



Rodriguez Toribio, Isabel (2022) *Shades of (in)formality: the study of Informal Organisations and empirical evidence from the Financial Action Task Force*. PhD thesis.

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**Shades of (in)formality:
the study of Informal Intergovernmental Organisations and
empirical evidence from the Financial Action Task Force**

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Submitted in fulfilment of the requirements of the

Degree of Doctor of Philosophy

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March 2022



ABSTRACT

Informal Intergovernmental Organisations (IIGOs) such as the G-Groups (G7, G20) have become increasingly important in today's world politics, yet the empirical research on them is still limited. This thesis aims at sharpening the conceptualisation of IIGOs to increase our knowledge of their design over time. To do so, I develop a theoretical framework with which to study the variation in formality *within* an IIGO during its life cycle. I then apply my theory to the case of the Financial Action Task Force (FATF), a key IIGO in the collective action against money-laundering and counter-terrorism financing (AML/CTF).

Recent definitions of IIGOs often conceptualise these organisations by highlighting their differences in comparison with formal intergovernmental organisations (FIGOs) such as the United Nations. In this study I take a step forward and show the added value of studying IIGOs from a multidimensional perspective when developing theories of institutional design. As many IIGOs vary in how formalised their various design features are, I propose to study an IIGO's levels of formality across six institutional dimensions: the *scope* of rules covered, *monitoring* provisions, *enforcement* provisions, *membership* accession rules, overall *decision-making* rules, and the design of the *coordination unit*.

I argue that the uneven distribution of formality across an IIGO's dimensions is the result of the *strategic control of its powerful members*. I argue that powerful members prefer a lower level of formality across dimensions in IIGOs by default because of the benefits of this design for them; low levels of formality allow powerful states to control the organisation with reduced constraints and lower accountability. However, there are times when they may compromise and increase the formality of some dimensions.

In the anti-money laundering and counter-terrorism financing context, I show how over the past three decades, the FATF's powerful members have notably increased this IIGO's level of formality, but to different extents across its different dimensions. Specifically, they have raised the formality of its most technical dimensions (scope, monitoring), while maintaining lower levels of formality in those dimensions with higher distributional costs (the coordination unit, enforcement, decision-making, and membership). Drawing on institutional documents and 21 elite interviews, I show that powerful countries within the FATF membership have been willing to increase the formality of dimensions in three different scenarios: when there is a change in the *heterogeneity of preferences* among participants; due to an *unforeseen demand for technical expertise*; or when *institutional learning* indicates that greater formality is beneficial.

Increased levels of formality have proven essential to maintaining the legitimacy of the FATF's functions and to reinforcing the importance given to AML/CTF by key international players, including the Group of 20 (G20). At the same time, greater informality has helped the FATF to accommodate power shifts and to agree policy very quickly in times of crisis, while allowing its powerful members to exercise control with lower distributional costs and fewer accountability constraints.

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ABBREVIATIONS

AML/CTF: Anti-Money Laundering and Counter Terrorism Financing

APEC: Asia-Pacific Economic Cooperation Forum

APG: Asia/Pacific Group on Money Laundering

CFATF: Caribbean Financial Action Task Force

COW: Correlates of War Project

CPF: Counter Proliferation Financing

EBRD: European Bank for Reconstruction and Development

EU: European Union

FATF: Financial Action Task Force

FIGO: Formal Intergovernmental Organisation

FSB: Financial Stability Board

FSRB: FATF-Style Regional Body

GAFILAT: Financial Action Task Force of Latin America

GGC: Global Governance Complex

G20: Group of Twenty

G7: Group of Seven

ICRG: International Cooperation Review Group

II: Informal Institution

IGO: Intergovernmental Organisation

IIGO: Informal Intergovernmental Organisation

IR : International Relations (discipline)

IMF: International Monetary Fund

IO: International Organisation

ISIL: Islamic State of Iraq and the Levant

ML: Money Laundering

MONEYVAL: Council of Europe Committee of Experts on the Evaluation of Anti Money Laundering Measures and the Financing of Terrorism

NCCT: Non-Cooperative Countries and Territories

NSG: Nuclear Suppliers Group

NPO: Non-Profit Organisation

OECD: Organisation for Economic Co-operation and Development

PF: Proliferation Financing

PTROs: Private Transnational Regulatory Organisations (PTROs)

TGIs: Transnational Governance Initiatives

TF: Terrorism Financing

UK: United Kingdom

UN: United Nations

UNGA: United Nations General Assembly

UNODC: United Nations Office for Drugs and Crimes

UNSC: United Nations Security Council

US: United States of America

WB: World Bank

ACKNOWLEDGEMENTS

I could have never reached this point alone. My sincere thanks are due to the many people who have supported and stood by me during these years, without whom this thesis would have not been possible.

Many thanks are due to Dr Cian O’Driscoll who believed in me and my project since its earliest stages. Dr O’Driscoll not only supervised me during my master’s dissertation, but believed in me when I told him that I wanted to do a PhD. After moving to Australia to live a sunnier life, he has managed to keep an eye on me and support me.

I also owe big thanks to the University of Glasgow and in particular to the College of Social Sciences, which provided the funding for this research. Without their scholarship, this thesis would have never started and come to light. Also, I am grateful for the funding extension which allowed me to redefine the project to cope with the reality and limitations imposed by the COVID-19 pandemic.

I will never have enough words to thank Dr Patrick Bayer, who started helping me before he even knew. I remember with perfect clarity the moment I knew how to refer to what I wanted to dedicate my life to. It was a cold but sunny February day in Glasgow back in 2017. I had just had a class with Dr Bayer on his International Relations and Research Design course when I called my parents to say: “It is international organisations that I really like and want to know more about”.

I am very grateful that Dr Bayer accepted being part of my supervisory team, and stayed on it even after moving universities. I will forever be in debt to him for everything he has taught me. Thanks for going through so many drafts of my work, always being there to advise me with the thesis and my career, and keeping an eye on my health and well-being.

I also owe thanks to Dr Kelly Kollman and Dr Alvis Favotto, who complete my supervisor team and have offered their advice throughout the project. Thanks to Dr Kollman for agreeing to be my supervisor after Dr O’Driscoll left and thanks to Dr Favotto for always bringing a smile to our meetings.

