysed to detect transactions of ML or TF. However, the participants illustrated several deficiencies in the SARs system**.** For example, as quoted earlier, gathering information is a reactive, rather than proactive, process, which implies that the SARs regime is not effective enough to detect suspicious transactions on time, which is necessary to prevent criminals and terrorists from executing their activities. As Interviewee 2UK explained, "But it works in reverse actually. So, if they [authorities] are looking at or investigating somebody, they will use the intelligence and the data coming to it. But it is rare that the data produced is proactive; it is normally a reactive process". Moreover, as Interviewee 1UK illustrated, it is challenging for the authorities to analyse and utilise all the received suspicious reports due to their limited capabilities of resources, which creates a dilemma for financial institutions. Another participant had a similar view, stating that "I think the SARs regime is a little bit like a black hole where there are a lot of areas that we need to address". Therefore, these statements on the SARs regime indicate that it does not serve its purpose in dealing with the received financial data and adequately analysing it, due to the lack of resources and systems required for this function.

The aforementioned is important to this thesis because the SARs system has a crucial function in the AML/CTF regime. The primary purpose of financial institutions' compliance is to detect and report suspicious activities so that authorities can analyse the received information and then condemn criminals and disrupt their activities. As illustrated by the participants, the deficiencies in the reporting system indicate that this purpose is not satisfactorily achieved, which suggests that the outcome of financial institutions' compliance is unproductive. Such interpretation is consistent with the FATF evaluation of the UK FIU operations (FATF,

2018b: 52-56). Moreover, the FATF noted variation in reporting suspicious transactions at the sectoral level, poor quality of SARs in some sectors and the lack of feedback from the UKFIU to regulated entities (48-51). These findings, once again, affirm what is explained in the former category concerning the inconsistent implementation of the regime's requirements at the sectoral level.

The second code which I defined in this category is '**Seeing the Bigger Picture**'. Six out of the ten participants explained that financial intelligence not only means gathering data from financial institutions, but also the ability to connect the collected data together, putting it into context, and analysing it in an intelligent way that captures the bigger picture of organised crime and terrorists' activities. For example, Mr McDonald elucidated, "Financial intelligence is actually a great basis for all intelligence development, so if you see a suspicious transaction in client accounts, it is not just about money going from account A to account B; yes, that's important; but other financial intelligence is useful and needs to be developed to an evidential standard at some point. […] That is what is really valuable". In addition to this, another participant stated that "the biggest challenge to TF is that we have all of these people willing to give us intelligence, but we have nowhere they can go as a receptor, then to be understood. […] In the UK, financial crime is treated as an economic crime in police stations, and police don't put it as a priority, so it doesn't get acted on properly". Therefore, this code aligns with the preceding one in outlining the problem of adequately analysing the collected suspicious reports. In this way, financial intelligence does not only mean gathering information, but the process of analysing said information into context so that the bigger picture (of the criminals and terrorist behaviour) is seen. The last statement also implies a deficiency in the UKFIU and law enforcement agencies when it comes to taking adequate action against financial crime, so that it is treated as a priority.

Two other codes were linked to the preceding one in this category, namely '**Availability of information**' and '**Exchange of intelligence**'. On the one hand, the former indicates that there is no problem at financial institutions in accessing information and detecting suspicious activities, as perceived by four participants. For example, Interviewee 1UK stated, "I don't think there is a problem with data access because we provide very rich data to the authorities

[…] So, access to information is not difficult". On the other hand, the latter code indicates that the problem with financial information is not accessing information, rather an issue with the sharing of financial intelligence. Thus, as explained earlier, a bigger picture of the gathered information is captured. For example, as Mr Whiley stated, "people in other banks might be useful for me, and definitely, those people do the same job that I do so their information would be useful for me. If we can get banks to share not just the information but the actual intelligence part of information internally, that would make the whole team works a lot better". Interviewee 6UK also explained that "The problem with banks is that because they are big, each team works solo. So, they don't see the full picture, but only a little piece of the pie [...] So, I think it is very hard to find the people who can see the full picture and look at the AML risk strategically and actually complete risk assessment, and understand, question and challenge the existing systems of control". Again, these statements emphasise the need for exchanging information and sharing information intelligence so that a bigger picture of the criminals and terrorist behaviour can be captured.

At the same time, four associated codes were identified as strengths and gaps in the UK's financial intelligence function: 'UK taskforce', 'Integration', 'Resources capabilities', and 'Feedback loop'. On the one hand, the '**UK Taskforce**' appeared as a strong feature of the UK's compliance with financial intelligence requirements, as two participants praised the UK's public-private sector partnership in sharing and analysing ML and TF information — through the Joint Money Laundering Intelligence Taskforce (JMLIT). The JMLIT's role was also recognised as an innovative model in the FATF evaluation report of UK compliance (FATF, 2018b: 47). On the other hand, five out of the ten participants emphasised the need for greater cooperation and '**Integration**' between the actors involved in the regime implementation at both the national and international levels. For example, Interviewee 3UK highlighted that "in reality, there is a lot more they can still do for investigations to be developed more and to be joined up locally, regionally, nationally and internationally". Added to this, Interviewee 4UK stated that "if we had the possibility of funds or institutions talking to each other, that would help". Within this context of the required cooperation and integration among the involved actors, Mr McDonald also emphasised the role of global integration in

sharing financial intelligence; otherwise, the illegal activities will not be tackled, but moved to other lax regimes. As per his statement, "Of course, the UK kind of sorts it out; but as soon as the money is outside the UK, that's some other country's business. There is no global legislation that requires sharing of intelligence, although FATF and similar bodies encourage information sharing as good practice". Therefore, it is understood from the two codes explained here that despite the UK's innovative model of the JMLIT, still, the participants believed that there is room for greater integration and cooperation between the actors involved in the regime implementation at both the national and global levels.

'**Resource Capacity**' and '**Feedback loop'** appeared as gaps in the UK's financial intelligence function, as perceived by four participants. The former code outlined the problem of resources in the UKFIU and law enforcement agencies and financial institutions. For example, Interviewee 3UK underlined the problem of dedicating resources in law enforcement, as he/she questioned, "do they have resources? No. Are they busy with other things?". Another interviewee commented on the UKFIU resources, stating that "there are not enough people [at the UKFIU]". Interviewee 6UK underlined the problem of resources experience and strategic skills needed to see the bigger picture, as explained earlier; indeed, he/she stated that "one of the things that I personally struggle with is recruiting people with niche experience but who do not necessarily see the full picture". Moreover, Interviewee 2UK stated, "but the challenge for people like me is probably having the resources to do it". These statements highlight resources as a challenge for both public authorities and financial institutions, due to the cost of compliance associated with them. This cost is recognised in the literature as the cost of human resources, IT systems, and the required training programmes and a challenge in the core analysis category in this case study.

Eight out of ten participants highlighted the challenge of '**Cost of Compliance**' for financial institutions within this framework. For example, Interviewee 5UK stated that "Now, in the practical way, for each company that implements the FATF standards and the EU directives, there are always constraints and obstacles. From my point of view, the budget affect compliance; the budget is always a huge problem everywhere". Moreover, Interviewee 3UK affirmed that "banks spend millions of pounds in the UK on implementing these regulations;

training their staff, completing suspicious activity reports, policies, and procedures". In addition, Interviewee 1UK stated "That is a really fine line to work because compliance with anti-financial crime is an expensive business". Therefore, the data analysis interpreted the cost of compliance as a challenge to states, including financial institutions. This interpretation is important because it appeared as a common theme in the other case studies examined in this thesis, as the cost of compliance seemed to affect the actors' compliance with the regime requirements.

The latter code of '**Feedback loop**' also appeared as a gap in the financial intelligence function, which is related to the lack of feedback received from the UKFIU on suspicious reports received from financial institutions. For example, Interviewee 3UK criticised the UKFIU's role in providing financial institutions with feedback on their suspicious reports, stating that "So, there is a need for some way of giving feedback, because otherwise you are just doing business, you are trying to do your best and implement this stuff, and you got some training, and you are filling this with information, but it goes nowhere". Another interviewee stated, "Someday, you submit a report, but you don't get anything back. You are expecting information back and any feedback concerning its quality, because you have submitted a lot of data and information". The data analysis suggests that lack of feedback may be linked to the lack of resources, because it could be understood that when there are insufficient resources at the UKFIU, which is occupied with numerous reports, as stated by the participants, lack of feedback would also be expected.

Ultimately, the UK has the largest sources of financial intelligence through its SAR database, which contains more than 2.3 million SARs, including ML and TF reports (FATF, 2018b: 43). This is in addition to the JMLIT, which represents a significant feature of UK financial intelligence in terms of information sharing (47). Nevertheless, the UK has significant shortcomings in its FIU function that affect the regime purpose, including lack of human and technical resources and poor SARs quality against the identified ML/TF risks in the UK financial sector (42-58). Within this context, it could be argued that an effective SARs regime successfully disrupts terrorists' and money launderers' funds. For example, in 2018/19, the UKFIU received 478,437 SARs from financial institutions in relation to both ML and TF,

representing a 52.72% increase in reporting on the previous year (NCA, 2019: 4). This number, however, involved only 392 SARs related to terrorist financing alone. Nevertheless, the reported cases resulted in GBP 131,667,477 being prevented from reaching criminals (4). This is in comparison with the year 2017/18, during which the FIU received 463,938 SARs, including 423 SARs in relation to TF, as a result of which, GBP 51,907,067 was prevented from reaching criminals (NCA, 2018: 3). Indeed, the amount of denied funds — denied funds refer to the total amount of funds restrained, cash seized and funds recovered — in the year 2018/19 constituted an increase of 153.66% on the year 2017/18 (3). Therefore, it could be inferred here that the increased reporting of suspicious activities may result in an almost threefold increase in the amount of money which is prevented from reaching criminals. Within the context of TF alone, the aforementioned 423 SARs in 2017/18 resulted in over GBP 300,000 being frozen in relation to suspected TF (FATF, 2018b: 49).

To sum up, the data interpretation in this section highlighted the primary purpose of implementing the AML/CTF regime requirements and compliance with reporting suspicious activities. However, in this case study, the perception of financial intelligence was developed to highlight the features of the FIU's role in gathering information and the intelligence features in understanding and analysing all of the different information related to organised crime and terrorist activities. This perception is crucial to this thesis because it affects the implementation process and states' level of compliance with the FATF regime requirements. In other words, the inactive performance of financial intelligence limits the regime purpose and implies a theoretical implementation and compliance with the regime requirements because it produces limited feasible information.

7.5.5 Actors' motivation for compliance

The fifth category identified in this case study describes actors' motivations and reasons for compliance with the AML/CTF regime in the UK. This category is a core category because it answers my research second question concerning actors' motivations to comply with the CTF regime. According to their weight in order of importance, I explain the actors' reasons for

compliance and non-compliance in the next two sub-categories, as perceived by the participants.

The first reason for actors' compliance with the regime I coded as '**The Carrot and the Stick**". This code gives a high weight to the regime using sanctions or punitive fines as a stick to force actors to comply. On the one hand, three participants explained the dilemma of using the carrot concept of incentive as a reward in the AML/CTF scope. For example, Interviewee 5UK stated, "I don't think you have to be paid for behaving yourself as you actually should; ethics is, I'm certain, an innate quality that people all over the world share, whatever anyone may try to make you believe". Simultaneously, Interviewee 1UK believed that "you achieve far less with the stick than you do with the carrot". Conversely, and similar to Interviewee 5UK's statement, Interviewee 3UK explained, "That's why the stick is the best way because nobody would say congratulations to a company while they pay their tax, you can't do it. It wouldn't work." Moreover, he/she believed that accreditation programmes and the ranking system could work as both the stick and the carrot. To put it briefly, the participants' perception in this code indicated that rewarding compliant institutions with the scope of the AML/CTF would not be possible or acceptable.

On the other hand, six out of the ten participants explained the wide-ranging effects of the sanctions and fines in driving actors' compliance. They believed that most financial institutions would not comply with the AML/CTF regime if the threat of sanctions, including punitive fines, was not in place. For example, Interviewee 3UK emphasised, "They [regulated entities] don't care about ethics, so as soon as they [authorities] put a fine, the company will comply". Mr Alonso-Sandoval stated that "in an ideal world where there is no sanction, I would say they won't comply. However, in order to generate valuable income for a financial company, it is important to understand that you may be fined, or you may be sanctioned, but within that probability of (may) there are elements they have to take into consideration". Therefore, it is understood from these statements that financial institutions would not voluntarily comply with the regime requirements for ethical reasons, but the threat of punitive fines for non-compliant institutions is a key motivation for actors' compliance.

Two participants highlighted the difference between the FATF list of non-cooperative jurisdictions that affect states' reputation and prevent them from benefitting from the international financial system, and sanctions or fines imposed by individual states as a tool of law to comply with the AML/CTF regime. For example, Mr Keatinge explained that "sanctions are the pain of international law, but FATF standards are recommendations. The FATF is a task force, not a legal body". Such a statement does not interpret the FATF regime as a coercive tool to enforce compliance, despite its feature of ranking (naming and shaming) non-compliant states.

Simultaneously, four participants viewed the sanction regime used in the scope of AML/CTF requirements as fractured, due to its political aspect. For example, Mr Alonso-Sandoval stated, "I would say that one of the main challenges for international organisations is to clean this aspect of political sanctions on financial entities and countries. Sanctions are imposed or placed to prevent the ML and TF [and…] threats from damaging the whole society, not as a political weapon in a specific period of a government". In addition to this, another participant indicated that "Previously, you had sanctions at the UN level and then it was down to the country level to implement those sanctions in the local regime. So, for us, we have been put into an awkward position as a UK company, but we have a business in the US, and we deal in dollars, so by that nature, we are captured by the OFAC regime". These statements imply that participants deem the sanction regime to be a political tool, rather than a tool that is intentionally designed to prevent the financial institutions' practice of facilitating ML and terrorist activities. Eventually, eight out of the ten participants in this case study believed that sanctions and punitive fines might be a tool of driving actors' compliance. However, they do not work in practice when it comes to preventing ML and terrorist activities due to their political element, as they were deemed by the participants to be fractured and having lost their actual purpose. An example of that would be the repetitive fines imposed on non-compliant financial institutions for breaching the regime requirements. As indicated in chapter 3, almost 90% of the biggest banks in Europe have been fined for ML offences over the past ten years, including the most significant five banks in the UK (Westall, 2018). The participants explained the concept of trade-off sanction, which refers to how some financial institutions would con-

sider the value of the risk of being sanctioned against the value of profit generated from facilitating suspicious activities.

The second reason for actors' compliance with the regime requirements I coded as '**Maintaining a Good Reputation**'. This code has the same weight as the preceding one as a reason for actors' compliance. It describes the importance of both states and financial institutions' reputation among the public. Otherwise, state governments would lose public respect, and financial institutions would lose their potential customers, share values, and business. At the state level, Interviewee 5UK opined that the reason for states' compliance is relative to public opinion. As he/she stated, "I think there is also the public opinion that plays an important role in many countries, particularly now; young people especially; they require more from their leaders.". Mr McDonald stated, "we all know that it is really bad to be on FATF and similar 'naughty' lists. Reputationally people wouldn't do business with you, and it is very bad at the strategic global governmental level […] I think it focusses many firms' and governments' minds to the concept of reputational decision making." Mr Keatinge also highlighted the economic factor for compliance in his statement, opining that "I think there is an open debate about how bad it affects your economy if you, for example, have been on the FATF grey list". These statements emphasise the importance of a good state reputation in the view of the public and across the globe for government stability and economic stability and capital flow.

At the institutional level, Interviewee 3UK indicated, "They just know that they have to implement it [the regime], and if it goes wrong, they are going to be in the press and lose share values [...] They didn't do that for ethical reasons, but because they want to keep their shareholders' value". Mr Alonso-Sandoval also commented, "I would say to protect their reputation, especially with social media and young people who are more conscious about where they put their money". These statements imply that financial institutions do not ethically comply with the AML/CTF regime requirements, but for business purposes. This is because their business stability is linked to their good reputation, whereas a bad reputation for an institution that is involved in ML or terrorist activities could jeopardise its share values and its customer retention.

Within the context of the preceding code, the third reason for compliance with the regime requirements I coded in this category as '**Logic of Appropriateness'**. It describes the perception of five participants that compliance with regime requirements is only an image to show the public that states and financial institutions respond to ML and TF activities. The logic of appropriateness is a perspective on how actions, including policies, rules, and decision making, could be interpreted (March and Olsen, 2011). In this approach, rules and policies are adopted because they are expected and the right thing to do.