The School of Social and Political Science and in particular Politics and International Relations have provided a supportive environment throughout these years of study. I especially benefited from attending the cluster on International Relations, where I was always welcome. I also had the opportunity to learn a great deal from the lectures and from colleagues teaching in Politics 1A and 1B, with whom I have many good memories. Dr Ana Langer has also worked hard to bring the PGR community together, and has offered a wide range of useful training to us.

My experience would have been much harder without the continued pastoral support Dr Mo Hume gave me. I still remember when she welcomed my cohort in the first week of my PhD. Since that day, she has supported and helped me any time I needed it. I remember with special fondness the Friday catch-ups that she put in place as soon the pandemic started to check on my peers and I every week. For someone who had to go through the pandemic far from home and living alone, these catch ups really made a difference.

Many thanks are also due to the participants of this research. Despite their busy schedules and high-level responsibilities in their jobs, all of them were very generous with their time and in sharing their experiences. I learnt a lot from them and highly enjoyed this part of the research.

I also have to thank my PhD colleagues, Dr Luke Armstrong, Dr Michael Scanlan, Dr Petar Bankov, Dr Johannes Gruber, Dr David Jofré, and Dr Evelyn Uribe, who welcomed me to their cohort and showed me

the ropes during my first year. Extra thanks are due to Luke, who I met while we were doing our master's back in 2016, and who has been a very supportive friend since then.

To my friends from “previous lives” who despite the kilometres separating us have been there every step of the way. Thanks to Marina for always driving home to see and hug me when I was back in town (no matter when). Thanks to Marta for feeding this friendship with love and compassion, and for supporting and inspiring me from Miami. Thanks to Moris for making me laugh even when I had a terrible day. Thanks to Sophie for always checking on me and giving me the Dutch perspective on things. Claris, thank you for being there for me in each of my breakdowns, for dancing with me in the distance when good news arrived, and for loving me “to the moon and back”.

I could not end this section without thanking the most important people in my life, without whom not only would I never have done my PhD, but I would have never become the person I am today.

Thank you to my partner Manu, who in the last eight years has done nothing but push me to be the best version of myself. I not only owe him thanks but also apologies for all the celebrations missed and the hugs not given in difficult moment because of the distance. I am immensely proud of who he has become and to have him in my team. Thanks for always being in the arrivals zone when I land in Madrid, and never leaving the airport until I pass security when I am going back to Glasgow. Thanks for daydreaming with me. Thanks for believing in me the moments I did not. Thanks for always supporting my dreams, even when they have meant that things could become more difficult for us. *Gracias por ser mi refugio en la tormenta. Te quiero.*

Thanks to my younger brother, Javier, for being there when things got tough, for the past 25 years. Thanks for letting me play “teachers” with you when you were only three, and for still respecting my side of the sofa. Thanks for teaching me the important things in life, such as that leftovers won't always be there when you come back to the fridge. *Te quiero.*

Last but by no means least, special thanks to my parents, Angel and Isabel, who put their dreams on hold 29 years ago so that they could support mine and my brother's. Thank you for all the sacrifices you have made for us. Thanks for the values you gave us which were essential in facing many situations over the years. Thank you for each videocall and for always rooting for me. Even in the moments when I felt loneliest, you made me feel that I was not alone. Thanks for picking me up every time I have failed. Above all, thank you for the unconditional love and all the time that you have given us since we were born. I will always cheer every single moment that we spent together. *Os quiero, gracias papás.*

AUTHOR'S DECLARATION

“I declare that, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.”

Printed Name: Isabel Rodríguez Toribio

Signature:

CHAPTER 1. Introduction: The Financial Action Task Force and the study of Informal Intergovernmental Organisations.

1.1. Introduction

Popular contemporary TV shows such as *Ozark*, *Queen of the South*, and *Dr Ryan* introduce their audiences to the process of money laundering (ML) and terrorist financing (TF) as a form of dramatic entertainment. However, in real life, it is estimated that at least 2% of global GDP, or around \$800 billion, is laundered every year (UNODC, 2022). Also, not long ago, in 2015, the terrorist group ISIL¹ was able to manage over \$6 billion (Clarke, 2018). ML and TF are therefore harmful phenomena possessing the power to pose “serious threats to international peace and security” (S/RES/2462(2019)) and to “threaten the stability of a country’s financial sector and a country’s external stability more generally” (IMF, 2021:1). In turn, they also have the potential to affect “law and order, good governance, regulatory effectiveness, foreign investments and international capital flows” (IMF, 2021: 1).

These threats posed by ML and TF² have been present in the international consciousness for over thirty years, and have maintained a privileged position on the international agenda.³ In this context, the Financial Action Task Force (FATF) has become the central organisation tasked with dealing with ML and TF. With a membership of only 39 members,⁴ the FATF produces globally endorsed policy and monitors most countries’ frameworks against money laundering and terrorism financing around the world (Forsman, 2020). Moreover, the FATF maintains a blacklist of non-compliant countries which brings severe economic consequences for those listed (Morse, 2019), including the reduction of their corresponding banking relationships by half within days after being named and shamed.⁵

¹ The Islamic State of Iraq and the Levant, also referred to as ISIS or Daesh in other publications. I use ISIL in this case because it is the term employed by the FATF.

² Money laundering can be understood as the “processing of assets generated by criminal activities to obscure the link between the funds and their illegal origins” (IMF, 2021). Terrorism financing involves “the solicitation, collection or provision of funds with the intention that they may be used to support terrorist acts or organisations (IMF, 2021b). Both manage illicit financial flows.

³ Interview 1. Member State delegate to the FATF (State member). Summer 2020.

⁴ 37 countries and two international organisations

⁵ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

However, as stated by Markus Forsman (2020),⁶ head of Sweden’s delegation to the FATF, “*if you have never heard of the FATF, you are certainly not alone*” (Forman 2020: 26). Indeed, this informal intergovernmental organisation continues to be relatively unknown both among the general public and in the academic literature on International Relations (IR), where it remains under-studied.

This limited understanding is not only a characteristic of the FATF and the anti-money laundering and counter-terrorism financing (AML/CTF) context, but it has to do with the level of formality of the FATF’s institutional design. Even though the IR literature has long acknowledged differences in the design of international organisations (IOs) (Abbott and Snidal, 2000) and the importance of informal IOs (Lipson, 1991), most empirical research on these actors has focused on *formal* intergovernmental organisations (FIGOs) (Vabulas and Snidal, 2013, 2021; Roger, 2020; Roger and Rowan, 2021). This has resulted in an increase in research attention during the past decade on the links between informality and international organisations and institutions, and in a proliferation of new concepts to differentiate IOs with different designs (Vabulas and Snidal, 2013; Abbott et al., 2016; Reinsberg and Westerwinter, 2020).

This thesis focuses on one of those concepts, informal intergovernmental organisations (IIGOs), which is how the FATF is best classified. The term was first introduced in a systematic way by Felicity Vabulas and Duncan Snidal in 2013 when they published a dataset on previously under-researched IIGOs, which sit in between formal intergovernmental organisations (FIGOs)⁷ such as the United Nations (UN) and noninstitutionalised interactions (Vabulas and Snidal, 2013).

Despite the great advances in this field in recent years, I argue that there is still a need to sharpen the concept of IIGOs. Until now, comparisons of IIGOs with FIGOs and efforts to highlight their key differences have resulted in a new binary distinction in which informality is treated as a uniform quality of IIGOs. However, when looking more closely at how IIGOs operate over time, it could be observed that this is not always the case. For instance, the FATF has established practices over the years with high levels of formality (e.g., its mutual evaluations of members’ compliance with its policies), while preserving others at a very informal level (e.g., its membership accession process). This leads to the broad question around which this thesis is structured: *What explains the variation of levels of formality within IIGOs?*

⁶ Deputy Director of the Swedish Ministry of Finance’s Banking Unit, and since 2016 the head of Sweden’s delegation to the Financial Action Task Force.

⁷ Broadly speaking, FIGOs are formal entities with a permanent secretariat and states as members (Pevehouse et al., 2020: 494).

In order to answer this question, I designed a research programme that would allow me to test theoretical expectations about design choices within IIGOs, while gathering fine-grained data on the FATF's internal design and its evolution over time.

Firstly, I propose to study the levels of formality of IIGOs from a *multidimensional* perspective. Adapting the traditional institutional dimensions proposed by Koremenos et al. (2001), I suggest looking at the following IIGO dimensions: (1) membership accession rules; (2) the scope of topics covered; (3) monitoring mechanisms; (4) enforcement mechanisms; (5) overall decision-making practices; and (6) the type of coordination unit. By doing so, some restrictions imposed by the current definition of IIGOs can be removed when research questions require richer detail about the specific activities and functions of IIGOs and their design choices.

Secondly, I develop a theoretical framework to study how the formality of IIGOs evolves over time in each of dimension. I draw on institutional arguments on *power-dynamics* (Fearon, 1998; Stone, 2011; Bayer et al., 2015; Lipsy, 2015), *functionalist demands* (Koremenos. 2005; Rosendorff, 2005; Johnson and Urpelainen, 2014; Clark, 2021), and *institutional learning* (Grant and Keohane, 2005; Page, 2006; Fioretos, 2011; Copelovitch and Putnam, 2014). I argue that powerful IIGO members will chose informality over formality across dimensions as their preferred choice because lower levels of formality come with lower sovereignty, reputational, and material costs, while also reducing the threat of bureaucratic slippage (Vabulas and Snidal, 2013; Abbott and Faude, 2020). However, powerful countries may be willing to compromise some informality in dimensions which are not directly linked to the overall control of the organisation (i.e., those which carry lower distributional costs). Applying this argument to the case of the FATF, I found that such compromises can occur in three scenarios; first, when there is a change in the *heterogeneity of preferences* of participants; second, when a need for *unforeseen technical expertise* arises; and third, when *institutional learning* occurs which indicates that greater formality would be beneficial and/or increase the legitimacy of the organisation.

Through process tracing of a wide range of institutional documents and 21 in-depth interviews with elite participants, I show that the hybrid (in)formality of the FATF design has indeed allowed its powerful members to maintain asymmetric control over the organisation while at the same time legitimately expanding the FATF's influence around the world. Moreover, I show how the FATF design was especially useful in accommodating the power shift from the Group of 7 countries (G7; its founders) to the Group of 20 (G20; including new members such as China, India and Saudi Arabia) without undermining the organisation's role in the broader international community.

In this introductory chapter I will provide an overview of how I developed my research and what to expect in the rest of the thesis. I start by reviewing the reasons why the case of the FATF has been understudied to date, and then I present a summary of the theoretical frameworks and literature upon which this thesis is based. The third section reviews the research design and methodological choices, and the fourth one provides a guide to the overall structure of the thesis. The chapter ends by broadly specifying the main contributions that the thesis makes.

1.2 The Financial Action Task Force as a Case Study

The Financial Action Task Force (FATF) is an informal intergovernmental organisation (IIGO) established in 1989 by the Group of 7 (G7) countries to deal with money laundering.⁸ During its three first years it expanded its membership to cover all OECD members, and since 1998 it has strategically and selectively chosen which new countries could join the organisation (FATF, 2018).⁹ The establishment of the FATF was the product of a “clear” dissatisfaction¹⁰ on the part of great powers such as the United States and the United Kingdom with the perceived sluggishness of the United Nations’ handling of the issue of money laundering.¹¹ This was because money laundering was framed as a ‘weakest link problem’, which means that criminals would go to countries where anti-money laundering legislation either does not exist or is poorly enforced (FATF, 1990).

In order to harmonise the international response against money laundering quickly and in the greatest possible number of countries, the FATF was designed as a non-treaty-based organisation, with a temporal mandate subject to revision. The idea of a large bureaucratic body was explicitly rejected, and it was claimed that a monitoring mechanism would be part of its key activities (FATF, 1990). Despite the initial intention to monitor its members, a function traditionally delegated to more formal IGOs (FIGOs), the FATF was designed with high levels of informality. This means that all the work was directly carried out by member states’ officials rather than the FATF’s own bureaucracy (which that at that time numbered only three people).¹²

⁸ The G7: Canada, the European Commission, France, Germany, Italy, Japan, the United Kingdom, the United States, plus eight extra jurisdictions: Australia, Austria, Belgium, Luxembourg, the Netherlands, Spain, Sweden, and Switzerland (FATF, 2018).

⁹ Current membership. Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, the European Commission, Finland, France, Germany, Greece, the Gulf Co-operation Council, Hong Kong, China, Iceland, India, Ireland, Israel, Italy, Japan, the Republic of Korea, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Portugal, Russian Federation, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

¹⁰ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

¹¹ At that point the defined issue only referred to money laundered from crimes related to narcotics.