For example, one participant felt that "you still need to show the European regulators that you are a country that is willing to apply these standards. It is all superficial to create this image of ok we are trying to do something although we actually don't care if it works". Another participant commented, "So, it is just to make a political point and tell the people, look I have sanctioned this person". Interviewee 2UK also stated, "It's because they are regulated and have to do it. They have a compliance team, and they have their licence, and that's the bottom line. There is no ethical drive or intrinsic guide [….] if you look at some of the banks now; they only show images of their emotions and the fact that they are protecting your money". These statements consider compliance with the regime as designed to create an image of protecting the public from terrorists and money launderers. The last statement, in particular, emphasises that banks comply with the regime because they are regulated; therefore, this compliance is understood as an obligation, as will be explained in the next code. Nevertheless, the statement also underlines the banks' motivation to show they are capable of protecting the public's money, which also suggests another interpretation of why they comply with the regime, namely because they do not want to lose the public's trust and consequently their potential clients.

The fourth reason for compliance at the institutional level that I coded is '**Obligation**', which explains that financial institutions comply with the regime requirements because they are regulated and have an obligation to comply with the law. For example, Interviewee 5UK elucidated that some financial institutions comply with the regime as an obligation to the law but not necessarily as if compliance were beneficial for the institution and business. As per his/her statement, "So, basically, they performed due diligence but as an obligation of the

means but not of the results". Moreover, Interviewee 2UK stated, "But we do what we have to do because we are legally obliged to, not because we love these FATF standards; it's a structure that we have to work with [...] So, we have to work with it, and we do". The participant's statement here is fundamental to this thesis. It implies that financial institutions would not necessarily implement the FATF and regulators pressure on states to comply with the regime without the FATF recommendations to monitor ML/TF risks in the financial sector. In other words, without national and international regulators pressure, financial institutions would not intentionally comply with these requirements.

The fifth reason for compliance at the state level that I coded in this category is '**Passing the FATF Exam**', which describes the UK's motivation in achieving a high compliance ranking in the FATF mutual evaluation. For example, Interviewee 2UK stated, "but if the FATF hadn't product stuff through and continued with this framework, then the financial sector wouldn't comply with its framework". In addition, Mr Keatinge stated that "I think the motivation is that you care about what rating you get from the FATF and you don't want to be on the FATF non-cooperative jurisdictions list, I think that's the motivation." Mr McDonald also expressed a similar view in his statement, opining that "the key driver is getting a mutual evaluation right [...] There probably was formal work across the sectors, because at every level people said it would not be acceptable for the UK to get a bad mutual evaluation." These statements reflect the UK's motivation to comply with the FATF requirements, so that it achieves high compliance ranking and maintains its position as a respectable state and financial centre.

The last code that I defined in this category is '**Ethical values**'. While the preceding codes highlighted how financial institutions comply with the regime due to different reasons rather than ethics, this code slightly interprets the motivation for actors' compliance in the UK as being due to their ethics, as perceived by two participants. For example, Interviewee 4UK stated that "The impact of that [AML/CTF] is kind of giving me the motivation to prevent or detect their transactions". In addition to this, Interviewee 5UK underlined that "Ethical employers know what compliance is, and not just from newspapers. Compliance needs to become the everyday reality". Although Interviewee 5UK commented earlier in different con-

texts on today's wrong path of compliance, still his/her deep-rooted belief that compliance is a culture of ethics. Nevertheless, one participant interestingly stated "I think previously, maybe there was some kind of ethics tied to it [the regime] in terms of how people don't want to get involved, particularly with the foundation of TF. But since the regime has been used for so many other reasons now, especially for economic purposes, the regime has lost its message of preventing terrorists and money launderers, and then people start to think that it is not their political fight to get into." These statements suggest that the ethical value as a drive in the scope of the AML/CTF regime is up to interpretation because it was slightly noted in the participants' views. The last statement, in particular, is fundamental to this thesis argument because it implies that the regime has somehow lost its purpose, including the use of sanctions or fines as a threat, which might have eliminated the intrinsic drive of ethics behind the implementation of the AML/CTF regime.

In conclusion, the data interpretation in this section has offered an understanding of the actors' motivation in terms of whether to largely comply with the AML/CTF regime. Avoiding punitive fines and maintaining a good reputation are interpreted in the data analysis as key motivations for actors' compliance, followed by actors' obligation to national and international laws and norms. However, actors' compliance for ethical purposes nearly appeared as a motivation. Therefore, the emerging theme of this category was that the regime actors comply with the regime requirements due to extrinsic motivations more than ethical values. This is important to this thesis because the primary aim of the FATF and national regimes is to maintain the integrity of the international financial system and to combat the behaviour of money laundering and financing of terrorists. According to the last quotation explained earlier, the actors' ethical value might have been obstructed due to the excessive use of punitive fines within the scope of the AML/CTF regime. As a result, actors involved in the regime implementation might have lacked the right message beyond compliance with the regime requirements in protecting the financial system's integrity.

7.5.6 Practitioners' perception of the CTF regime effectiveness

This category answers the last research question concerning practitioners' perception of the CTF regime effectiveness. The participants' perspective on the regime effectiveness in the UK was contested, including the definition of effectiveness itself.

On the one hand, only two out of the ten participants certainly perceived the AML/CTF in the UK as effective. For example, Mr Keatinge explicitly stated, "I feel reasonably confident about the way the UK is approaching TF". On the other hand, the perceptions of effectiveness for the rest of the participants were critical and varied based on specific situations and circumstances. For example, the AML/CTF was deemed ineffective due to the scale of the ML and TF problems, failure in the reporting system, or, for instance, as one participant stated, "I am really critical about everything that's happening in this field, especially when it comes to regulations, because the EU directive really popped up during the last year and it was really a proliferation of regulations and I don't really think of it as something effective or efficient in itself". The participant here related the effectiveness of the regime to how the regime regulations are implemented. This statement implies a lack of effectiveness in terms of the regulations themselves, meaning that the participant may be critical about the regulations designed for AML/CTF. However, the participant's reference to the proliferation of regulations, in particular, suggests a lack of efficiency in the regime implementation because there was not enough time (or considerations of actors preparedness) for the involved actors to efficiently implement the regime new requirements so that it achieves its purposes.

Moreover, some interviewees contested the definition of effectiveness. For example, Interviewee 1Uk said "It is effective for some but not effective for others", and later directly stated "It works, but I wouldn't say it is effective", and explained that "There is a big difference between feeling that we are never going to stop it and seeing it as a failure; it is just realism, and it's a fact. [...] But as long as we can prevent the financial system turning into freeform chaos for the criminals, that is still a success". Therefore, it is understood that effectiveness, according to the participant's view, does not mean stopping financial crime, but instead controlling it. Effectiveness, also according to the participant, varies from one situation to another. Interviewee 3UK expressed a similar opinion on the regime effectiveness and success, stating that "well, what does effective mean? If you say effective, that means everybody

knows about it, yes, it is effective. Does it mean it stops TF? No, it doesn't stop it 100 per cent. So, you have to measure success by [identifying] what you mean by success". This statement is critical because it indicates that not only the definition of effectiveness is contested, but also the definition of successful implementation. This implies that the regime measures could be successfully implemented but may not necessarily be effective in CTF, unless success and effectiveness definitions are linked to controlling measures utilised in the regime. As Interviewee 2UK highlighted, "in relation to preventing the attacks, no it is not. A kitchen knife could be used to execute a terrorist attack, and the cost is cheap. It [the regime] works a little bit as a disruption tool". This statement underlines the regime purpose as a disruptive tool rather than a preventive one. In other words, said statements illustrate that if the regime effectiveness is linked to terrorist attacks, actors' perception of the regime effectiveness would be cynical. Nevertheless, if the regime effectiveness is related to successfully disrupt TF transactions and control their abuse of the international financial system, the perception of the regime is anticipated to be positive.

Simultaneously, Mr Whiley raised another important view concerning the relationship between the regime effectiveness and actors' motivation, stating that "I can't say it is as effective as we would like because there are still terrorist attacks going on around the world, so clearly some of it is still going through the system. If countries were [only] using the FATF recommendations to show up their legislation and regulations and to increase the spread of their regulations, there would be absolutely more attacks, and we would see more terrorism". This statement is interesting because the participant linked the effectiveness of the regime to the countries' motivation in applying the regime requirements when he used the words "to show up", which implies that countries motivation should be applying legislation and regulations that are operable in practice to CTF instead of showing up their compliance with the international standards. Interviewee 6UK also linked the effectiveness to the lack of compliance and inconsistency of implementing the regime measures at the sectoral levels, with his/her statement, "it depends where you are looking, in banking, I would hope so because I think most banks are definitely evolved and farther down the road in terms of implementing the systems control. But I think we lack this a little bit in the wider financial sector, especially

smaller firms". Once again, such a statement indicates the participant's perception of the regime effectiveness in terms of the consistency of implementation and compliance.

In conclusion, the data interpretation in this section illustrated that regime effectiveness is contested among the practitioners of the regime in the UK. Nevertheless, this category has reflected different perceptions of deeming the regime's effectiveness, including its definition, and how it is linked to the different circumstances at the country and sectoral levels. Furthermore, how effectiveness is linked to the implementation process and actors' aims and motivations.

In the final analysis, the FATF conducted its fourth mutual evaluation for the UK AML/CTF regime in 2018 to analyse its compliance with the FATF standards and effectiveness (FATF, 2018b). The FATF praised the UK's efforts in establishing a strong public-private partnership (PPE) through the JMLIT platform and considered this step as a best practice to actively exchange information concerning ML/TF cases (6, 38, and 47) – PPE is one of the focal points of this thesis, and concerns the private sector's role in the successful implementation of the FATF regime. The UK was rated as being compliant with 23 out of the 40 FATF recommendations, largely compliant with 15, and partially compliant with only 2.

In terms of effectiveness, on the one hand, the FATF recognised the UK AML/CTF regime as being highly effective in understanding and identifying the risks of ML/TF, with policies put in place to mitigate these risks, including the implementation of TF preventive measures and the imposed financial sanctions. This is in addition to the effectiveness of the investigations and prosecutions conducted against TF cases (14). The UK confiscation regime to deprive terrorists of assets was assessed as having a substantial level of effectiveness. Such findings could be linked to the country's historical experience in CTF, as illustrated in this chapter.

On the other hand, the FATF identified major improvements needed in the application of sanctions where a breach of the regime's requirements occurs. This is in addition to the regime supervision, as the FATF found that the quality of supervision varies among the 25 AML/CFT supervisors in the UK (123-143). Improvement was also deemed essential in the

financial intelligence function, which involves both the UKFIU's operational and strategic role in gathering and analysing suspicious activity reports (SARs), so that said reports meet the adequate quality and effectiveness required to be used in investigation processes (109-111). The FATF emphasised the importance of enhancing the human resources and IT capabilities available to the UKFIU. This required improvement in financial intelligence is important to the present thesis, since one of its focal points is the effective role of the financial intelligence and information available for investigations and prosecutions in TF cases. It underlines how a country's resources capacity could impact the implementation of the FATF regime at the national level and produce information about terrorist financing behaviour. Ultimately, most of the FATF evaluation conclusions concerning the AML/CTF regime in the UK were consistent with the practitioner's perspectives illustrated in this chapter.

7.6. Conclusion

This chapter interpreted ten (former) state and non-state actors' perspectives on the CTF regime implementation in the UK. On the one hand, the data interpretation suggests that the UK practice in implementing and complying with AML/CTF measures is higher than the other case studies examined in this thesis. The reasons for this are related to the UK developed financial market and the country historical experience in tackling TF and applying CTF measures according to its own identified national risks. These are in addition to the participants and the FATF's positive perception of the UK's public-private partnership in this regard. I interpreted these factors in the data as successful national characteristics, which underline the first element of this thesis argument concerning how national characteristics could affect the implementation of international standards.

On the other hand, the perception of regime effectiveness was contested among the practitioners in the UK. Despite the UK's experience in the AML/CTF field, which facilitates the implementation of the FATF global standards, the variation among the financial sectors in implementing the appropriate measures to mitigate the identified national risks has led to inconsistent implementation at the sectoral levels in the UK. Furthermore, the data appeared to

show several gaps in the national regime that impact the effectiveness of the regime implementation. Examples of these gaps include the old-fashioned measures that are not at the same pace as criminals and terrorists' behaviour, particularly in dealing with the threat of advanced technology being misused by criminals and terrorists. As perceived by the participants, this gap requires a different mindset in implementing the regime at both national and international levels.

Moreover, the different interpretations of the regime requirements and the different aims of the involved actors may have resulted in losing the sense of the regime purpose. For this reason, tackling the current gaps in the regime practice, particularly in terms of understanding and interpreting the regime requirements, is essential for effective implementation of the regime and to make its requirements more operable in practice. Indeed, this is instead of the wrong path of compliance that is noted in the data in rigidly implementing the requirements at the sectoral level as fixed criteria to moderately comply with the regulator instructions and the FATF mutual evaluation.

As explained in different contexts in this thesis, financial information is the backbone of the CTF regime. Data interpretation illustrated major gaps in financial intelligence function in the UK, such as weakness in the SARs system, lack of resources and feedback. The key factor that appeared as an essential feature in the financial intelligence function was the ability to perceive the AML/CTF risks strategically and thoroughly. Within this context, the challenge for the UKFIU and the financial institutions' compliance departments in successfully implementing the regime requirements concerning gathering and analysing suspicious transactions, is noted as the inadequate capacity to understand and analyse, at greater length, all of the different information related to organised crime and terrorist activities.

Ultimately, the data implies that actors involved in the regime implementation have a slight ethical motivation to comply with the regime requirements. As is argued in this thesis, intrinsic motivation and values are important for actors' compliance because they are more sustainable for actors' performance. However, as one participant indicated, "previously, maybe there was some kind of ethics tied to it […], particularly with the foundation of TF". The data

interpretation suggested that, due to the regime's use of political and economic tools in the implementation of its requirements, including the excessive implementation of punitive fines and the proliferation of regulations, the regime's common purpose in maintaining the integrity of the international financial system might have been lost. Therefore, provoking the actors' ethical motivation in the regime scope is essential when it comes to successfully implementing and complying with the regime requirements, and consequently achieving its common global purpose in protecting the integrity of the international financial system.

Chapter 8

Cross-National Context

8.1. Introduction

This thesis has addressed the terrorist financing (TF) phenomenon as a global problem that requires cooperation from state and non-state actors. Within this framework, the Financial Action Task Force (FATF) regime on anti-money laundering and counter-terrorist financing (AML/CTF) is discussed as a network of global governance in combatting the financing of terrorism. In chapters five to seven, I examined three case studies to understand how the FATF regime is implemented at the national level and what national factors could contribute to (successful/failed) implementation of, and compliance with, the regime requirements.

As I explained in the methodology chapter, the purpose of my utilisation of the case study approach is to generalise lessons learned from practitioners of the AML/CTF regime and search for similarities and distinctions between cases (Stake, 2005: 457-459; Yin, 2014: 40-44). Khan and VanWynsberghe (2008: 1-4) underlined that cross-case analysis enables learning from cases and develops new knowledge and inferences through comparison between cases. In the present chapter, I follow a complete cross-case analysis in a question-and-answer format (Yin, 2014: 184-185). Therefore, this chapter answers the research questions in a comparable fashion and captures patterns of similarities and differences among the three cases examined in this thesis (the UAE, Egypt and the UK). In this way, the comparison would facilitate demonstrating lessons learned from each case and develop the understanding of how international regimes function in different national contexts.

8.2. Implementation of the international CTF regime

This section discusses the implementation of the FATF CTF regime in the UAE, Egypt and the UK. It answers the central research question: how are the FATF international CTF standards implemented in different national contexts?

Laws & Regulations	The UAE	Egypt	The UK
First CTF measures	• Federal Law No. 1 of 2004 on Combating Terrorism Offences. • Federal Law No. 4 of 2002 regarding Criminalization of Money Laundering (included terrorism but not specifically TF)	Law No. 80 for 2002 Promulgating Anti-Money Laundering (Article 2)	• Prevention of Terrorism Act 1989 • Northern Ireland (Emergency Provisions) Act 1996 • Terrorism Act 2000 (TACT)
Current (core) CTF measures	• Federal Decree-Law No. 20 of 2018, and its amendments by law No. 26 of 2021 • Regulations issued under Cabinet Decision No. 10 of 2019 • Federal Law No. 7 of 2014 • UAE Cabinet resolutions No. 74 of 2020 and No. 20 of 2019 and No. 58 of 2020	• The Anti-Money Laundering Law No. 80 for 2002, as amended by Law No. 36 for 2014 • Anti-Terrorism Law No. 94 of 2015, as amended by law No. 15 of 2020 • Egypt Decree by Law No. 8 of 2015, as amended by law No. 14 of 2020 • The Financial Regulatory Authority of Egypt Decree no. 2/2021	• Terrorism Act 2000 and 2006 • Anti-Terrorism, Crime and Security Act 2001 • The Criminal Finances Act 2017 (CFA) updates the Terrorism Act 2000, and the Anti-Terrorism, Crime & Security Act 2001. • The Money Laundering and Terrorist Financing (Amendment) Regulations 2019 (MLR 2019), which implement the EU Fifth ML Directive in the UK

Table 9: Core AML/CTF legislation implemented in the UAE, Egypt and the UK.