¹² Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

Over the years, the FATF established a global network coordinated through FATF-Style Regional Bodies (FSRBs) covering a total of 205 jurisdictions that have endorsed the FATF policies and have accepted FATF evaluations (FATF, 2021). This allows the FATF's members to access financial information from almost every country in the world, through broadly accepted channels. In cases where countries of interest¹³ are found to be non-compliant or refuse to grant such access, they will end up on the FATF blacklist. Even though the FATF continues to be run without a treaty, the G20 endorsed a new open-ended mandate for the organisation in 2019 to cover not only laundered money from any type of crime, but also terrorism and proliferation financing¹⁴ (FATF, 2021).

During its expansion, the FATF members have notably increased the level of formality of *some* of its dimensions (i.e., monitoring and scope), while maintaining high levels of informality of *others* (i.e., membership). For instance, the FATF's monitoring has become a formal dimension because the mutual evaluations that it carries out are done in cooperation with the International Monetary Fund (IMF), the World Bank (WB), and the FATF Style Regional Bodies (FSRBs), following a clear and public methodology that is discussed among several actors and allows for non-members to voice their opinions. In contrast, whether a country is accepted or not into the FATF membership is considered to be informal, because these decisions are made in *ad hoc* groups in which only some of the FATF members are involved. In fact, when accession decisions are presented for discussion to all members in the FATF Plenary, the decision has already been made. As a result, this hybrid design, in which more formal and more informal dimensions coexist within the same IIGO, has allowed the FATF to become the “teeth” of the global action against ML and TF.¹⁵

Therefore, the FATF has been around for over thirty years and some of its dimensions have accrued higher levels of formality than others. This, added to the fact that the FATF's membership has been configured since its creation to include key international players, allows me to test my theory on power and IIGO design choices at different points of its life cycle.

Moreover, knowledge about the FATF continues to be limited despite its having operated for 32 years, the coercive power of its blacklist (Morse, 2019), and its cornerstone status in the international AML/CTF action (Zarate, 2013; Jakobi 2013, 2018). The lack of knowledge among the general public, as

¹³ The blacklisting carried out by the FATF does not necessarily include all non-compliant countries, as other reasons (e.g., political and economic) often influence which countries end up on the list. For instance, Somalia, which has clearly had long-term deficiencies in its counter-terrorism financing regime, only recently received the attention of the FATF. According to participant 2, the head of a member delegation to the FATF interviewed in Autumn 2020, this was because their financial system was not integrated enough in the international financial system to represent a real concern to the FATF members (despite terrorist groups such as Al-Shabaab freely operating there since at least 2006).

¹⁴ Proliferation financing [of weapons of mass destruction (WMD)] is “the transfer and export of nuclear, chemical or biological weapons, their means of delivery and related materials” (FATF, 2022).

¹⁵ Interview 8. UN Official working on AML/CTF technical assistance programmes. Autumn 2020.

mentioned above, also extends to the IR academic literature, where the FATF's design and evolution continues to be under-studied despite a recent increase in publications on it (e.g., Jakobi, 2013, 2018; Nance, 2018, 2018b; Oliveira, 2018; Morse, 2019). There are a couple of reasons for this mismatch between the prominent role of the FATF in global governance and the low attention that it has received in the literature, both of which are related to its informal design.

First, the limited information about the FATF and its activities increase the time needed to research it. The limited public trails that informal organisations leave behind have already been documented (Koremenos, 2013; Hardt, 2014), and the FATF is no exception. This means that in practice, it is very time consuming to obtain information about its real functioning, because its public presence has only recently become more prominent; full minutes and the agendas of meetings do not exist or are confidential; and the number of people working in the organisation is still very small compared to other, better-researched FIGOs.

Secondly, and more importantly, IIGOs such as the FATF have only recently received more attention from scholars in empirical research (Vabulas and Snidal, 2021). All the topics covered by the FATF are also part of the mandate of FIGOs, including the IMF, the WB, the United Nations (UN), and the Organisation for Economic Co-operation and Development (OECD), where data are easier to find. Thus, even though any study specifically focusing on money laundering and terrorism financing should mention the FATF to offer proper context, the broader testing of general IR theories in these topics has been skewed towards what was happening in those FIGOs (Clunan, 2006). Indeed, the lack of systematic empirical data in the particular case of the FATF has already been highlighted in the literature (Yepes, 2011; Deleanu, 2017; Levi, 2018).

Thus, I chose the FATF as my case study because it has been operating for over thirty years and its design has evolved since its creation, giving rise to variations in the formality of its dimensions. This will allow me to test my theoretical expectations over time. Moreover, the FATF has become increasingly important in the global AML/CTF regime, but several particularities about its design and functions are still to be uncovered.

1.3 Overview of the Theoretical Framework and Literature

Broadly speaking, Informal Intergovernmental Organisations (IIGOs) are international organisations run by states and ruled by shared explicit expectations instead of a legal formal treaty. They hold recurrent meetings and often lack institutional arrangements such as headquarters or secretariats (Vabulas and Snidal, 2021: 861). The concept refers to those intergovernmental interactions that are in-between more formal

cooperation agreements (e.g., FIGOs), and less institutionalised interactions such as decentralised cooperation (e.g., sporadic bilateral agreements).

The relevance of IIGOs in an increasingly complex world politics is undeniable. IIGOs have notably increased in number in the last forty years (Vabulas and Snidal 2013, 2021). This has demonstrated not only the ability of IIGOs to coordinate intergovernmental cooperation (Manulak and Snidal, 2020), but also their capacity to mediate global power shifts (Vabulas and Snidal, 2020), and their durability as relevant forums for states (Vabulas and Snidal, 2021). In fact, according to the updated dataset recently published by Vabulas and Snidal (2021: 865), of all the IIGOs included in their study, only 13% had ceased to operate without any type of replacement. Also, while in the past, informal institutions were thought to be confined to the consideration of secondary issues (Mearsheimer, 1994), the evolution of IIGOs over time has shown that states now use IIGOs to address issues of high politics including security, peace, and top-tier political and economic issues (Vabulas and Snidal, 2021).

To date, the conceptualisation of IIGOs has been broadly established in contrast to FIGOs. As a consequence, most theories of institutional design treat organisations as unitary actors, and hence neglect variation in institutional design of specific dimensions within IIGOs. This is puzzling, as it has already been shown that in the context of FIGOs, states also choose between formal or informal governance in different circumstances (Stone, 2011, 2013; Kleine, 2013b; Vreeland and Dreher, 2014). Yet, the same considerations have not equally been applied to the study of IIGOs. It would, however, be a misconception to believe that just because IIGOs have greater levels of informality by design, informal and formal governance do not coexist in them as it does in FIGOs.

The studies developed in this area in recent years have allowed researchers to draw comparisons between FIGOs and IIGOs in order to highlight their advantages and disadvantages and shed light on the reasons why states choose one or the other structure to deal with a given issue (Vabulas and Snidal, 2013, 2021; Roger, 2020). However, I agree with Martin (2021) that the institutionalist literature is now ready to take the next step and consider breaking down the unitary actor assumption of informal institutions - an approach that has already proven fruitful in the past to test theories on FIGOs (Bernauer et al., 2013; Lupu, 2016).

In this study, by adapting the traditional institutional dimensions introduced by Koremenos et al. (2001), I propose to look at six IIGOs dimensions for analytical purposes. These are the membership accession rules; the scope of topics covered; the monitoring provisions; the enforcement provisions; the overall decision-making practices; and the type of coordination unit. By expanding the definition and increasing the focus on these different dimensions of institutional design within a single IIGO, questions

on the particularities of IIGOs design can be better addressed. For instance, the definition presented by Vabulas and Snidal (2013) states that institutional arrangements such as secretariats and headquarters are not present. I, however, look at these bodies in the specific context of IIGOs and not as an informal replica of FIGOs showing that these organisations can have secretariats and still being consider IIGOs.

After that, I build a theory of institutional design *within* IIGOs by juxtaposing arguments from three institutionalist arguments based in: power-dynamics, functionalist demands, and institutional learning. I argue that decisions to formalise some dimensions more than others are strategic choices carried out by powerful members. Nonetheless, I include three broad theoretical expectations about how these decisions can be expected to be bounded by an increase in the heterogeneity of preferences, the need for technical expertise, and/or institutional lessons acquired over time.

My analysis covers a thirty-year timeframe stretching from 1989 when the FATF was created to 2019, when a new, open-ended mandate was granted to the organisation. The analysis of these three decades is structured around global shocks because I conceptualise the formality as changeable over time, especially after exogenous shocks.

I divided this timeframe in three periods separated by the 9/11 attacks on the United States (US), the 2008 global financial crisis, and the rise of ISIL and expansion of its attacks on European soil from 2014 onwards. I use these critical junctures to divide the 30-year time period because scholars working on punctuated equilibrium theories have previously argued that in times of crisis institutional changes will increase (Krasner, 1984; Keohane and Victor, 2011; Colgan et al., 2012). Thus, this approach increased the chance of observing whether within-IIGO formality varies or not in times of rapid change.

By doing so, I highlight that not all shocks generated the same degree of change, and I explore how other forces, including power dynamics, functionalist demands, and institutional learning had greater influence on the levels of formality within the FATF. This study also traces how informality was the preferred choice in order to enable the quick reaction of the FATF to new challenges in extraordinary times, even in those dimensions that were already showing greater levels of formality. However, it also highlights how states opted to introduce more long-lasting changes and increased the levels of formality of those dimensions that they believed could help to reinforce the commitment of the FATF members to the organisation and its mandate, and/or boost and maintain the legitimacy of the organisation.

Thus, this approach allows researchers to collect richer data about IIGOs and their very own characteristics, including their potential and capabilities. Most importantly, it offers potential for the analysis of institutional design choices within IIGOs, which remains an underdeveloped area in the

literature. My theoretical contributions are necessary to move the IIGO research agenda forward. The first contribution relates to providing a more nuanced conceptualisation of IIGOs by approaching them from a multidimensional perspective. While this is not new in the institutionalist literature, having been done before in the context of formal organisations and institutions (Bernauer et al., 2013; Lupu, 2016), it has not yet been systematically applied to the case of IIGOs. The second contribution is that through the design of the research and the proposed explanatory framework, a conversation about how states make choices about IIGO design in the different moments of an IIGO's life cycle can be started. This promises to bring together arguments from different theoretical approaches, including power dynamics, functionalist demands, and institutional learning.

1.4 Methods

At the time of writing in 2022, the FATF uses a monitoring system and a scope of rules which have higher levels of formality than the rest of its design. This raises the question: *Why has the FATF come to show different levels of formality across its dimensions over time?*

The present research design was conceived in a way that would allow it to meet the two main research goals: (i) gaining insights into the extent to which the theorised expectations about IIGOs choices could explain the different levels of formality within the FATF's design; and (ii) obtaining fine-grained, rich and novel data about the FATF and its design over the years

Therefore, I designed the research to allow *within* variation to be explored in the case of the FATF over time, in order to learn exactly how the levels of formality of the organisation have changed over the years, and why some dimensions have become more formal than others. The dependent variable, thus, comprises the levels of formality of the FATF's *membership, scope, monitoring, enforcement, decision-making, and coordination unit*. I then separated three consecutive periods by the critical junctures of 9/11 in 2001, the global financial crisis of 2008, and the rise of ISIL and its attacks from 2014 to examine more carefully how change happened or failed to happen in light of these crises. In relation to each of these, I selected as the explanatory variables of interest the *heterogeneity of preferences among members*, the need for further *technical expertise*, and/or the *institutional learning*.

To do this, a process tracing approach was selected due to its ability to uncover causal mechanisms when studying within-case variation (Van Evera, 1997), which aligns with the research aims of this thesis. With the purpose of triangulation in mind, the data collection targeted the institutional documents of the FATF and of other organisations, both formal (e.g., the IMF) and informal (e.g., the G20), reports from

non-state actors such as non-profit organisations (e.g., ECNL), and business associations (e.g., Wolfsberg Group), and, last but not least, 21 in-depth qualitative interviews with elites (all participants were people who were either directly involved with the FATF or who had been involved with it in the past).

This research allows rich and detailed data about the FATF to be gathered, uncovering internal practices that had not previously been revealed; for instance, explanation on how the decision-making surrounding the blacklist actually takes place. Secondly, it allows analysis of the extent to which the theorised causal mechanisms for explaining greater formality in some dimensions and not others are met at three different points in time. This not only enables me to study the different responses of the FATF to crises at different stages of its life cycle, but also to highlight the importance of temporal processes and their consequences with regard to theories of change about IIGOs.

1.5 Thesis outline

This thesis is divided in two parts. The first part broadly runs through Chapters 1, 2, 3, and 4, and presents the necessary information on how the research was carried out, including my theoretical framework, methods and a contextual chapter. The second broad part presents the results of the empirical analysis, in Chapters 5, 6, and 7, and the conclusion in Chapter 8. I now briefly describe each chapter in more detail.