Terrorist Financing Punishment	
The UAE	Life or temporary imprisonment for no less than 10 years, or deportation of foreign residents (Federal Law No. 7, 2014: Article 29; Federal Decree-Law No. 20, 2018: Article 29). A breach of the directives of the UN Security Council concerning the financing of terrorism and the proliferation of weapons of mass destruction is punishable by imprisonment or a fine of no less than AED 50,000 and no more than AED 5,000,000 (Federal Decree-Law No. 20, 2018: Article 28).
Egypt	Life imprisonment or the death penalty (if financing is for a terrorist group); "in cases where the offense is committed by a terrorist group, the person in charge of the actual management of this group shall be punished by the penalty prescribed in the preceding paragraph [and] the terrorist group shall be punished by a fine of no less than 100,000 Egyptian pounds and no more than 3 million Egyptian pounds" (Anti-Terrorism Law, 2015: Article 13).
The UK	Imprisonment for a term not exceeding 14 years, to a fine (undefined) or both (Terrorism Act 2000: Section 22).

Table 10: Punishment for terrorist financing offence, according to the law in the UAE, Egypt and the UK.

As indicated in Table 9, the three countries examined have the regulatory framework required to implement the CTF measures, including condemning the act of TF (the terrorist financing offence is defined in Appendix 2). The regulatory framework includes strict punishment that can reach life imprisonment in the UAE or a death sentence in Egypt (Table 10). The majority of the participants in the three cases articulated their positive perspectives on the implementation of CTF legislation in their countries. Nevertheless, in contrast to the UAE and Egypt, the UK implemented CTF measures before the FATF introduced its measures following the 9/11 terrorist attacks in New York (Table 9).

Data collected from interviews showed that CTF measures were applied in the UAE and Egypt as an international obligation to the FATF regime and due to the international regime's

tools of punishment, such as listing non-compliant countries as non-cooperative jurisdictions (section 8.5). In this way, as interviewee 7C stated, "All AML/CTF regulations in Arab countries are based on the FATF 40 recommendations". Simultaneously, five participants in the UK referred to the UK's experience in combatting the national TF (with regard to the IRA) as a vital factor that facilitated its compliance with and implementation of the FATF international standards. Furthermore, eight participants in the UK perceived the FATF regime to be a framework of guidance, and half of them deemed it to be a tool to harmonise and bring states' approaches together in one standardised approach. In this way, it could be understood that national experience with terrorism motivated the UK to implement CTF measures more than did its international commitment as a co-founder of the FATF international regime alone. Nevertheless, the UK data also interpreted achieving a high compliance ranking in the FATF mutual evaluation and avoiding international punitive fines as significant motivations to implement CTF measures at the national level (section 8.5).

While the UAE has no record of major terrorist attacks leading to fatalities or injuries on its land, both Egypt and the UK have experienced numerous terrorist attacks since the 1970s (GTD, no date). However, Egypt did not implement CTF measures before the FATF introduced its standards in 2001, combined with the threat of listing non-compliant countries— the FATF identified Egypt in 2001 as a non-cooperative jurisdiction (FATF-GAFI, 2001). Therefore, it is inferred that national terrorist attacks or experiencing acts of terrorism does not necessarily motivate a country to apply CTF measures. According to the FATF/MENAFATF mutual evaluation reports, the UK has a higher level of compliance with the FATF regime (FATF, 2018b) than do the UAE and Egypt (MENAFATF, 2020, 2021). Such an outcome could suggest that national experience in applying CTF measures leads to better implementation of, and compliance with, international standards. Nevertheless, whether such experience is a key factor that helps increase a country's compliance level and its implementation of the AML/CTF regime is open to interpretation and has not been affirmed in the data analysis.

Experience, however, is interpreted in the data as an essential element for consistent implementation of the requirements of the FATF regime, particularly at the sectoral level, as explained in the following sub-section.

8.2.1 Inconsistency of implementation

The fieldwork data indicated in the three cases examined a common theme of an inconsistent implementation at the sectoral level due to gaps of knowledge and experience between the previously regulated sectors (e.g. the banking sector) and the recently regulated ones (e.g. the real estate sector or currency exchange houses). For example, 50% of the participants in Egypt, as well as in the UAE, and 70% of the participants in the UK referred to the inconsistent implementation of the AML/CTF regime at the sectoral level. In such a situation, the lack of experience of less experienced sectors limits their understanding of the regime's compliance requirements and their ability to identify ML/TF risks related to their industries. Therefore, these less experienced sectors could affect the monitoring outcome of compliant financial institutions, including the performance of financial intelligence in terms of the scrutiny of financial information required to detect suspicious terrorist transactions. Furthermore, the data implied that some sectors might have lax regulations or fewer inspections (deliberately) by their regulators to benefit their country's economic circumstances; however, more weight was noted in the interviewees' statements on the experience factor in the three cases.

Therefore, the data analysis identified the inconsistency of implementation at the sectoral level due to experience variation as the first (common) implementation gap in the practice of the CTF regime. As a result, raising awareness was identified in the data as a pattern (notably in Egypt and the UAE) to improve actors' experience in understanding and practising the requirements of the regime.

8.2.2 Measures Stagnation

The second implementation gap identified in the data analysis is AML/CTF measures' stagnation in dealing with the development of terrorist behaviours proactively. For example, 60% of the participants in the UK deemed the CTF measures to be out of date and old-fashioned in dealing with the development of organised crime and terrorist behaviours. Furthermore, data interpretation underlined the increased technological change in the global financial system, including trading in digital currencies. Digital currencies could be abused in ML/TF because they are out of financial institutions' control and, therefore, difficult to trace.

According to the documentary data, the FATF is constantly bringing to its members' attention the potential risk of virtual currencies being abused by money launderers and terrorists (e.g. FATF, 2014b, 2019b). There were no restrictive and comprehensive regulations that obligate FATF members and non-members to limit the use of digital currencies, with countries having the right to respond to the potential risks of ML/TF according to their national risk assessment. In other words, digital currencies are only a risk for being abused by terrorists if their risks have not been identified systematically and risk mitigation measures are in place accordingly. However, the FATF has updated its interpretive note to Recommendation No. 15 concerning the risk of new technology (known as the Travel Rule) to address the increased global use of digital currency. The said note called FATF members and non-members to consider the risk of virtual assets and take the necessary regulatory measures to mitigate this risk, including regulating virtual asset service providers (FATF, no date, h; FATF, 2012a: 76-77). Within the three cases examined, they have broadly implemented different laws concerning digital crime before the global escalated use of digital currency. An example of these is Article 27 of UAE Federal Decree-Law No. 5 of 2012 on Combating Cybercrimes, which criminalises collecting donations without a licence (through electronic methods or platforms). Similar are the Egyptian Law No. 175 of 2018 regarding Anti-Cyber and Information Technology Crimes and the British Cyber Crime Strategy of 2010 (Home Office, 2010), in addition to the Computer Misuse Act 1990.

Nonetheless, the participants in the three case studies (particularly in the UAE and the UK, and slightly in Egypt) referred to digital currencies as a potential risk. For example, 80% of the participants in the UK indicated that the current AML/CTF measures are obsolete,

particularly when dealing with the advanced technology that is swiftly facilitating moving money and dealing in digital currencies, which is not officially regulated at the global level. As Interviewee 2UK affirmed, "Potentially, it is going to make everything [the FATF/financial institutions] do today irrelevant in 10 years' time." In parallel with the UK fieldwork data, the UK has obligated service providers dealing in digital currency to comply in specific activities with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. This is in addition to registering with the Financial Conduct Authority no later than 31 March 2022 (FCA, 2021). In Egypt, the risk of abusing digital currencies in ML/TF was slightly identified in the fieldwork data, wherein only Interviewee 3C raised this matter as a risk that requires international cooperation. In the UAE, the risk of abusing digital currencies in ML/TF was coded in the data as 'Undetermined Potential Risks'. Four participants in the UAE highlighted the risk of digital currencies; however, the field work data underlined that the risk of digital currencies has not been "thoroughly studied" at the federal level (up to the time of the interviews in 2019). According to this, the fieldwork data suggested a weakness in the UAE in identifying potential national risks emerging in practice. Nevertheless, following the interviews, the UAE updated its AML/CTF law in 2021 to include the risk of virtual assets (Federal Decree-law No. 26 of 2021).

Therefore, it is inferred from the data interpretation that the current implementation of CTF regulations at the national level does not adequately and swiftly address the risks of ML and TF, in line with criminals' and terrorists' changing behaviour and with rapid technological development. Actors' experience could also be relevant here in identifying national risks, including the risks associated with digital currencies. However, within the framework of the FATF updating its recommendation no.15, countries have started to address the threat of abusing virtual assets in ML/TF, including the UAE and the UK. This indicates the importance of the FATF in guiding states towards global risks of abusing the financial market.

8.2.3 Weakness in the financial intelligence

The third implementation gap is the performance of financial intelligence. One of the common reasons expressed by the interviewees for the weakness in the financial intelligence performance is related to the difficulty of understanding terrorist behaviours and patterns so that financial institutions could identify TF transactions. Another reason is the cost of compliance associated with the human resources and software required to implement the regime's measures as designed, which is interpreted in the data as a major reason.

The regulatory framework in the UAE, Egypt and the UK enables gathering and sharing information related to suspicious financing transactions between financial institutions and the national financial intelligence unit (FIU). However, the fieldwork data showed a weakness in the performance of financial intelligence at the institutional level in three cases examined (sections 5.5.4, 6.5.4, 7.5.4). Such a finding emphasises the gap in practising the regime rather than a gap in the regulatory framework. This finding is also consistent with the FATF (2018b: 42-57) and MENAFATF (2020: 52-65) evaluations, significantly in the UAE and the UK. However, according to the MENAFATF evaluation of Egypt's compliance with its standards, Egypt improved its financial intelligence performance and technical capacity, allowing its authorities to use national databases in TF investigations (2021: 43-63). The interpretation of both documentary and fieldwork data suggests that the substantial outcome of the financial intelligence in Egypt is due to the government's motivation to eliminate terrorist groups following the Egyptian revolution in 2011. The fieldwork data showed the national instability following the Egyptian revolution and change of the governmental regime as a trigger for terrorism acts. Furthermore, the MENAFATF team noted that the Egyptian government managed to eliminate different terrorist groups over the last years as a part of its national strategy (MENAFATF, 2021: 38, 79, 91-93). Therefore, it was inferred that the substantial Egyptian outcome is motivated by the Egyptian government's national strategy in maintaining its security and stability. In other words, the substantial outcome of the Egyptian compliance with the international CTF regime requirement concerning financial intelligence is motivated by national (security) interests.

Within the context of the fieldwork data, seven out of the 13 interviewees in the UAE underlined the importance of resources in the performance of financial intelligence, including human resource qualifications and skills, training and experience, and automated systems and software. Automated software refers to monitoring systems required to alert financial institutions when there are suspicious activities, such as profiling, screening and filtering systems. The data, however, indicated that the main challenge in the process of regime implementation in the UAE is related to the country's capacity of expertise. Moreover, the interviewees in the UAE highlighted that although they rely on automated systems in meeting the requirements of the regime, human resources are still more important.

Similar to the UAE, the eight interviewees in Egypt referred to the major qualifications that human resources should possess to successfully apply the regime's requirements, such as training, knowledge, experience, and analytical skills. The fieldwork data, particularly in the UAE and Egypt, implied that the lack of resources in public financial institutions might be higher than in private financial institutions in the aforementioned two countries. Furthermore, the inadequacy of automated systems in Egypt appeared to be significant compared to those in the UAE and the UK. Nevertheless, this requirement is challenged by its associated cost of compliance, which appears to be significant in Egypt. Such a finding indicated the difference between the core banking systems in Egypt (as a developing country) and the other two countries examined.

Interestingly, despite the UK's advanced financial system (as a developed country), the data collected from the fieldwork indicated the same weakness that appeared in the UAE and Egypt concerning the financial intelligence performance. Seven out of the 10 participants in the UK illustrated deficiencies in the UK's suspicious activity reports (SARs) system for different reasons. Firstly, gathering information is reactive rather than proactive, wherein detecting suspicious transactions on time and in a proactive way could prevent criminals and terrorists from executing their activities. However, it should be noted that this deficiency is recognised at the global level, including in the three cases examined in this thesis (e.g. Rudner, 2006). A second reason is the lack of capacity of public financial institutions (supervisory and regulatory authorities). Different participants' statements also indicated the

limitation of human resource experience and strategic skills in the private sector. Moreover, eight out of the 10 participants highlighted the cost of compliance as a challenge for financial institutions in developing their resource capacity. A third reason is understanding the concept of financial intelligence, which I coded in the data as 'Seeing the Bigger Picture'. This code was appealing in the data because it captured the financial intelligence function as the ability to connect collected data together, putting it into context and analysing it in an intelligent way that captures the bigger picture of organised crime and terrorists' activities. This interpretation, therefore, was significant in the data because it underlined the importance of the information context, not only the information availability.

Therefore, the above-identified gap in the fieldwork data concerning the performance of financial intelligence underlines the institutional cost of compliance as a challenge to financial intelligence performance, not only in Egypt as a developing country but also in the UAE and the UK. Improving financial intelligence requirements would increase the cost of compliance, consisting of recruitment, training, and utilising the required software that could facilitate gathering and analysing information at the institution level. Consequently, the challenge of the increased cost of compliance was explicitly stated by 80% of the participants in the UK and 50% in Egypt. Participants in the three cases examined believe that more integration and cooperation between the actors involved in the implementation of the regime at both national and international levels (e.g. through a unified platform) would facilitate and improve the performance of financial intelligence in gathering and exchanging information. Ultimately, the data interpretation suggests that variation in institutional budgets anticipates variation in compliance at state and sectoral levels within this context. In other words, variation in the institutional cost of compliance capacity could also lead to inconsistent implementation of the regime's requirements at the national level, as indicated in the first gap in this section.

8.2.4 Perception of the AML/CTF regime implementation

As a result of the previously explained gaps, the interviewees perceived the regime's practice as a 'theoretical practice'. Participants from Egypt and the UK referred to the practice of the CTF regime as being more theoretical than practical due to either the complexity of the terrorist financing phenomenon or challenges at the domestic level with regard to implementing the regime as designed. Theoretical practice here suggests a theoretical outcome of implementing the international FATF regime. For example, the participants in Egypt explained that the international regime provides them with significant guidance in understanding terrorist financing typologies and risks (e.g. Interviewee 3C, Interviewee 4C, Interviewee 7C). Nevertheless, they underlined the difficulty of detecting TF transactions and different national challenges that hinder financial institutions from effectively implementing the regime's requirements. These challenges include Egypt's developing economy and limitation in the core banking system, resource qualifications, the cost of automated systems, and cultural barriers (section 8.3).

In the UK, 50% of the sample believed that implementing the requirements of the regime as it is designed is more theoretical than practical for different reasons. Similar to what was indicated in Egypt's case, the UK participants underlined the complexity of TF and the scale of ML transactions as a reason for perceiving the regime's implementation as theoretical. Two other reasons were related to the adequacy of controlling systems (which is relevant to the cost of compliance) and to human resource sufficiency and training (training here could also be linked to the experience factor because training improves resource experience and, therefore, their performance). The last reason was related to the failure in reporting systems (SARs).

Although the participants in the UAE did not explicitly indicate the same gap concerning theoretical practice, the data analysis implied the same interpretation as in Egypt and the UK. This is because nine out of the 13 interviewees in the UAE referred to the change in UAE AML/CTF legislation due to the gap in practice. Furthermore, they could not explicitly affirm the effectiveness of the regime because, as they explained, they need time to practise the new regime regulations. In this way, the implementation of the AML/CTF regime in the UAE could be, similar to Egypt and the UK, perceived to be theoretical (at least up to the time of

the interviews). To put it briefly, the fieldwork data suggests a theoretical practice of the AML/CTF regime, due to either the complexity of the terrorist financing phenomenon or challenges associated with the cost of compliance.