Chapter 2 develops further the theoretical framework initially presented in section 1.3. It explains why it can be useful to study formality *within* IIGOs by breaking down IIGOs into six institutional dimensions. After that, I develop my theory of institutional design within IIGOs by explaining how it is possible to bring together arguments from three institutional approaches that are often not considered together: power dynamics, functionalist demands, and institutional learning. This is in line with the recent literature on bounded rationality, which acknowledges that states do take decisions, but that they are bounded by a number of factors, such as incomplete information or temporal processes (Copelovitch and Putnam, 2014; Jupille et al., 2013; Fioretos, 2017).

Chapter 3 sets out how I developed my single-case study research design, and how I used process tracing to analyse the data acquired from documents and interviews with elites. I include the justification for my choice of research design as well as a rich description of how the data collection took place, including the relevant ethical considerations, the impact of Covid-19 in the initial research proposal, and how I proceeded with the data analysis.

Chapter 4 situates the FATF's evolution in its broader context. All the topics handled by this organisation have always been, and continue to be, part of other IOs' mandates. For instance, all FATF

members are also UN members, and all the G20 countries except for Indonesia are included in the FATF membership. Thus, building a broader picture of the global governance complex in which the FATF is embedded will help to better understand the findings provided in the next three chapters. Also, this chapter provides the necessary scope conditions under which the theorised expectations were studied in the case of the FATF, so that they are clear to the reader, as this has been identified as good practice when carrying out research via process tracing (Bennett and Elman, 2007).

Chapter 5 focuses on the evolution of the FATF design after 9/11. It shows how after this event, the formality of the scope, monitoring, and coordination unit dimensions increased. It also highlights that in the extraordinary circumstances created by 9/11, FATF members chose informality over formality in the first months after the shock. However, in the longer term, states chose to increase the levels of formality of those dimensions that serve the purpose of showing a firm commitment to AML/CTF, and in those in which greater technical expertise is required. The chapter also illustrates how the sudden and unforeseen increased need for technical expertise due to 9/11 redefined the preferences of the FATF's members. This resulted in an increased formality of the secretariat – contrary to their previously expressed wishes to keep the FATF secretariat informal. Lastly, consistent with my argument that powerful members prefer informality over formality in dimensions with higher distributional costs, not even in the aftermath of a shock as severe as 9/11 did the formality of the membership and decision-making dimensions increase.

Chapter 6 focuses on the period between 2008 and 2013, using as a starting point the global financial crisis. In this period, the levels of formality of the monitoring and enforcement dimensions of the FATF increased. While its monitoring reached a higher level of formality through consolidating the relationships with, and expectations of the FATF-Style Regional Bodies, the enforcement dimension was kept at a low-to-medium level of formality. This chapter shapes the argument a little more by showing that while the crisis did not produce a period of intense reform like that generated by 9/11, the FATF had significant capacity to accommodate a broader power shift, as was made evident after the financial crisis. The FATF went from being tightly controlled by the G7 to directly responding to calls made by the G20. Moreover, this chapter offers a detailed analysis of how the current blacklist of the FATF was designed and launched, showing not only how prior feedback was an important influence on the new design, but also uncovering the relationship between power dynamics and the FATF blacklist. It therefore illustrates the importance of institutional learning and explores how the relaunched blacklist became slightly more formal than its predecessor because the FATF's powerful members wanted to avoid the criticism it had received in the past.

Chapter 7 analyses the period starting in 2014, when ISIL's growth seemed unstoppable and which saw the expansion of its attacks around the world to the European capitals of Paris and London. This period runs up to 2019, when the FATF turned 30 years old; during this time the revision of its internal functioning which started in 2016 was practically decided and ready for approval in early 2020 by the G20. In this time, the FATF created legal obligations for some of its standards for the first time, in particular the one criminalising all types of terrorism financing. Also, its members ended the thirty years of temporal mandates, and instead gave the FATF an open-ended mandate, without setting it out in a treaty. Apart from showing that a global security shock once again had a greater impact than an economic one, this chapter allows to explain the FATF's members response to a security shock when the IIGO was already in its mature years. Further, it explores the maximum levels of formality that powerful members were willing to accept in the FATF's design after its broad expansion had happened. It shows that while weaker countries sought further formalisation of all dimensions of the FATF, the most powerful members pushed back against this idea.

To conclude the thesis, Chapter 8 summarises the main empirical findings and implications, reviews the broader contributions of the thesis, discusses the limitations of the study, and suggests some potential routes for further research. Ultimately, the FATF ended up with a hybrid design in which the monitoring and the scope are quite formal, while the enforcement, coordination unit, and decision-making have low-to-medium levels of formality, and the membership continues to be very informal. This variation in formality across FATF dimensions has allowed its powerful members to have a legitimate extraterritorial arm while preserving asymmetric control over the overall functioning of the organisation and little accountability.

1.6 Conclusion

This thesis provides a rich empirical account of the FATF and employs a suitable theoretical framework with which to explore the rationale behind the decisions taken about the levels of formality of this IIGO. In doing so, it helps us to better understand how this organisation, that started as a task force, has come to occupy an important role in global governance. Thus, approaching the FATF from a multidimensional approach has allowed me to study design choices in a more nuanced way and to uncover important power dynamics within the organisation. It has also allowed me to show which factors from the strategic environment have bound the FATF's powerful members at different points of time. I also raise a range of new questions about IIGOs and the extent to which the traditional theories on IO design apply to them or need to be refined.

Overall, the goal of this thesis is to make three broad and interlinked contributions. First, it seeks to make a theoretical contribution to the debate about informality and international organisations, offering grounds for a move towards a more nuanced conceptualisation of IIGOs. The proposed framework will allow better understanding of the life cycle of IIGOs, the interaction of these organisations with other actors in the international system, and the reasons why states may choose them over other forms of cooperation.

Secondly, this thesis makes an empirical contribution to our understanding about the working practices and design of the FATF. I provide the reader with rich explanation of the internal working practices of the FATF. This contribution is especially relevant because I include systematic, in-depth information that has not been published before to reveal the characteristics and dynamics of the FATF. For instance, today, information on the current functioning of the International Cooperation Review Group, which is in charge of the listing process, is extremely limited. This could lead to new questions about practices that have not previously been systematically studied in the context of IIGOs, especially in research about how informal IOs can enforce their mandates using market forces or geopolitical strategies.