In conclusion, this section illustrated how the FATF regime is implemented in different national contexts. The three countries examined have an adequate regulatory framework to implement the FATF regime. However, the fieldwork data underlined three common implementation gaps in said countries which are more related to the practice of the regime requirements than its regulatory framework appropriateness. Despite the difference between the UAE's and Egypt's levels of experience and the UK's historical experience in implementing CTF measures, the data showed that **(1)** the three countries have an inconsistent implementation of the regime's requirements at the sectoral level due to variation in sectors' experience. Moreover, **(2)** CTF measures stagnation against the development of terrorist behaviours and rapid technological development. This gap is linked to actors' capacity and experience in identifying potential national ML/TF risks, including digital currencies, so appropriate measures are placed to mitigate these identified risks. Furthermore, **(3)** weakness in financial intelligence performance at the institutional level. Ultimately, the complexity of terrorist financing behaviour, alongside the challenge of the institutional cost of compliance, led the participants to perceive the practice of the CTF regime as theoretical rather than practical. With that being the case, these common gaps suggest that the practice of the CTF regime is not yet fully developed.

Interestingly, although data interpretation showed that the three countries share relatively the same implementation gaps, the documentary data indicated different levels of compliance among the cases examined. The following section discusses national characteristics and factors that facilitate or challenge the successful implementation of the regime's requirements. This thesis suggests that national characteristics influence the level of compliance of these countries. Moreover, considering the absence of statistics that could indicate how many terrorist attacks were prevented or how much funds was curbed before reaching the possession of terrorists due to the currently implemented CTF measures, this thesis defines successful implementation according to the country's level of compliance. This

means that a high (utmost) level of compliance with the regime's identified criteria would indicate a successful implementation.

8.3. Compliance and national characteristics

The preceding section illustrated the similarities among the three examined case studies in terms of the way in which they implement the CTF regime through establishing a regulatory framework, as well as similarities in the gaps of implementation. This section discusses differences among these cases in terms of their level of compliance and national characteristics that could influence their level of compliance with the international FATF regime. This section offers an answer to the research sub-questions: to what extent do the states examined in this thesis comply with the requirements of the regime? What facilitates or challenges the implementation of the international regime in practice?

8.3.1 Compliance

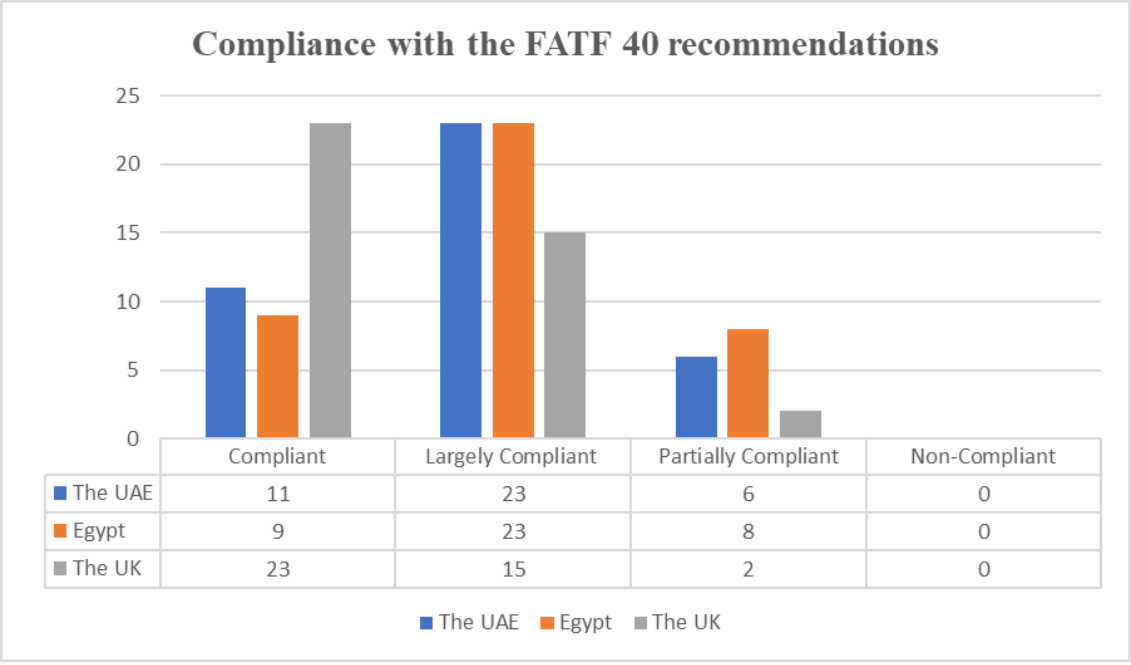

Figure 2: Countries' compliance ratings, according to FATF/MENAFATF mutual evaluations.

* FATF ratings can be either C – compliant, LC – largely compliant, PC – partially compliant, or NC– non-compliant (strongest to weakest respectively).

(Derived from MENAFATF, 2020, 2021; FATF, 2018b)

Rec. No.	Major Criteria Related to TF	The UAE	Egypt	The UK
R.1	Assessing risks and applying a risk-based approach	PC	LC	LC
R.2	National cooperation and coordination	LC	C	C
R.4	Confiscation and provisional measures	LC	LC	C
R.5	*Terrorist financing offence*	LC	LC	C
R.6	*Targeted financial sanctions related to terrorism and terrorist financing*	PC	LC	LC
R.7	*Targeted financial sanctions related to proliferation*	PC	LC	LC
R.8	*Non-profit organisations*	LC	LC	C
R.13	Correspondent banking	C	C	PC
R.14	*Money or value transfer services*	LC	PC	C
R.15	New technologies	LC	PC	LC
R.16	*Wire transfers*	C	LC	C
R.20	Reporting of suspicious transactions	C	LC	C
R.26	Regulation and supervision of financial institutions	C	LC	C
R.27	Powers of supervision	C	C	C
R.28	Regulation and supervision of DNFBPs	LC	PC	C
R.29	Financial intelligence unit	PC	C	PC
R.32	*Cash couriers*	C	LC	LC
R.35	Sanctions	LC	LC	C
R.36	International instruments	C	PC	C
R.37	(International) mutual legal assistance	LC	LC	LC
R.38	(International) freezing and confiscation assistance	LC	LC	C

Table 11: Technical compliance ratings, according to FATF/MENAFATF evaluations.

* *Recommendations in italics are directly linked to counter-terrorist financing*, while the rest are interlinked to both anti-money laundering and counter-terrorist financing measures.

(Derived from MENAFATF, 2020, 2021; FATF, 2018b)

As indicated in Figure 2 and Table 11, according to the FATF/MENAFATF mutual evaluations, the UK has the highest compliance (C) rating among the three countries examined, while Egypt has the lowest. The UAE was rated as being compliant with 11 out of the FATF's 40 recommendations, largely compliant with 23, and partially compliant with six. Egypt was ranked as being compliant with 9 out of the FATF's 40 recommendations, largely compliant with 23, and partially compliant with eight. The UK was rated as being compliant with 23 out of the FATF's 40 recommendations, largely compliant with 15, and partially compliant with only two.

Within the context of the fieldwork data concerning compliance, the data interpretation underlined the positive change in institutions' culture of compliance (particularly in the UAE and Egypt). The institutional culture of compliance in this thesis refers to institutions' ability to thoroughly understand and implement the requirements of the AML/CTF regime and accept the cost of compliance associated with educating and training resources and providing them with the required automated systems. As explained in section 8.5, change in institutions' culture of compliance is linked to the regime's tools of punishment through the threat of listing non-compliant countries, harming institutions' reputation and, consequently, losing the business. This view suggests that punishment changes behaviour —directly (by correcting negative behaviour) or indirectly (by deterring it).

Nevertheless, the data interpretation suggested that change in the institutional culture of compliance with the AML/CTF regime does not necessarily lead to actors' utmost compliance. For example, Interviewee 1C stated that "financial institutions recognise now that there is at least a *minimum* standard of resources that is required to do this job". This means that actors may indeed accept the cost of compliance but might comply with only the essential or minimum requirements. Furthermore, as indicated in the case studies of the UAE and Egypt, actors may choose de-risking behaviour so as to avoid compliance with the regime's requirement of implementing a risk-based approach. This is in addition to HM Treasury and Home Office's statement "there is some evidence that this trend [de-risking]

has encouraged smaller businesses to avoid interaction with the AML/CTF regime, either through interacting less with regulated businesses or though illicitly acting without supervision" (2017: 69). In such an approach, financial institutions would terminate any business relationships with potential clients and remittance companies located in countries with a high risk of ML or TF without assessing their actual risks (World Bank Group, 2016). Therefore, de-risking would impact businesses and undermine the outcome of the CTF measures in the financial sector because it does not identify and mitigate the risk; instead, it transfers it to another institution.

For these reasons, this thesis underlines the importance of invoking actors' ethical motivations to absorb and accept the institutional cost of compliance and, consequently, intrinsically improve their level of compliance (Wijen and Ansari, 2007; Heckathorn, 1996).

The following section explains national characteristics in the three examined case studies within the context of these countries' level of compliance. This thesis suggests that variation in compliance levels among the three case studies examined is related to not only the implementation gaps explained previously but also countries' national characteristics and actors' motivation for compliance with the requirements of the regime.

8.3.2 National characteristics

Major Vulnerabilities	
The UAE (MENAFATF, 2020, p.6)	• The large size and openness of its financial centres. • The country's geographical location in a destabilised region. • The UAE's **cash-intensive economy.** • The large size of the remittance and trade sectors. • The high value of trade in gold and precious metals and stones — which is a major sector in the UAE, with the country's annual foreign trade in this sector generating around AED 400 billion (Emirates 24/7, 2019).
Egypt (US Department of State, 2018, pp.99-101; US Bureau of Counterterrorism, 2018; MENAFATF, 2021, p.14)	• A large informal and **cash-based economy.** • The country's geographical location in a destabilised region. • A high level of corruption. • The smuggling of antiques. • A lack of judicial system capacity to deal with complex financial crimes.
The UK (HM Treasury and Home Office, 2017, pp.29-32, 65-68; 2020, pp.57-58, 116-120)	• The large size and openness of its financial centres. • Retail banking — which involves banks that offer individual and business accounts, and payment services; this type of banking was identified as the primary method of saving and moving terrorist funds. • **Use of cash,** including cash couriers at UK borders and cash-intensive businesses, which are establishments whose income is usually received in the form of cash, such as grocery stores, nail bars, parking garages, and other similar retail businesses (UIFAND, 2019, p.3). • Money service businesses (MSBs) such as remittance and foreign currency exchange agencies.

Table 12: Major vulnerabilities to the risk of terrorist financing through the countries' financial systems.

Major Characteristics	The UAE	Egypt	The UK
Geographical Location	In the Middle East. The UAE has maritime borders with Iran.	In the Middle East. Borders four countries (including the Gaza Strip, Israel, Libya, and Sudan).	In Western Europe. The UK has one land border with the Republic of Ireland.
Government	Federation of seven constituent monarchies.	Republicanism, with a central government.	Constitutional monarchy, with a central government.
Economy	Mixed free market economy.	Developing economy.	Developed economy.
*Corruption Perceptions (CPI, 2020, pp.2-3)	21st.	117th.	11th.
Remittance Flow (KNOMAD, 2019; The World Bank, 2017; The Migration Observatory, 2020)	Second-largest remittance sender globally in 2017. Outward remittances: $44.4 billion.	Fifth-biggest global remittance recipient in 2018. Inflows: $28.9 billion.	Fourth-largest remittance sender globally in 2018. Outwards in 2017: $9.8 billion.
*Financial Centre Futures (GFCI 29, 2021, p.4)	Dubai is ranked the 19th global financial centre and Abu Dhabi the 38th.	NA	London is ranked the second global financial centre.
*Most Globalised (KOF, de facto, 2018)	21st.	60th.	10th.

Table 13: Major national characteristics that influence AML/CTF regime implementation and effectiveness.

* The CPI scores 180 countries by their perceived levels of public sector corruption, according to experts and businesspeople. The most corrupted is 180 and the least is 1.

* The GFCI 29 index provides evaluations and rankings of 126 financial centres' competitiveness, using 143 instrumental factors, including business environment, human capital, infrastructure, financial sector development, and reputation.

* The KOF (Swiss Economic Institute) Index of Globalization measures "globalisation along the economic, social and political dimension for almost every country in the world on a scale of 1 (least) to 100 (most globalised). De facto globalisation measures actual international flows and activities (such as trade in goods and services)."

As indicated in Table 12, similarities and differences among the countries examined are underlined in terms of their financial system vulnerabilities to TF risk. For example, there are similarities between the UAE and Egypt in their regional instability, while this is not indicated in the UK. Furthermore, there are similarities between the UAE and the UK as global financial systems, while Egypt has a large-sized informal economy. While other vulnerabilities vary according to their national characteristics, such as trade in gold in the UAE, antique smuggling in Egypt, and retail banking in the UK, the three countries share a common vulnerability concerning monitoring the use of cash. For example, in the UK, 45% of all payments in 2015 were made in cash (HM Treasury and Home Office, 2017: 65). The risk of using cash as a method of payment lies in the difficulty of gathering detailed information on its use, origin and beneficiary. This is in addition to the flexibility of using it in any activity without a trace (UIFAND, 2019: 3, 65).

Following highlighting major financial system vulnerabilities in the three cases examined, including their similarities and differences, Table 13 illustrates differences among the three examined case studies in terms of their national characteristics. This section addresses major characteristics and risks indicated in the aforementioned tables within the context of the data collected from the fieldwork.

Firstly, geopolitical characteristics in terms of the geographical location, which is associated with the risk of regional instability. The data analysis illustrated that both the UAE and Egypt have the same regional challenge, which increases the risk of ML/TF and, consequently, could impact the outcome of their AML/CTF regime implementation. For example, four participants in the UAE referred to regional instability, which could make the UAE a hub for illegal activities. In Egypt, similar to the UAE, four interviewees referred to both regional and national instability. Regional instability underlined Egypt's borders with destabilised territories such as Libya, Sudan, and Gaza; therefore, Egypt's borders could be employed as a hub for arms smuggling. National instability indicated a lack of security in Egypt following the Egyptian revolution and change in the governmental regime, which may have triggered terrorist incidents. Notwithstanding, regional instability has not been interpreted in the data collected in the UK case study as a challenge. The data implied that Brexit could challenge

the UK's compliance with the AML/CTF regime because it anticipates an increase in the operational cost of the financial sector. Nevertheless, reaching a clear inference regarding whether Brexit will affect the UK's controlling measures for CTF appeared to be blurred in the data. Ultimately, the fieldwork data was consistent with the documentary data concerning the regional instability surrounding Egypt and the UAE (MENAFATF, 2020: 82, 2021: 24).

The second is that of national economic characteristics. The documentary data collected concerning the UAE and UK financial centres underlined financial centres as a factor that could increase the risk of ML/TF because money launderers and terrorists might abuse the regulatory flexibility of financial centres, including the ease of setting up a business (MENAFATF, 2020: 6; FATF, 2018b: 18-19; HM Treasury and Home Office, 2017: 2, 23-25, 55-63). Nevertheless, the data collected from the fieldwork emphasised that financial centres do not necessarily increase the risk of illegal funds more than do other countries when these financial centres are monitored, and risk mitigation measures are in place.

On the contrary, Egypt being a developing country, including its substantial informal economy, is interpreted in the data as a significant challenge to Egypt's implementation of the AML/CTF regime and its level of compliance with it. According to some estimates, Egypt's informal sector accounts for 40% of its GDP (PWC, 2019; US Department of State, 2018). The fieldwork data underlined that regulators in Egypt might be cautious when they regulate the financial market, including applying the FATF regulations, because intense regulations might drive business opportunities out of the country while the country is in need of capital flows for its economic growth. Moreover, the data illustrated the challenge for the country's substantial cash-based economy in monitoring suspicious financial transactions. For example, the participants from the banking sector explained how (as a result of Egyptian society's reliance on cash more than on bank accounts) Egyptian institutions detect many unjustified cases and suspicions of ML or TF, but they are not related in reality. An example of such cases is that many individuals in Egypt work as freelancers and receive different amounts from several parties, which results in alerting the banking system about suspicious ML/TF transactions (Interviewee 3C, 2019). According to the 2017 Global Findex database, only 33% of adults in Egypt own a bank account (Demirgüç-Kunt et al., 2018: 124). This is

in addition to the challenge of the shadow economy. As interviewee 6C illustrated, the shadow economy could affect monitoring trading in currencies because it does not work under the government's radar. According to some estimates, Egypt's informal (or shadow) economy may employ around 10 million individuals in the country, half of whom are employed throughout the year (PWC, 2019).