Thirdly, these findings will not only be useful for different niches in the academic literature but will also be relevant to policymakers and representatives from non-profit organisations. On the one hand, the thesis shows what has worked well and what has not over the years for the FATF. It offers a picture of what FATF members can “gain” or “lose” from each change of the levels of formality. These findings will be useful in the design of future initiatives in the following years both to policy makers within the FATF and those based in other IIGOs. On the other hand, it gives greater detail to non-profit organisations about the dimensions in which their voiced are most likely to be heard.

I now move to the first substantial chapter of the dissertation. In Chapter 2, my theoretical approach will be developed in more detail, and the argument will be situated more precisely within the academic literature.

CHAPTER 2. A multidimensional framework for the study of Informal Intergovernmental Organisations: A new theoretical approach

2.1. Introduction

The introductory chapter presented a snapshot of the design and evolution of the Financial Action Task Force (FATF), an Informal Intergovernmental Organization (IIGO) without which the global fight against money laundering and countering terrorism financing (AML/CTF) cannot be understood. In doing so, the review showed that the level of formality across the FATF's dimensions is not homogenous. For instance, the scope of the issues covered by the FATF has become more formal over the years, and it is now bound by international law. However, the membership process, and consequently the accession of new members to the IIGO's decision-making apparatus, has remained very informal, and still follows a non-binding procedure. The FATF is only one example of many IIGOs in an increasingly populated international system, which has continued to expand since the 1980s (Vabulas and Snidal, 2021).

Similarly, heterogenous levels of formality are also observable in other IIGOs. For example, at the Asia-Pacific Economic Cooperation forum (APEC), which deals primarily with trade and investment liberalisation, decision-making is informal; it happens by consensus, and it is not regulated by a treaty. However, the progress made by its members towards achieving their individual and collective plans is closely monitored through a formal process, and reports of the outcomes are publicly published. In other IIGOs, such as the Financial Stability Board (FSB) established by the Group of 20 (G20) members to promote the reform of international financial regulation and supervision after the 2008 global financial crisis, the relationship with non-members has been formalised over the years through regional groups. Still, the overall decision-making about the FSB's direction and policies, which states adhering to the regional groups also must follow, continues to be informal and limited to its founding members. This leads to the question: *what accounts for this variation in formality within IIGOs?*

The literature has explored the reasons why states prefer IIGOs such as the FATF in some situations, even though they can also rely on formal IGOs (FIGOS) such as the United Nations Security Council (UNSC) or the International Monetary Fund (IMF) (Vabulas and Snidal, 2013). There has also been research into the reasons why some states choose to override formal rules with informal governance practices within FIGOs on some occasions, but not others – as the US has repeatedly done within the IMF (Stone, 2008, 2011). However, the variation in *formality across different dimensions of the same IIGO* has not received the same attention. This is puzzling, as the informal governance practices highlighted in the

context of FIGOs are likely to be just as commonly applied within IIGOs (if not more so). For instance, APEC has repeatedly made use of informal governance formulas such as “friends of the Chair”, which are often employed within FIGOs. More striking still, as the examples above have illustrated, is the fact that IIGOs can also show high levels of formality in some dimensions, such as by having a defined scope or a formal monitoring process.

Until now, the conceptualisation of IIGOs has been articulated around that of FIGOs as they share some key features, the most important being that they have been created by states or/and are a structure in which states maintain a dominant policy-making role. The definition of FIGOs thus aligns with the broad (and often-used) conceptualisation of IGOs offered by the Correlates of War Project (COW), where an IGO is defined as “a formal entity¹⁶ that has states as members and possess(es) a permanent secretariat or similar indication of institutionalization” (Pevehouse et al., 2019: 494). However, some IGOs have a less institutionalised design which differs from the COW definition, and have been conceptualised in recent years as IIGOs. Even though IIGOs are also established by at least three states, they are ruled through explicitly shared expectations instead of by formal treaty. Moreover, while they hold recurrent meetings, IIGOs often lack organisational infrastructure such as headquarters or secretariats (Vabulas and Snidal, 2021: 861; Roger, 2020).

Instead of assuming a homogenous level of informality within an IIGO as most studies have done up until now, I argue that the study of these actors could benefit from a multidimensional approach. This chapter first introduces an explanatory framework that can be used to analyse *an IIGO’s spectrum of formality* and will allow variation in levels of formality across different dimensions to be identified. By adapting the traditional institutional dimensions introduced by Koremenos, Lipson and Snidal (2001), I propose to focus on six IIGO dimensions: membership rules; scope of rules covered; monitoring and enforcement mechanisms; the overall decision-making practices; and the type of coordination unit.

This approach will allow questions about institutional choices within IIGOs to be addressed with more fine-grained data. It will increase the number of comparisons which can be made, as it will become possible to compare the formality of dimensions within IIGOs, within IIGOs over time, across different IIGOs, or even between the same dimensions in FIGOs and IIGOs (e.g., the degree of transparency of the respective membership accession processes). This will open up a new route to uncover explanatory variables and causal mechanisms that have not been studied before, because they are only characteristic of IIGO design. It will also be possible to reassess the traditional debates about IGO design trade-offs such as

¹⁶ This means that it has been “formed by an internationally recognized treaty” (Vabulas and Snidal, 2013: 196).

“depth vs participation” (Gilligan, 2004; Bernauer et al., 2013) or “flexibility vs rigidity” (Rosendorff, 2005; Koremenos, 2005; Kucik and Reinhardt, 2008) in a more nuanced manner.

Drawing on institutional arguments about power-dynamics, functionalist demands, and institutional learning, I then develop a theory of agency choice for IIGO design. I argue that powerful members will maintain low levels of formality in the *membership* and the *decision-making* dimensions, in order to maintain tight control over the IIGO and control sovereignty and reputational costs. However, they may make compromises and increase the formality of the *scope of rules covered*, *monitoring*, *enforcement*, and *coordination unit*. There are three paths through which these concessions can be made: a) if there is a power shift and new powerful countries with less aligned preferences are included in the membership, or if there is a global shock that redefines the interests of key powerful members; b) when IIGOs need to rely on international bureaucrats because the dimension needs technical expertise and/or its function is costly; c) when the legitimacy of the IIGO is at risk or institutional learning points at greater formality as the most beneficial design for the IIGO goals.