The third characteristic is culture. The fieldwork data in the three case studies examined indicated the positive change in the institutional culture of compliance to comply with the AML/CTF requirements and accept the regime's (minimum) associated cost. Nevertheless, individual and social culture appeared to be a challenge in implementing the regime's monitoring requirements, particularly in the UAE and Egypt. In the UAE, the data interpretation underlined some cultural and social characteristics that could be misused in disguising illegal money or funding terrorists. Most significantly, the cultural element of adopting a luxurious lifestyle in the UAE, which leads regulators to adopt lax measures in regulating jewellery and cash movement; therefore, they accommodate society's requirements. UAE cash-based society is related to its culture rather than to the size of the informal economy (as indicated previously in Egypt) because 88% of the population in the UAE hold a bank account (Demirgüç-Kunt et al., 2018: 126). Therefore, although the UAE complies with the FATF recommendations concerning the possession of cash, gold, and precious stones, the fieldwork data underlined social lifestyle as a challenge to monitoring ML/TF activities in this regard. This is because gold and precious stones could be misused in certain situations as a means of exchange or of transmitting value (FATF, 2012a: 108).

In Egypt, 50% of the participants illustrated different cases in which individual culture and attitude challenged the performance of financial institutions in gathering sufficient information and verifying their customers' transactions. For example, Interviewee 4C stated: "Any question you ask the client, he takes it as a personal offence." Interviewee 4C added: "I think 70% of the suspicious ML cases are filed due to that reason — the culture." Such statements are significant because they anticipate the poor outcome of the performance of the SARs system at the institutional level as designed in the AML/CTF measures. Therefore, it

was inferred from the fieldwork data in Egypt that culture is a significant challenge in terms of the CTF monitoring measures and complying with the requirements of the regime.

In the UK, the data slightly interpreted the UK's position as a leading country and a global financial centre since the British Empire serves as a form of cultural heritage. Ultimately, as explained in the methodology chapter, to thickly describe and understand social phenomena such as ML and TF, interpreting actors' cultures and behaviours within the context of these phenomena is essential. Furthermore, individuals' cultures and values could eventually affect practitioners' perceptions of what is right or wrong and what is critical or acceptable. In other words, individuals' cultures being constructed in locations where corruption or extremist behaviours are practised in everyday life may influence practitioners' perceptions and, consequently, their performance of the AML/CTF regime (Interviewee 5UK, 2020). The fieldwork data explained how cultural barriers challenge monitoring ML/TF risks as designed in the international FATF standards. Consequently, cultural differences may result in different outcomes and lead to variation in compliance among states.

The fourth characteristic is the form of governmental regime. This challenge was indicated only in the UAE case study. For example, three participants in the UAE deemed the UAE's federal system to be a challenge in the regime implementation process because it requires constant communication and involves several actors at different levels. This suggested that central governmental systems (such as in Egypt and the UK) might be more flexible in terms of the implementation requirements. Nevertheless, three other participants underlined that the federal system might be complex and challenging in terms of coordination among the actors and authorities involved, albeit insignificant. This is because official authorities' role in harmonising the requirements of this process reduces the complexity of the federal system. Therefore, the federal system is interpreted in the data as an undetermined factor.

The fifth characteristic is the corruption level of the country. This challenge was indicated only in the Egyptian case study. Nevertheless, in contrast to the preceding case study of the UAE, the country's corruption level appeared to be a significant challenge in terms of the outcome of the regime's implementation. Six out of the eight interviewees in Egypt linked

ML to corruption. As indicated in Table 13, the documentary data is consistent with the participants' statements, wherein Egypt has a high ranking in the Corruption Perceptions Index. Nevertheless, while the fieldwork data showed a strong relationship between corruption and ML in Egypt, it did not show the same relationship between corruption and TF, wherein none of the participants referred to it. However, this thesis suggests that corruption could also be relative to the implementation of the CTF regime because corrupt actors involved in the implementation process (be it in the public or private sector) might turn a blind eye to some AML/CTF regulations in return for a payoff.

The last challenge is that of mitigating the TF risk in remittance and exchange house services. Despite what has been explained in chapter three concerning terrorists' abuse of remittance services in moving their funds, the fieldwork data did not generate sufficient input to infer the high risk of this sector. For example, in the UAE, Mr Alrahma and Mr Kamel underlined the risk of remittance services, which terrorists could abuse. However, their elucidation focused more on the importance of implementing the appropriate CTF measures that enabled the UAE to mitigate such a risk, especially that the UAE is a global remittance hub. In Egypt, the participants from the banking sector emphasised the weak performance of AML/CTF implementation in exchange houses due to the lack of experience. However, they illustrated the lack of experience in other sectors, which suggests that such a problem is not solely related to exchange house services or this industry risk specifically. Simultaneously, the participants in the UK did not address the ML/TF risk in the aforementioned sector through their answers to my questions. As explained in the methodology chapter, this thesis aimed to understand the implementation of the FATF regime from the perspectives of different practitioners holistically (instead of focusing on a specific sector). Therefore, it is admissible that this thesis does not underline in detail the ML/TF risk related to remittance services, which requires dedicated research focusing on this industry alone.

Nevertheless, it was indicated by the MENAFATF that money or value transfer services (MVTS) in the UAE are vulnerable to terrorists' abuse because the UAE was not able to concisely quantify the exact number of hawaladar activities at the time of the MENAFATF assessment. This is in addition to several hawaladars continuing to function outside of the

regulatory regime (MENAFATF, 2020: 28). In the UK, as recorded in the NCA annual report (2017: 13), "[MSBs] were the fifth largest reporting sector over the 18 months with 16,704 SARs submitted". This number increased in 2018/19 to 18,940 SARs (NCA, 2019: 8). According to the US Department of State (2018: 100), in Egypt, the Egyptian government has worked to integrate its remittances into the formal banking system to monitor these transactions and ensure that the remittance system is not used for ML or TF. Within this framework, cross-borders MVTS (legal and regulated practice) in Egypt is only limited to banks and the International Business Associates Group for Money Transfer (Western Union), which are subject to the supervision of the Central Bank of Egypt (MENAFATF, 2021: 207). Ultimately, monitoring currency exchange and remittance services is a global challenge due to the difficulty of comparing customer's activity transactions to their behaviours and patterns to detect suspicious conduct (Europol Financial Intelligence Group, 2015: 31).

To sum up, this section illustrated similarities and differences among the examined case studies in terms of their financial system's vulnerabilities to the risk of TF. The fieldwork data suggests that national characteristics influence countries' level of compliance because they could challenge the regime's monitoring function (particularly in the UAE and Egypt) or facilitate it (as in the UK). Therefore, it is inferred that national characteristics and the level of compliance are interlinked.

8.4. Effectiveness of the CTF regime

This section addresses the effectiveness of the CTF regime according to the FATF/MENAFATF assessment of the UAE, Egypt and the UK compliance with its regime. Furthermore, it discusses the effectiveness from the perspectives of the participants interviewed in these countries. Therefore, this section answers the research's second main question: how do the actors involved in the implementation of the CTF regime perceive the effectiveness of the CTF regime? This section also offers an answer to the research sub-question: how is the CTF regime monitored at the national level?

8.4.1 FATF/MENAFATF effectiveness ratings

	FATF/MENAFATF Effectiveness Ratings	**The UAE**	**Egypt**	**The UK**
1	Risk, policy and coordination	Moderate	Substantial	High
2	International cooperation	Low	Substantial	Substantial
3	Supervision	**Moderate**	**Moderate**	**Moderate**
4	Preventive measures	**Moderate**	**Moderate**	**Moderate**
5	Legal persons and arrangements	low	Moderate	Substantial
6	Financial intelligence	Moderate	Substantial	Moderate
7	ML investigation and prosecution	low	low	Substantial
8	Confiscation	Moderate	Moderate	Substantial
9	TF investigation and prosecution	Substantial	Substantial	High
10	TF-preventive measures and (internationally targeted) financial sanctions	Moderate	Moderate	High
11	PF financial sanctions	Low	Moderate	High

Table 14: FATF/MENAFATF effectiveness assessment ratings of the UAE, Egypt, and the UK AML/CTF regimes.

* Effectiveness ratings range between high, substantial, moderate and low, wherein the highest effectiveness rating is 'high' and the lowest is 'low'.

* all criteria indicated in this table are directly or relatively linked to the effectiveness of the CTF measures, except criterion (7) concerns ML measures (investigation and prosecution).

(Derived from MENAFATF, 2020, 2021; FATF, 2018b)

Table 14 above addresses the effectiveness of the AML/CTF regimes in the UAE, Egypt and the UK, according to FATF/MENAFATF evaluations. In terms of the effectiveness of the AML/CTF regime in the UAE, despite the MENAFATF commending the UAE's legislative changes to the AML/CTF regime, the effectiveness of the legal framework and its associated technical compliance were obscure to the MENAFATF evaluation team (MENAFATF, 2020: 3-13). This is because the UAE's legal framework had recently been updated before the time of the evaluation. Consequently, the effectiveness of the UAE's CTF was assessed between low and substantial in FATF's effectiveness criteria (Table 14). In Egypt, the MENAFATF noted the improvement in Egypt's AML/CTF regime since its first assessment in 2008 and MENAFATF follow-up in 2014 (MENAFATF, 2021: 13). The effectiveness of Egypt's AML/CTF was assessed between low and substantial in FATF's effectiveness criteria. However, the effectiveness of the AML/CTF regime in Egypt is considered to be higher than in the UAE because only one criterion was assessed as low, and four criteria were assessed as substantial.

In contrast, four criteria were assessed as low in the UAE, and only one was assessed as substantial. In terms of the AML/CTF regime's effectiveness in the UK, the UK's AML/CTF was assessed between moderate and high in FATF's effectiveness criteria (Table 14). Therefore, it is clear from the FATF/MENAFATF evaluation of the effectiveness of the UAE, Egypt and the UK AML/CTF regimes that the UK's AML/CTF regime has the highest effectiveness rating among the three cases examined, while the UAE has the lowest.

8.4.2 Practitioners' perception of the CTF regime effectiveness

In the UAE, eight out of the 13 interviewees had positive perceptions of the UAE's laws to combat ML and TF. Nevertheless, five out of these eight interviewees stressed the importance of practising the new AML/CTF law (issued in late 2018) to construct their perception of the regime's effectiveness at the time of the interviews. They explained that the effectiveness of the regime requires closing the existing gaps in law and practising the new provisions of AML/CTF. Following this practice, the participants anticipate generating and

analysing the statistics and data required to identify the gaps in the implementation of the regime and, consequently, measure the effectiveness and reach a precise perception. The fieldwork data also indicated that the time required in order to measure the effectiveness of the regime is needed not only to practise the new legal changes but also for novice actors to understand the regime's requirements and gain experience from this practice. Therefore, at the time of the interviews in this case study, the data did not deliver a precise answer concerning the effectiveness of the regime in the UAE due to the prematurity of practising the new AML/CTF regulations issued in late 2018 and the absence of statistics — which was interpreted in the data as the 'immaturity of regulations'. This finding is consistent with the MENAFATF mutual evaluation, which reported that the effectiveness of the new AML/CTF regime in the UAE remains blurred due to the last amendments implemented by the country.

In Egypt, on the one hand, the interviewees from financial institutions perceive the international AML/CTF standards to be not effective enough to combat the financing of terrorism due to the country's national characteristics and challenges. As indicated previously in this chapter, these challenges include the inadequate core banking system in Egypt, the country's developing economy and cash-based society, as well as cultural barriers. On the other hand, the officials perceive the FATF AML/CTF standards to be ineffective, not due to domestic factors but to the complexity of understanding terrorists' and money launderers' behaviours. Nonetheless, according to the MENAFATF, Egypt has significantly improved its AML/CTF regime since its first assessment in 2008 and MENAFATF follow-up in 2014, as reported in table 14.

In the UK, two out of the 10 participants certainly perceived AML/CTF in the UK to be effective, while the perceptions of the effectiveness of the regime for the remainder of the participants varied based on specific situations and circumstances. For example, one of the participants linked the lack of efficiency in the implementation of the regime to the intense, increased regulations that do not allow enough time for the actors involved to absorb the regime's requirements and, therefore, efficiently implement the regime achieve its purposes. Others were influenced by the shortcomings of the SARs system (indicated in section 8.2.3)

Ultimately, the data collected from the fieldwork in the UK case study offered a different understanding of the effectiveness of the regime from the FATF mutual evaluation results. In other words, the interpretation of interviewees' statements did not precisely focus on answering and identifying the effectiveness of the regime in a closed-ended fashion. Instead, it developed the understanding of effectiveness in relation to the regime's purpose and TF circumstances.

In conclusion, according to the documentary data collected from FATF/MENAFATF assessment reports, the UK's CTF regime has the highest effectiveness rating among the three cases examined, while the UAE has the lowest. Nevertheless, effectiveness was contested among the interviewees, particularly in Egypt and the UK. This does not imply that the regime is ineffective, but rather that the subjectivity and variation in perceiving effectiveness have been captured according to different situations and circumstances. For example, whether effectiveness is linked to preventing terrorist attacks, states' ability to implement the requirements of the regime, controlling the complexity of terrorist financing transactions, or understanding terrorists' behaviour. The data collected from the UK, in particular, developed such an understanding and illustrated how the definitions of effectiveness and successful implementation could vary from one practitioner to another.

8.5. Actors' motivation for compliance

The preceding sections illustrated the challenges and gaps in implementing the AML/CTF regime in the three countries examined. Furthermore, they explained the variation among the examined countries in compliance with, and effectiveness of, the regime implementation. Thereafter, it addressed interviewees' perceptions of the regime's effectiveness and underlined the reasons behind their perceptions. Interestingly, despite said variation in practising the regime and the contested perceptions surrounding its effectiveness, the three cases examined are still committed to implementing and complying with the international AML/CTF regime. This section discusses actors' motivations and reasons for compliance with the FATF international standards. In this way, this section answers the research's last

main question: why do the actors involved comply with the requirements of the FATF CTF regime? However, it is worth highlighting that this section does not necessarily interpret interviewees' personal or institutional motivations, rather than the motivations of the actors involved in the regime implementation (public and private sectors), according to the interviewees' perceptions. As Charmaz (2014: 57-58) highlighted, constructed grounded theorists aim to understand and interpret participants' views and their own interpretation and perspectives regarding the phenomenon being studied. Intrinsic motivation, in this argument, refers to actors' motivation and personal conviction with regard to fighting ML and TF as the regime is designed. In contrast, its extrinsic counterpart refers to actors' motivation to avoid the international political and economic sanctions and penalties that could be imposed upon non-compliant parties and result in their being withdrawn from accessing the international financial system.

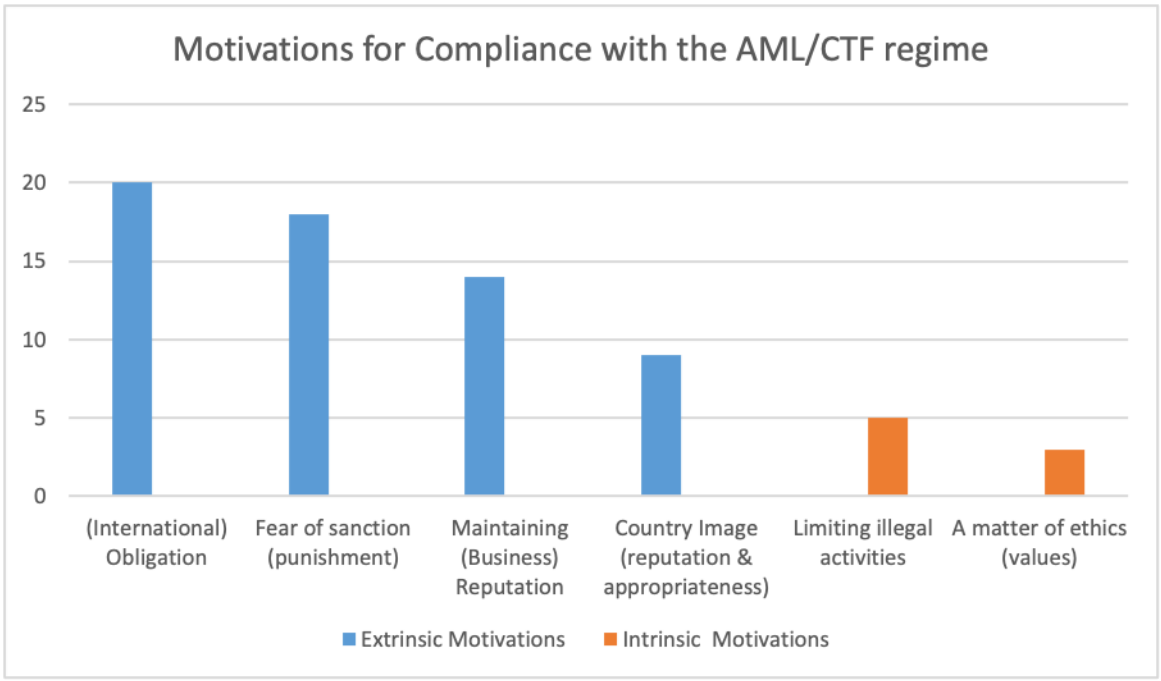

Figure 3: Actors' motivation for compliance with the international AML/CTF regime, according to the data collected from the fieldwork.

As indicated in Figure 3, interpretation of the data collected in the UAE, Egypt and the UK from (34) participants (including four responses received via email) shows that the actors involved in the implementation of the AML/CTF regime have more extrinsic than intrinsic motivations to comply with the requirements of the regime. The most weighted motivations for actors are international obligation and the fear of being punished (through the regime's tools of naming and shaming non-compliant jurisdictions or international punitive penalties).

In the UAE, 11 out of the 17 participants stressed the importance of complying with international AML/CTF measures (FATF + UN) as an obligation to international requirements. The data interpretation linked the reason for such an obligation to the international regime's tools of punishment for non-compliant sectors through targeted sanctions and naming non-compliant countries as non-cooperative jurisdictions. In Egypt, four out of the eight participants underlined international obligation as a major motivation, which referred to the requirements of the FATF regime or the ability to conduct business at the international level, with states requiring the compliance of business parties with the international AML/CTF standards. In the UK, seven out of the 10 participants explained actors' motivation as either an obligation to UK laws and regulations that require businesses' commitment to the international AML/CTF standards or to pass the FATF mutual evaluation.

The second primary motivation for actors' compliance with the AML/CTF regime is the fear of being punished at the international level through naming and shaming, or at both national and international levels through punitive penalties. It is worth highlighting here that individual states (regulators) can impose fines upon financial institutions abroad that operate with their currency in business while breaching the requirements of the regime. Therefore, avoiding sanctions and penalties is strongly linked to the previous motivation concerning international obligation. One of the reasons for actors feeling obligated to the international regime is its tools of punishment. Ultimately, nine out of the 17 participants in the UAE, six out of the eight participants in Egypt, and seven out of the 10 participants in the UK underlined sanctions and penalties in actors' compliance as a major motivation. Such a finding highlights the concept of punishment through the threat of sanctions and fines as being a crucial component in compliance with international regimes.

Nevertheless, compliance in such a situation would be expected, but the level of compliance would vary relative to the power exercised (Haas and Bilder, 2003; Haas, 1983). In other words, the level of compliance would rely to a large extent on the level of national and international supervision and regulators' power in punishing non-compliant entities. In this way, wherein the supervisory role is moderate (Table 14) and the fear of punishment is the primary motivation for actors' compliance, actors' minimum (or official) compliance with AML/CTF is anticipated, albeit not necessarily utmost (or effective) compliance.

The third and fourth extrinsic motivations for actors' compliance with the AML/CTF regime are interpreted as maintaining reputation and country's image. These two motivations are strongly linked to the motivations explained previously. Naming non-compliant countries as non-cooperative jurisdictions or imposing sanctions and penalties negatively impacts a business reputation and, consequently, could lead to losing the business, as well as impacting a country's reputation and image, whereby impacting the country's legitimacy and its international standing (Pattison, 2018b: 3). The interpretation of the country image concept as an extrinsic motivation was developed in the UK case study. Fifty per cent of participants in the UK elucidated that compliance with the requirements of the regime could only represent an image that shows the public that states, and financial institutions respond to ML and terrorist activities. This interpretation implies that compliance (as an image) does not necessarily reflect actual or effective compliance in practice.

Nevertheless, considering what has been explained thus far in this chapter concerning the FATF mutual evaluation of countries' compliance, including naming and shaming non-compliant countries at the international level. This is in addition to states' conditioning compliance with the requirements of the regime in conducting business with other entities abroad, including international regulators' ability to impose fines upon non-compliant parties. Such practice, in my view, would ultimately expose non-compliant parties and indicate whether state compliance is an image or actually reflected in practice. In other words, the level of compliance of a state (in practice) could vary with its (official) compliance, but (eventually) the official compliance would not be glimpsed unless a state is compliant, at least with the minimum requirements of the regime.

Lastly, the data collected from the fieldwork underlined the lack of actors' intrinsic motivation to comply with the requirements of the regime. Only five out of the 34 participants referred (implicitly or explicitly) to the objective of limiting illegal activities as a reason for compliance with the requirements of the AML/CTF regime. Another three participants explicitly stated combatting money laundering and the financing of terrorism as an ethical value for complying with the regime. Furthermore, the data uncovered the lack of actors' intrinsic motivation in different contexts, e.g. the lack of actors' interest in following up and verifying that suspicious reports submitted institutionally were productive in disrupting terrorist activities. More interestingly, according to the participant's perception, the regime has somehow lost its purpose, and the use of sanctions as a threat might have eliminated the intrinsic drive of ethics behind the implementation of the AML/CTF regime.

In conclusion, this thesis considers the intrinsic motivation for compliance to be stronger than the extrinsic. As indicated in the literature review chapter, intrinsic motivation is anticipated to be more sustainable for actors' learning and compliance, particularly if the international threat of punishment is withdrawn or not practised effectively (section 2.3.2). In other words, a higher compliance level and performance from the actors involved in the implementation of the regime are anticipated when they are intrinsically derived from combatting the phenomena of ML and TF and intrinsically engaged with the regime's purpose and objective. Affirmation of such a relationship between actors' motivation and performance was shown in the UK case, wherein the interviewees referred to the practice of the regime implementation as a 'ticking the box exercise', as expressed by eight out of the 10 interviewees. Ticking-the-box practice refers to a pattern of rigid implementation of the requirements of the regime as fixed compliance criteria. The data interpretation underlined the concern surrounding such practice because it could eliminate the clear vision of evaluating ML/TF risks individually based on each case's circumstances. Another example illustrated in the UAE case was where Interviewee 11D stated that "the biggest challenge now is the quick application of the new rules". Interpretation of this statement suggested that actors' compliance is more related to achieving a high compliance rate with the international CTF standards by the time of the FATF mutual evaluation than to the implementation of appropriate CTF measures that could

effectively disrupt TF transactions, regardless of the time required to do so. In Egypt, one of the significant statements was Interviewee 7C stating: “some officers who work in the AML, they genuinely don’t believe there is a purpose of the application of this regime”. This statement showed that although AML officers are (officially) compliant with the FATF regime, their compliance does not stem from their personal conviction of the regime’s purpose.

Another crucial example to this thesis was when one non-state participant (in the UAE) described how some of his/her (international) counterparts responded to the STR requirement when it was first imposed upon them. The participant made the following statement:

> They said: how can we decide if this is ML/TF? If there are penalties that are applied [...], then the only way that we can protect ourselves is by reporting everything, and if we report every single transaction that is potentially suspicious, then it makes a mockery of the whole process because the regulator will not have enough resources to review every single thing. So, either you report everything, or you do not report and breach the legislation.

This statement is serious because it offers an example of what I argue concerning the importance of actors’ intrinsic motivation and culture of compliance. It was understood from the participant that some of the regulated actors were feeling forced to comply with reporting suspicious transactions (STRs) as an obligation, not as a personal conviction. Indeed, if they did not comply, they would be subject to penalties. As a result, they intended to do the work more than to fulfil its purpose. This means that they cannot be subject to penalties if they submit plenty of inferior reports. In this way, the outcome of the STRs would not be as productive as the regime aimed. However, it is also worth arguing here that if a regulated entity raised poor STRs and it had been proven that one of its customers was involved in the act of ML or TF, this entity could be subject to administrative and/or panel sanctions. Therefore, the above scenario might have changed with the increased level of international pressure and the level of global awareness surrounding this matter. As I highlighted previously, there are multiple regulators involved in this process at both national and

international levels. Therefore, regulated entities are not only monitored by one regulator, notably when their business involves foreign currencies.

Ultimately, despite that actors' intrinsic motivation could improve their performance and absorb the cost of compliance associated with AML/CTF regimes (Heckathorn, 1996: 251), actors in the three cases examined comply with the regime due to extrinsic (rather than intrinsic) motivations. Therefore, it could be concluded that extrinsic motivation may ensure actors' compliance, albeit not necessarily effective or utmost compliance in practice.

8.6. Conclusion

This chapter discussed the implementation of the international CTF regime in different national contexts (the UAE, Egypt and the UK) in a comparative fashion. It illustrated that the three case studies examined in this thesis implement the regime in the same way in terms of the regulatory framework, including condemning and punishing the act of TF. Nevertheless, interpretation of the fieldwork data showed that the aforementioned three cases (relatively) share the same implementation gaps in terms of practising the regime. For example, the three said countries have an inconsistent implementation at the sectoral level due to variation in experience between the previously regulated sectors (e.g. banking sector) and the recently regulated ones (such as exchange houses and real estate sectors). In this way, less experienced sectors affect the regime monitoring outcome concerning the scrutiny of financial information required to detect suspicious terrorist transactions. The fieldwork data also suggested a regulatory stagnation in comparison with the changing behaviour of money launderers and terrorists, in addition to technological development in the financial sector, which includes trading in digital currencies. This is in addition to weaknesses in the performance of financial intelligence at the institutional level, which is one of the essential objectives of the CTF regime. These weaknesses include lack of human resources' knowledge and expertise, as well as technological and software resources (both of which are associated with the cost of compliance). As explained throughout this thesis, financial intelligence is the backbone of the CTF regime, and its function affects 25 of the FATF's 40

recommendations. The documentary data indicated the same weaknesses in the UAE and the UK financial intelligence units at the national level within this context. However, it showed substantial effectiveness in the Egyptian financial intelligence due to the country's motivation in eliminating terrorist groups following the Egyptian revolution and change in the government regime. Such a finding underlined the importance of state actors' motivation in improving the regime practice.

Ultimately, the fieldwork data illustrated the UK's experience in implementing CTF measures more than that of the UAE and Egypt, wherein they implemented such measures as an obligation to the FATF international regime introduced following the 9/11 attacks. Moreover, the present chapter compared the compliance levels of the three examined cases in relation to their national characteristics. The data suggested that national characteristics such as regional instability, economic circumstances, the level of corruption, and culture could influence the level of compliance in the aforementioned countries.

In terms of the regime effectiveness, little evidence has been found in the fieldwork data, that the current practice of the regime is effective enough in CTF. In the UAE, the effectiveness of its compliance was obscure to both the MENAFATF evaluation team and data collected from the fieldwork due to the immaturity of AML/CTF regulations that were revised in late 2018. Eventually, the effectiveness of the AML/CTF regime in both the UAE and Egypt was assessed between low and substantial, according to MENAFATF. However, in Egypt, it was clear in the data interpretation that both state and non-state actors deemed the regime to be ineffective in CTF. Nevertheless, different reasons were given for this perception. According to non-state actors, the regime is ineffective due to challenges in implementation and to monitoring TF risks such as the inadequate core banking system in Egypt, the country's developing economy and cash-based society, and cultural barriers. According to officials, the regime is ineffective due to the complexity of the terrorist financing phenomenon, including the difficulty of identifying terrorists' financial behaviour. Meanwhile, in the UK, the effectiveness of the regime was contested among the participants, according to their definition of effectiveness and how the perception of effectiveness varies from one situation to another. Still, according to the FATF evaluation, the UK's AML/CTF was assessed

between moderate and high in FATF's effectiveness criteria and higher than the UAE and Egypt.

Interestingly, despite the implementation gaps explained and the blurred perception of the effectiveness of the CTF regime, the three cases examined are still committed to and comply (to a different extent) with the requirements of the regime. This chapter, therefore, discussed the reasons and motivations that drive the regime actors to comply with it. The fieldwork data showed that the regime actors comply with the CTF regime mainly due to international pressure and the threat of punishing non-compliant parties through naming and shaming and punitive fines. Such punishment would negatively affect a business reputation and countries' image, and international standing. Simultaneously, the data underlined the lack of actors' intrinsic motivation to comply with the requirements of the regime. In this way, although actors' intrinsic motivation could improve their performance and absorb the cost of compliance (as suggested in the literature), actors in the three cases examined comply with the international CTF regime due to extrinsic (rather than intrinsic) motivations.

Chapter 9

Conclusion

This thesis addressed the financing of terrorism as a transnational problem that requires global collective cooperation, including public-private partnerships. Otherwise, terrorists could move their operations and funds from highly regulated states to lax counter-terrorist financing (CTF) regimes (Gardner, 2007: 328; Napoleoni, 2006: 61; Heng and McDonagh, 2008: 558). The Financial Action Task Force (FATF) international CTF regime was chosen as the focus of this thesis since it is the most important network of global governance in the financial battle against terrorism. The FATF regime was discussed as an imposed regime established by the G7, the world's largest developed economies, and endorsed by the United Nations (UN) and the G20. The FATF international standards became a uniform rule of the global governance approach against ML/TF. The FATF built its legitimacy and network through persuasion, ranking non-compliant states, including new members and establishing its Style Regional Bodies (SRBs) (Hülsse and Kerwer, 2007: 631-637). Moreover, the FATF designs and revises its recommendations based on money launderers' and terrorists' techniques in executing their activities through collaboration with national governments and non-state actors' participation and contribution. Therefore, it was understood that the FATF is an international organisation with no legal power to enforce compliance with its international standards. However, the UN pressing on countries' compliance with the FATF regime and the FATF ranking system have enabled it to gain some soft power to obligate its members and non-members to comply with its non-binding rules.

This thesis illustrated that despite the difference in political systems in the examined states, these states are required to perform a minimum level of ML/TF governing functional requirements. These requirements necessitate understanding the CTF regime objective, an integration between state and non-state actors in the implementation process, constant coordination and cooperation between said actors (notably in financial intelligence and sharing information). These are in addition to an active supervisory role to provide feedback and build accountability, establishing the culture of compliance and sharing best practices and learning

lessons. As a result of these requirements, state and non-state actors would be able to identify and mitigate the risk of TF according to their financial system in a way that allows them to detect any failure in policy implementation and self-regulate themselves more effectively. Such a process is consistent with modern governance theory (Lobel, 2012: 71), particularly the responsive regulation theory introduced by Ayres and Braithwaite (1992) and developed by Abbott and Snidal (2013).

Within the process of self-regulation, state institutions delegate the implementation of the AML/CTF to non-state actors (such as financial institutions, non-financial businesses and professions, and non-profitable organisations) and should provide guidance concerning the regime objectives and requirements. Said actors will self-report to their regulatory entities and share information concerning suspicious activities. They will also be under the supervision of regulators to monitor their compliance and progress (through inspections and field visits), wherein administrative and financial penalties are imposed on non-compliant actors. At the international level, The FATF works as the responsive regulator in establishing regime standards and international norms, monitoring states' compliance through its mutual evaluation process, and listing non-compliant and high-risk jurisdictions. Furthermore, the FATF role together with the G7 network, give direction to the AML/CTF governance network. In this sense, their exercise of managing the AML/CTF networked policy process contributes to the concept of meta-governance, which is defined as "the governance of governance" or "the regulation of self-regulation" (Torfing, 2012: 107). Ultimately, the state's power within the context of governing the AML/CTF network is not reduced but is practised differently. In other words, self-regulation is exercised in the shadow of hierarchy (101-103).

Still, the critical question raised in the literature concerning governance networks, such as the FATF, is whether soft, non-binding rules are less effective in governing behaviour and could ensure actors' compliance than hard law (Torfing, 2012: 109; Shelton, 2003). This thesis discussed how the FATF introduced its AML/CTF international standards as non-binding rules due to the diversity of states' legal and financial systems. However, with the escalated scale in both money laundering and terrorist acts, the FATF initiated its soft tools of listing non-compliant jurisdictions and identifying major deficiencies that could threaten the outcome of

the global efforts towards AML/CTF. Although the FATF standards are non-compulsory, per se, to non-members states, listing non-compliant countries by the FATF leads to limiting or prohibiting their financial market from conducting business and financial transactions with the FATF members. As a result, the FATF standards have been translated into binding rules at the national level by the FATF member and non-member states. As this thesis showed in the case of Egypt and the UAE, they did not only draw their legislation within the FATF framework, but they constantly amended and developed their laws to improve their compliance with the FATF guidance and revised standards. Even with the UK's historical experience in CTF, the interviewees illustrated the importance of the FATF AML/CTF standards as a framework of guidelines that facilitate the development of their risk management system.

Moreover, although the UK implemented CTF before the FATF introduced its measures, the country started to assess its TF national risk systemically following the FATF guidance and 2012 standards (HM Treasury and Home Office, 2015). These findings underlined the importance of international institutions in controlling the collective action dilemma through establishing incentivising structures to ward off the involved actors from opportunistic behaviour (Keohane, 1984; Heckathorn, 1996; Coglianese, 2000; Fireman and Gamson, 1988; Bevir, 2010). This is in addition to ensuring actors' compliance wherein the supervisory role is not effectively exercised or has a moderate outcome, as was shown in three examined cases.

Therefore, this thesis concludes that the FATF international regime has made a difference in ensuing states' (official) compliance with AML/CTF requirements. As will be discussed shortly, the examined three case studies did not achieve utmost compliance with the FATF standards but are still committed to the regime and exercise (at least) the minimum requirements for AML/CTF. The three cases showed a higher compliance level in their latest mutual evaluation conducted by the FATF/MENAFATF than in 2007-2009 (FATF, 2007; MENAFATF, 2008, 2009). In other words, the FATF standards as non-binding rules are not less effective in governing behaviour and ensuring actors' compliance than hard laws because they have been interpreted into practice and regulations at the national levels. Nevertheless, the question of effectiveness became whether the FATF rules (soft or hard laws) effectively

govern a highly securitised issue such as terrorist financing through collective financial measures.

The next section will illustrate that the regime has successfully managed to govern and change actors' behaviours and culture of compliance with CTF measures. Furthermore, the regime enhanced reporting requirements in financial institutions and transparency about their customers and financial activities. It also improved financial intelligence and exchanging of information concerning TF typologies and suspicious financial activities (to an extent but not sufficient). Still, and despite that, the FATF enhanced the formal global compliance with CTF measures; such formal compliance does not necessarily reflect effective compliance and enforcement. The effectiveness of the FATF governing process in controlling the risk of TF is still contested among the practitioners, and it varies from one state (and institution) to another according to their national characteristics, including their financial infrastructure and economic circumstances. In other words, the regime effectiveness is more challenged by national and institutional factors than a failure in the regime design. Ultimately, as noted in the three examined cases, examining the CTF regime's perception underlined the same gaps identified in the literature on global governance shortcomings. These gaps include the limited capacity of states' (and non-state actors) legal and financial systems to implement global measures, the increased cost of compliance associated with international regimes, information asymmetry and lack of knowledge concerning regulated issues.

9.1. Research findings

9.1.1 Effectiveness of the CTF regime in terms of implementation

As explained in the literature review chapter (sections 2.7, 2.6.1), the implementation of CTF measures under the same mandate of AML is perceived to be ineffective due to the differences between ML and TF. Data from the fieldwork underlined the same differences between ML and TF illustrated in the literature. For example, in Egypt, Interviewee 7C (from

a supervisory authority) indicated that although there might be a link between ML and TF activities in other states, based on his/her experience, he/she did not encounter cases that combine both at the national level. This is in addition to the Egyptian government illustrating that financing terrorists in Egypt are mainly funded through public donations and legitimate income of people in business who adherent designated terrorist groups (MENAFATF, 2021: 32). Such a perspective implied that AML measures would be ineffective in CTF in Egypt. In the UAE, although the data referred to the link between ML and TF, it also implied that combining AML with CTF could lead to a problem in practice due to differences between the two phenomena. In the UK, the data underlined that ML and TF require a different implementation of controlling measures that should deal with each phenomenon individually. Therefore, it was affirmed from the data collected in the three case studies that combining AML and CTF under the same mandate is still a problem among practitioners. Nevertheless, as illustrated in the following discussion, more weightage in the data analysis was given to the identified implementation gaps in relation to the effectiveness of AML and CTF measures.

At first glance, the three case studies examined in this thesis appear to implement the international CTF standards in the same way, establishing a regulatory framework that criminalises and punishes the act of terrorist financing. However, the collected data indicated major implementation gaps that influence outcomes in the three cases. Interestingly, each case displays the same types of implementation gap, despite variations in national characteristics (e.g. culture, geopolitical risks, level of corruption, financial infrastructure and national economic circumstances). Such a finding suggests that either the international regime is inappropriately designed or the national practice is not fully developed yet. According to the fieldwork data, the practitioners (particularly in Egypt and the UK) illustrated that the international regime is a tool to harmonise national practices. Furthermore, it is well-designed to guide financial institutions in understanding and identifying the risks of ML and TF (sections 6.5.3, 7.5.2). Simultaneously, they underlined different gaps in implementation and compliance that could have led to a theoretical practice at national levels. Therefore, it is inferred that the regime's effectiveness is hampered by a lack of full

implementation, rather than inherent design flaws. This section discusses the common three gaps in the three cases examined in this research.

First, there is inconsistent implementation at the sectoral level in the three cases examined in this research. The interpretation of the collected data underlined two major reasons for the said inconsistency. For one thing, the variation in experience (which also underlines the knowledge gap) between the previously regulated sectors and the novice ones in understanding the regime requirements, including identifying and mitigating the risks of ML and TF. Indeed, the fieldwork data suggested that the UK's historical experience in CTF benefited the country's compliance level with the FATF regime. However, both documentary and fieldwork data underlined a variation in experience at the sectoral level in the three case studies (including the UK). For another thing, data from the UK and Egypt implied that lack of experience is not the only reason for the implementation inconsistency. For economic purposes, some sectors (such as the property market) have lax compliance and auditing measures. Therefore, the second reason identified in the data was interpreted as deliberate loopholes (by the regulators) to benefit the country economy.

This gap of inconsistency is problematic in practice because less regulated sectors could impact the compliance of regulated ones. For example, as indicated by the participants from the banking sector in Egypt, banks' customers may provide official documents to prove that their source of money is from a sale of property while the competent authority for such a transaction did not conduct the customer's due diligence concerning the buyer's source of income. In such cases, there would be no suspicious transactions reported by the banks to the national financial unit (FIU). Furthermore, the gap of inconsistency could be abused by terrorists and money launderers. As suggested by Interviewee 6UK, the risks of ML/TF might have been moved from banking to other sectors due to the banking sector restrictions and experience in AML/CTF. Ultimately, inconsistent implementation at the sector level indicates that all sectors do not fully implement the CTF regime. In other words, the implementation process would not be effective because effectiveness requires complete implementation and commitment by all the involved state and non-state actors. In this manner, this gap underlines

the importance of three levels of implementation (sectoral in addition to the national and international levels) in the effective implementation of a global governance network.

Second is weakness in the financial intelligence outcome, which includes the role of national FIUs in gathering and analysing the information related to terrorists' suspicious transactions. On the one hand, the FATF/MENAFATF evaluated the effectiveness of compliance regarding the financial intelligence outcome between moderate (in the UK and the UAE) and substantial in Egypt (Table 14). The FATF has four effectiveness ratings: high, substantial, moderate and low. None of the examined countries was rated as 'high' in terms of financial intelligence effectiveness. Furthermore, the fieldwork data underlined the lack of human resources and expertise and the inadequate automated systems as a weakness at the institutional level that challenges the effective outcome of the financial intelligence performance in the three examined countries (sections 5.5.4, 6.5.4, 7.5.4). Such requirements would increase the cost of compliance in both the public and private sectors. Yet, the role of gathering and sharing information through FIUs is the backbone of the international AML/CTF regime. In this way, weaknesses in the performance of FIUs weaken the effectiveness of the regime. Furthermore, FIU has a crucial role in improving the knowledge gap (section 2.2.3) concerning identifying TF typologies and risks. Weakness in such a role anticipates a lack of progress concerning closing the knowledge gap.

Nevertheless, the fieldwork data (particularly in the UK) also underlined the importance of the information context—not only the information availability. In other words, the knowledge gap regarding TF behaviour concerns not only detecting TF information but also the ability of human and technological resources to connect the collected data together, putting it into context and analysing it in a way that interprets the organised crime and terrorists' behaviour. This means that effective financial intelligence requires significant skills and resources. Therefore, with the lack of resource technical skills indicated earlier, (high) effective performance of the financial intelligence role is not completely feasible.

Ultimately, as indicated in the literature, "information constitutes power", and information gathering and processing are a crucial component in governance networks and policy

implementation— a cybernetic format of governance (Peters, 2012). Therefore, weakness in financial intelligence outcomes contributes to the three identified gaps in this thesis with global governance networks. These gaps include limitations in state and non-state actors' technical capacity to implement global measures, the increased cost of compliance associated with international regimes, and a lack of knowledge concerning TF activities.

Third, the currently implemented CTF measures are static in comparison to terrorists' and money launderers' changing behaviour and technological development. According to fieldwork data (particularly in the UK), the practitioners perceived the currently implemented laws and regulations as outdated or old-fashioned against the rapid technological change within the financial market, including the widespread trade in digital currencies. Moreover, data implied that the international CTF regime is not effective enough because regulators and financial institutions cannot keep pace with money launderers and terrorists' behaviour. According to one participant' statement: "money launderers are smarter than us". A similar view was illustrated by the participants in the UK referring to that CTF measures as reactive rather than proactive, wherein detecting suspicious transactions is not performed proactively that could prevent criminals and terrorists from conducting their activities. Therefore, it was understood from the data that the currently implemented CTF measures are not effective due to their limited capacity to keep up with terrorists' and money launderers' behaviour and the rapid technological development in the financial sector. This gap suggests insufficient effectiveness of the CTF regime implementation (through the traditional financial system) comparing with the new financial technology ecosystem (Fintech). In other words, the gap of knowledge about terrorist financial activities is still prevailing.

In sum, it could be said that since the 9/11 attacks, the financial sector (public and private sectors) has been concerned with the implementation of effective CTF measures. Consequently, states have revised their regulatory framework several times to keep up with terrorists' and money launderers' behaviours. Notwithstanding, terrorists and money launderers are more involved in adopting new behaviours, including employing technological development in their financial activities. Therefore, the CTF regime needs to expeditiously integrate with the technological development in the financial market so that the regime

measures are effective against terrorists and organised criminals. Eventually, due to the complexity of TF transactions and the explained gap of CTF measures stagnation, the practitioners interviewed for this thesis perceived the successful implementation of the AML/CTF regime to be theoretical rather than practical. The participants (particularly in the UK and Egypt) explained that the theoretical practice is due to either the complexity of the terrorist financing phenomenon or challenges at the domestic level with regard to implementing the regime as designed— challenges at the domestic level are explained in the following section. The participants in the UAE did not explicitly indicate the theoretical practice, but data analysis implied the same interpretation as in Egypt and the UK. Therefore, the practitioners' indication of the theoretical practice fostered this thesis conclusion that the national practice of the CTF regime is not fully developed yet.

9.1.2 National characteristics and utmost compliance

This thesis illustrated variation in compliance among the case studies examined, according to the FATF/MENAFATF mutual evaluations of the UAE, Egypt, and the UK. Moreover, it explained said variation within the context of these countries' national characteristics, according to the interpretation of the fieldwork data. Understanding the national context offered an interpretation of the variation in compliance among the examined cases and states' motivation to improve their level of compliance with the regime requirements. For example, in the UK case study, the country historical experience in CTF enabled it to understand better the regime requirements and objectives, including TF risk, thereby achieving more effective compliance. More significantly, its role as a co-founder of the FATF motivated the country to maintain its leadership role and harmonise its experience in CTF with international standards. In the UAE, its interest in strengthening its international standing position as a part of its foreign policy motivated the country to enforce different regulatory changes to improve its compliance with the FATF international standards. In Egypt, the government regime's interest in eliminating terrorist groups (particularly the Muslim Brotherhood group)

motivated the country to enhance its level of compliance in CTF more than in AML, including the role of financial intelligence.

At the institutional level, the fieldwork data underlined the positive change in institutions' culture of compliance (particularly in the UAE and Egypt) and linked it to the regime's tools of punishment (e.g. through listing non-compliant countries or imposing sanctions on financial institutions that breach the requirements of the AML/CTF regime). Therefore, it was understood that punishment (or the threat of punishment) changes behaviour—directly (by correcting negative behaviour) or indirectly (by deterring it). Nevertheless, the data interpretation also implied that change in the institutional culture of compliance with the AML/CTF regime does not necessarily lead to actors' utmost compliance. This is because actors may indeed accept the cost of compliance and only comply with the minimum requirements. In this way, actors would not achieve utmost compliance with the regime's requirements but rather official compliance with its essential requirements. In other words, actors' utmost (not only official) compliance would anticipate effective outcomes of the regime implementation. Nevertheless, actors' utmost compliance is bound with the institutional dedicated cost of compliance and the state's national characteristics.

The cost of compliance is recognised in the literature as a significant challenge to global governance networks, including actors' compliance with the AML/CTF regime (sections 2.4, 2.6.1). It was also recognised in the fieldwork data with regard to institutions' resource capacity. Resource capacity in this respect is challenged by the cost of compliance associated with the required human resources and software. The fieldwork data illustrated actors' different behaviour to overcome the cost of compliance with regime requirements. First, Financial institutions may adopt the behaviour of de-risking to avoid the associated cost of their compliance with the regime requirement of the risk-based assessment. This behaviour is indicated in the literature (section 2.6.2) and was affirmed in the fieldwork data (sections 5.5.3, 6.5.3). It describes financial institutions' behaviour in terminating their business relationships with potential clients in countries with a high risk to avoid risk assessment and its associated cost of compliance.

Second, actors may also choose to only comply with the minimum requirements of the regime (official compliance) to avoid national and international tools of punishment and maintain their business relationships and reputation. Lastly, the fieldwork data underlined actors' practice of 'ticking the box', limiting the regime's effectiveness because it does not identify current and potential ML/TF risks according to each sector/institution's circumstances. These findings are significant because they illustrate how actors could adjust their behaviour in line with the threat of punishment, and the regime provided flexibility in not fully complying with its requirements. In this way, (official) compliance does not necessarily reflect actors' effective compliance with the AML/CTF regime requirements because there are still gaps in utmost compliance.

Furthermore, data interpretation suggested that national characteristics in the three cases examined could influence actors' level of compliance with the international regime requirements, including monitoring TF risks. For example, regional instability increases ML and TF risks through the UAE and Egyptian financial systems. The substantial size of the Egyptian informal economy and cash-based society challenges monitoring suspicious financial transactions through formal financial institutions. This is in addition to the high level of corruption in Egypt. Moreover, the cultural factor was interpreted as a challenge in monitoring TF risks in the UAE and Egypt while facilitating the UK regime's implementation. For instance, the luxurious lifestyle of UAE society leads regulators to adopt lax measures in regulating jewellery and cash movement so that they accommodate society's requirements. In addition, individual cultures in Egypt that resist sharing their financial information with financial institutions challenge these institutions' performance in gathering sufficient information and verifying their customers' transactions. In the UK, however, the data interpreted the UK's position as a global financial centre since the British Empire serves as a form of cultural heritage that increased the UK's experience in the AML/CTF field and motivated the actors to comply with international standards. In relation to financial centres' risk of ML/TF, the documentary data concerning the UAE and UK financial centres underlined the increased risks of ML/TF because money launderers and terrorists might abuse the regulatory flexibility of financial centres (MENAFATF, 2020: 6; FATF, 2018b: 18-19;

HM Treasury and Home Office, 2017: 2, 23-25, 55-63). Nevertheless, the data collected from the fieldwork emphasised the role of risk mitigation wherein monitoring measures are in place. Therefore, in addition to the challenge of the cost of compliance, national characteristics could limit actors' monitoring ability of ML/TF risks and lead to a minimum compliance level with the regime.

While resolving the addressed national characteristics requires dedicated research to address each characteristic systematically, this thesis suggests combining both tools (the threat) of punishment with propelling actors' intrinsic motivation to absorb the regime's cost of compliance. Interpretation of the data collected in the UAE, Egypt and the UK from 34 participants showed that the actors involved in the AML/CTF regime have more extrinsic than intrinsic motivations to comply with the regime's requirements. The most weighted motivations were extrinsic, with the practitioners linking the reason for actors' compliance to international pressure (international obligation) and the fear of being sanctioned or fined. These are in addition to maintaining the country's image (international standing) and avoiding reputational damage that could result from listing non-compliant countries as non-cooperative jurisdictions or imposing penalties upon non-compliant financial institutions. Simultaneously, interpretation of the practitioners' statements underlined (implicitly or explicitly) the lack of actors' intrinsic motivation to comply with the regime's requirements.

Ultimately, this thesis considers the intrinsic motivation for compliance to be stronger than the extrinsic one because intrinsic motivation is anticipated to be more sustainable for actors' learning and compliance, particularly with the moderate supervisory role indicated in both documentary and fieldwork data (section 8.4). Therefore, this thesis underlines the importance of invoking actors' ethical motivation so that they absorb and accept the institutional cost of compliance and, consequently, improve their level of compliance (Wijen and Ansari, 2007; Heckathorn, 1996; Deci and Ryan, 1985, 2000, 2001; Tullock, 1974; Akerlof and Dickens, 1982).

In this way, protecting the integrity of the international system from the risks of ML and TF should combine both actors' intrinsic motivation (ethical values) and extrinsic motivation

(the threat of punishment) to posture actors' compliance level and, consequently, improve the regime's effectiveness. Such an approach contributes to the literature on global governance, wherein the contemporary global governance system works as a network of both state and non-state actors. Nevertheless, the said literature did not thoroughly examine non-state actors' motivation to comply with international regimes. Simultaneously, Ayres and Braithwaite (1992) illustrated in their notion of responsive regulation that governments need to harmonise their regimes with the differing motivations of regulated actors by using both persuasion and punishment tools. This notion could be feasible globally if both the FATF and states' supervisory authorities continued using the regime punishment tools to ensure actors' (who lack intrinsic motivation) compliance with the regime and give more weight to improving actors' compliance ethics and values. This could be achieved by educating the regime actors and raising their awareness about the importance of their contribution in mitigating the risks of ML/TF and protecting the integrity of the international financial and trade systems. In this way, actors could internalise global values and regulations to integrate them into passive compliance and, eventually, active personal commitment (Deci and Ryan, 2000: 60). Therefore, actors' intrinsic motivation would shape their compliance, particularly with the weak (moderate) supervisory role. Nonetheless, moderate supervision (particularly if supervisory authorities do not fully practise punishment tools such as fines) anticipates moderate (or less) commitment and compliance from non-state actors concerning identifying and mitigating the risks of ML/TF in their institutions. Ultimately, the FATF and state actors need to use both persuasion and incentivising structure against opportunistic behaviour to motivate state actors who lack intrinsic motivation or have different interests. In such a manner, the supervisory role needs improvement to reasonably punish non-compliant actors but also combine it with awareness about regime values and norms.

9.1.3 Holistic perception of the CTF regime effectiveness

As explained in the literature review chapter (section 2.7), the effectiveness of the international CTF regime is contested among scholars and officials. Within the context of the

earlier mentioned gaps of implementation and compliance, the effectiveness of the CTF regime was also contested among the interviewees. In the UAE, the interviewees (theoretically) anticipate a more effective outcome of the newly implemented AML/CTF measures (issued in late 2018) than of previous practice. Nevertheless, due to these measures' immaturity in practice, the interviewees could not construct a verifiable view on the effectiveness of these new measures (at the time of the interviews). In Egypt, the interviewees perceive the international AML/CTF standards to be not effective enough to CTF, however, for different reasons. According to state actors, the reason for that is the complexity of understanding terrorists' and money launderers' behaviours, while non-state actors linked that more to the country's national characteristics and challenges illustrated previously in this chapter, such as the inadequate core banking system and the culture. In the UK, only two out of the ten participants certainly perceived AML/CTF in the UK to be effective, while the perceptions of the regime's effectiveness for the remainder of the participants varied based on specific situations and circumstances.

Eventually, the compelling observation identified in the fieldwork data is that the concept of effectiveness is defined differently among the practitioners. The fieldwork data captured the practitioners' subjectivity and variation in perceiving effectiveness according to different situations and circumstances. For example, whether effectiveness is linked to preventing terror attacks, states' ability to implement the regime's requirements, or overcoming the complexity of terrorist financing behaviour. The effectiveness of the CTF regime should not be linked to the act of terrorism because a country with lax CTF will not necessarily witness terrorist attacks on its land while facilitating them through its financial system (FATF, 2019a: 9). Therefore, effectiveness, including successful implementation, should be defined within the context of TF typologies and the regime's objectives.

Moreover, according to the documentary data (FATF/MENAFATF evaluations of the UAE, Egypt and the UK compliance), the effectiveness of the UAE legal framework and its associated technical compliance were obscure to the MENAFATF evaluation team (MENAFATF, 2020: 5). Nevertheless, the UAE was ranked between low and substantial in the FATF CTF effectiveness criteria (Table 14). Egypt was rated between moderate and

substantial in the said criteria, and the UK was between moderate and high. Ultimately, the documentary data, together with the fieldwork data, underlined three major gaps that this thesis considers as significant shortcomings in the regime effectiveness.

First, the moderate performance of the FIUs (except for Egypt, which MENAFATF evaluated as substantial; but not 'high'). As explained earlier (section 9.1.1), the role of information sharing, including the FIU performance in gathering and analysing TF suspicious transaction reports (STRs), is the backbone of the CTF regime and contributes to 25 out of the FATF 40 recommendations. Therefore, weakness in the FIUs performance anticipates a low level of effectiveness. Second, qualities of STRs varied across sectors in the three countries, as well as the low level of STR was reported in different sectors—particularly in the UAE and the UK (MENAFATF, 2020: 4-14, 56-63; MENAFATF, 2021: 11, 42; FATF, 2018b: 6-9, 9-59). In Egypt, the MENAFATF indicated that STRs related to TF have a better quality than ML; however, it also underlined that number of STR related to TF is insufficient, according to the national TF identified risks (MENAFATF, 2021: 53-54, 130). The reason for such variation could be linked to the implementation gaps identified earlier in this chapter (section 9.1.1) concerning resource capacity and the variation in experience among the sectors in practising the regime. Third relates to the moderate supervisory role, including applying sanctions (fines) on non-compliant entities. As explained throughout this thesis, the soft tools of punishment used by the FATF (at the global level) and national supervisory authorities (at the national level) ensure regime actors' compliance (taking into consideration the lack of actors' intrinsic motivation). In this manner, the moderate supervisory role at the national levels anticipates a moderate (or less) effectiveness level.

Eventually, within the context of these three major gaps and the practitioners' perception of the regime effectiveness illustrated earlier, this thesis has found little evidence that the current practice of the CTF regime is effective enough in combatting the financing of terrorism.

9.2. Final remarks for future research

This research illustrated the new financial system concerning the increased technological change, including trading in digital currencies. Similar to any other financial product or service, digital currencies could be abused by criminals and terrorists in conducting their transactions and recruitments. Further research at the national levels is needed so as to examine the impact of the new digital world upon the outcome of regime implementation, for instance, by exploring to what extent new technologies could limit the outcome of implementing the current FATF international standards. This is not to say that digital currencies are certainly a risk for ML and TF acts, rather than underlining the need for thoroughly studying its potential risks and opportunities of integration with the financial system. Such an approach could suggest how state and non-state actors could swiftly interact through financial technology (FinTech) and blockchain to develop the regime's practice and stagnation in line with criminals' behaviour development.

Furthermore, the methodological approach of this thesis primarily aimed to develop the understanding of TF and its related countermeasures in the three examined case studies from a holistic point of view. Therefore, it did not thoroughly address the risk of digital remittance services or donation crowdfunding at the national level. These are in addition to the impact of the underground currency market upon the outcome of regime implementation. Therefore, further research is needed to examine the matters mentioned before, for example, by examining to what extent the underground market (particularly in developing countries such as Egypt) jeopardises the outcome of FATF recommendations.

Last, this thesis significantly contributed to the gap in the literature concerning the role of non-state actors in the contemporary global governance network through examining non-state actors' motivation for compliance with the FATF international regime. Further examination of non-state actors' motivation at other national levels within the context of governance networks is needed. Thereafter, research should consider the impact of the extrinsic motivations indicated in this thesis upon non-state actors' intrinsic motivations within the framework of motivation crowding theory (e.g. Titmuss, 1970). Such an approach would

ultimately give a firmer sense of why non-state actors comply (or not) with governance regimes and whether the international sanction regime (or tools of punishment) is intensively used to the extent that could impact actors' intrinsic motivation.

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Appendix 1: Definitions

Beneficial owner refers to "natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted (FATF, 2012a: 117).

Compliance "includes implementation, but is broader, concerned with factual matching of state behaviour and international norms; compliance refers to whether countries in fact adhere to the provisions of the accord and to the implementing measures that they have instituted" (Shelton, 2003: 5). For the purpose of this thesis **Utmost Compliance** refers to a state of maximum compliance with all the FATF standards of 40 recommendations.

Customer Due Diligence (CDD) comprises "facts about a customer that should enable an organisation to assess the extent to which the customer exposes it to a range of risks. These risks include money laundering and terrorist financing" (International Compliance Association, no date).

Crowdfunding is a way in which to collect donations in small amounts from different individuals via the Internet and online methods such as social media. In contrast**, crowdlending** is used for lending online, known as peer-to-peer lending (FATF, 2018a: 7-12, 19-20)

De-risking in this thesis means "terminating or restricting business relationships with remittance companies and smaller local banks in certain regions of the world" (The World Bank, 2016).

Financial Intelligence Unit (FIU) refers to "a central, national agency responsible for receiving (and as permitted, requesting), analyzing and disseminating to the competent authorities, disclosures of financial information: (1). Concerning suspected proceeds of crime and potential financing of terrorism; or (2). Required by national legislation or regulation, in order to combat money laundering and terrorism financing" (Anti Money Laundering Forum, no date; FATF, 2012a: Recommendation No.29)

Fund means "assets of every kind, whether tangible or intangible, movable or immovable, however acquired, and legal documents or instruments in any form, including electronic or digital, evidencing title to, or interest in, such assets, including, but not limited to, bank credits, travellers cheques, bank cheques, money orders, shares, securities, bonds, drafts, letters of credit" (International Convention for the Suppression of the Financing of Terrorism, 1999: Article 1).

Hawala system is "money transfer without money movement", through a wide and complicated network of money brokers all over the world, but more specifically in the Middle East, Africa, and South Asia (Cassara, 2015: 51).

Implementation of the FATF CTF regime refers to "incorporating [FATF international standards] in domestic law through legislation, judicial decision, executive decree, or other process" (Shelton, 2003: 5).

Informal value transfer system (IVTS) is "any system, mechanism, or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographic location, whether or not in the same form" (Martis, 2018).

Suspicious Transaction Report (STR) / Suspicious Activity Report (SAR) is a report filed by a financial institution " if a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required, by law, to report promptly its suspicions to the financial intelligence unit (FIU)" (CFATF-GAFIC, no date).

Money or value transfer services (MVTS) includes hawala, hundi, and fei-chen and refers to "financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs" (FATF, 2012a:125).

Predicate Offences mean "offence whose proceeds may become the subject of any of the money-laundering offences" (United Nations Office on Drugs and Crime, 2008: 119).

Targeted Sanctions mean "sanctions targeted at particular goods and/or particular individuals or groups. They include the following: commodity and sectorial sanctions, which restrict trade in specific commodities (such as diamonds and timber) and trade related to certain sectors (such as the oil industry) […] **Financial sanctions** include assets freezes of particular individuals or governments, restrictions on access to banks, and suspension of loans or aid" (Pattison, 2018a: 4).

Risk-based Approach means that "countries, state authorities, as well as the private sector should have an understanding of the ML/TF risks to which they are exposed and apply AML/CFT measures in a manner and to an extent which would ensure mitigation of these risks" (Council of Europe, no date).

Zakat is one of the five pillars of Islam that obliges every Muslim to pay 2.5% of his/her capital and savings annually to the poor or to religious aims such as building mosques and educational centres (Koh, 2006: 21-22).

Appendix 2: Terrorist Financing Offence Definition

FATF Rec No. 5	"Terrorist financing offences should extend to any person who wilfully provides or collects funds or other assets by any means, directly or indirectly, with the unlawful intention that they should be used, or in the knowledge that they are to be used, in full or in part: (a) to carry out a terrorist act(s); (b) by a terrorist organisation; or (c) by an individual terrorist" (FATF 2012a: 41).
The UAE	Whoever "offers, collects, prepares, obtains or facilitates the obtainment of funds for the purpose of using same although aware that they will be used, in part or in whole, in the commission of a terrorist offence; Offers funds to a terrorist organisation or person or collects, prepares, obtains or facilitates the obtainment of funds for such terrorist organisation of person, although aware of the their or purpose; Acquires, takes, manages, invests, possess, transmits, transfers, deposits, keeps, uses or disposes of funds or carries out any commercial or financial bank transaction although aware that all or part of such funds are collected as a result of a terrorist offence, owned by a terrorist organisation or intended for the financing of a terrorist organisation, person or offence; is aware that the funds are, in whole or in part, collected as a result of a terrorist offence, owned by a terrorist organisation, illegal, owned by a terrorist person or intended for the financing of a terrorist organisation, person or offence" (Federal Law No. 7, 2014: Article 29).
Egypt	"Funding terrorism shall refer to the collection, receipt, possession, supply, transfer, or provision of funds, weapons, ammunition, explosives, equipment, data, information, materials or other, directly or indirectly, and by any means, including digital or electronic format, in order to be used, in whole or in part, in the perpetration of any terrorist crime. It shall also refer to the knowledge that they will be used for such purpose or to provide safe haven for one or more terrorists or for those who fund them by any of the methods mentioned above" (Anti-Terrorism Law, 2015: Article 3).
The UK	a person who "invites another to provide money or other property, and intends that it should be used, or has reasonable cause to suspect that it may be used, for the purposes of terrorism; receives money or other property, and intends that it should be used, or has reasonable cause to suspect that it may be used, for the purposes of terrorism; provides money or other property, and knows or has reasonable cause to suspect that it will or may be used for the purposes of terrorism" (Terrorism Act 2000: Section 15).

Appendix 3: Sample of Interview Questions

A. Common Questions (all participants):

1. What's your role in [institution/authority name]?
2. How does the AML/CTF regime function/operate in your [institution/authority name]?
3. What is your interest and objective in applying the AML/CTF measures?
4. What's your personal opinion/experience on the current AML/CTF measures?
5. Do you think these measures are effective enough? Why?
6. What opportunities or obstacles has your institution/government experienced during the implementation of these measures?
7. What are the most important improvements that are needed to render the CTF regime effectiveness?
8. How would you describe the level of cooperation and transparency between the involved parties (regulators, law enforcement agencies, regulated bodies)?
9. Could you share with me any case/scenario when a terrorist act/fund was prevented due to the application of these measures?
10. How do you keep up with the development of the AML/CTF measures?
11. What actions do you employ to assess the ML/TF risks in your country/industry?
12. How do you describe the FATF 2012 new methodology and reforms? For example, the risk-based approach?

B. Regulators and Supervisory Authorities: (in addition to the previous A questions)

1. How does the AML/CTF national network implement the global approach designed by the Financial Action Task Force?
2. How you supervise and monitor your system to keep it up to date and ensure the effective implementation of the CTF regime?
3. How far are financial institutions and DNFBPs (Designated Non-Financial Business or Profession) compliant with the regime?
4. What incentives do you use to engage with financial institutions?
5. To what extent are remedial actions or effective sanctions applied in practice? (Can you give me examples of compliance failure)
6. When do you usually involve the financial institutions? (e.g. designing stage, implementation, reforms, etc.)
7. Do you think you have adequate resources to perform your functions and comply with all ML/TF identified risks?

C. Non-state actors: (in addition to A questions)

1. How do you describe your relationship or engagement with the state regulators/ law enforcement agencies?
2. To what extent do the relevant competent authorities review and engage reporting entities to enhance financial intelligence reporting?
3. Is there sufficient guidance and feedback from regulators to the financial institution and DNFBPs on how to suspect funds that may be potentially linked to terrorism?
4. Do you participate in the policy reform process?
5. Do you think CTF measures are suitable to identify illicit activities? (if No, Why? If Yes, how?)
6. Can you explain how a financial transaction becomes seen as suspicious?
7. Do you think you have adequate resources to perform your functions and comply with ML/TF identified risks?
8. What do you think can be done to reduce the cost of compliance? Did the FATF risk-based approach help in this matter?
9. How many suspicious reports do you submit annually to the competent authority? How many of them are related to TF?
10. What are the measures in place to identify and deal with higher risk customers, business and countries?
11. How well do financial institutions and DNFBPs apply Customer Due Diligence (CDD) and record-keeping measures? To what extent is business refused when CDD is incomplete?
12. To what extent is there reliance on third parties for the CDD process and how well are the controls applied?

D. Final remarks and questions (all participants):

1. Who would you advise me to meet to obtain further information?
2. Do you have studies/guidance reports/ or any other documents that you could share with me, please?
3. Is there anything else you would like to say or share with me?
4. Can I contact you with follow-up questions, please?