Thus, this chapter offers two main contributions to the study of international organisations. First, it advances the conceptualisation of IIGOs within International Relations (IR) scholarship, and highlights the added value of a more nuanced approach. Rather than black boxing the important variation within IIGOs, this multidimensional approach allows us to describe and explain differences in the levels of formality within these organisations. Secondly, it provides a theoretical framework that helps to advance our knowledge in order to understand institutional choices on levels of formality across different dimensions of the same IIGOs over time. This will allow new insights into the life cycle of IIGOs.

The next section reviews the main trends in the literature regarding the level of formality of international organisations. It also explains how the conceptualisation of IIGOs has expanded in recent years. After that, a typology which can be used to study formality across an IIGO’s dimensions is developed to improve the current conceptualisation of IIGOs, and to increase the range of potential empirical work to be carried out on this topic. Then, a new theoretical approach juxtaposing power dynamics, functionalist demands, and institutional learning arguments is deployed. I introduce three broad empirical expectations which use states’ preferences, the need for technical expertise, and institutional learning as potential explanations about how IIGO’s dimensions move along the spectrum of formality over the years. The chapter concludes with a brief summary.

2.2. (In)Formality and International Organisations Over Time

The International Relations literature has always been interested in the role played by international organisations (IOs), regardless of whether they are seen as a means to achieve more effective international cooperation when cross-border issues arise (Abbott and Snidal, 1998), bodies with a role in constructing social rules (Ruggie, 1998), or as contributing to the creation, diffusion, and cascade of norms (Finnemore and Sikkink, 1998). Even in cases where authors challenge IOs' autonomy and capacity to change states' behaviour, they are still included in the conversation (Mearsheimer, 1994).

Thus, international organisations and institutions have been the object of many studies and debates in different fields of expertise, from political science and international relations to sociology and international law (Aust, 1986; Finnemore, 1996; Martin and Simmons, 1998). This interdisciplinary approach has led to different definitions, ontologies and analytical approaches being used in research about these actors (Finnemore, 1996: 326). Therefore, it is important to emphasise that when the term "IO" appears in this thesis, following Martin and Simmons (2012), it refers to *entities*, while the concept of international institutions is reserved to speak about *rules*. This theory focuses in particular on a type of IO, informal intergovernmental organisations (abbreviated in this work as IIGOs).¹⁷

The study of informality within IOs is not new – extant theories about regimes and institutions (Krasner, 1982; Keohane, 1984), and norms (Kratowill and Ruggie, 1986; Wendt, 1987; Finnemore and Sikkink, 1998) are evidence of that. Lipson's (1991) article highlighted the gap between the relevance of informal agreements in international politics and the number of studies about them, and Raustiala (2002) brought scholarly attention to other types of actors, such as transnational networks.

However, most of the empirical work on IOs carried out in the IR scholarship has focused on highly legalised institutions such as treaties and international governmental organisations (IGOs) (Abbott and Snidal, 1998; Goldstein et al., 2000; Simmons, 2000; Barnett and Finnemore, 2004). This does not mean that academics have not acknowledged the different levels of formality of international agreements (Abbott and Snidal, 2000), but informality has not usually been the first priority on research agendas, nor has it been a topic for which empirical data has regularly been collected (Vabulas and Snidal, 2013; Kleine, 2013).

The current return to the study of informal governance, a topic that has increased in popularity among institutionalist academics, began by posing questions about informal governance practices within FIGOs (Stone, 2011; Chwieroth, 2013; Kilby, 2013; Kleine, 2013; Morrison, 2013; Vreeland and Dreher,

¹⁷ Intergovernmental Organisations (IGOs) are a type of IO which always has states as main members, in contrast with other types of IOs or institutions which may not primarily be state membership based, such as transnational regulatory organisations.

2014; Kersting and Kilby, 2021). However, informal governance outside formal IGOs was a known alternative (Keohane and Nye, 1974; Raustiala, 2002; Slaughter, 2004; Weiss, 2009), and soon studies about different types of informal institutions appeared (Viola, 2015; Abbott and Faude, 2020; Westerwinter et al., 2021; Martin, 2021). This was necessary to overcome the existing empirical bias towards more formalised organisations in the IR literature, as research was conceptualising IOs too broadly, and most empirical analysis was limited to FIGOs (Vabulas and Snidal, 2013; Reinsberg and Westerwinter, 2020; Roger, 2020; Westerwinter et al., 2021; Roger and Rowan, 2021). Consequently, the conceptualisation of IIGOs has grown in the past decade along with research on other types of international organisations in which states are not necessarily the designers or the main members/controllers (e.g., private transnational regulatory organisations (PTROs),¹⁸ or transnational governance initiatives (TGIs¹⁹)).

2.2.1 Current conceptualisation of IIGOs

As illustrated in Figure 2.1, before starting to develop the concept of IIGOs it is important to clarify that these organisations are a type of IGO, which in turn are a form of IO. The particularity of IGOs (both formal and informal) in contrast with other forms of governance such as TGIs or PTROs is that they are primarily state member ruled. In other words, states play a pivotal role in the creation of the organisation, and they have maintained a dominant leading position and decision-making role over the years.²⁰

¹⁸ Such as Social Carbon, which offers a standard for nature-based solutions (Abbott et al., 2016).

¹⁹ For example, the Kimberley Process, which regulates the trade of rough diamonds (Abbott and Snidal, 2009; Westerwinter, 2021; Thrall, 2021).

²⁰ Vabulas and Snidal (2013) restricted the creation of IIGOs to “top leaders” and/or “big issues”, but this proposed requirement has not found much support among other authors. For instance, Roger (2020) removed it in order to avoid asymmetries in deciding when a topic should be deemed important or not (Roger, 2020).

empirical work on FIGOs was evident across both quantitative and qualitative studies (Roger and Rowan, 2021: 6). The “wake-up call” in the IGO literature was made by Vabulas and Snidal (2013), whose conceptualisation of formal IGOs and informal IGOs has been used ever since as a reference point in studies of these types of actors.

In order to remedy the past empirical bias, as has happened with other informal institutions such as TGIs (Westerwinter, 2021), new datasets have recently been generated by collecting information on IIGOs (Vabulas and Snidal, 2013, 2020; Roger, 2020; Roger and Rowan, 2021). This approach has resulted largely in the study of IIGOs as unitary entities. Regardless of whether their level is classified as more or less informal, the literature tends to speak about the benefits, pitfalls, causes and effects of IIGOs’ overall design. While a straightforward and clear differentiation between FIGOs and IIGOs is helpful in the re-examination of past assumptions and the testing of general theories about IIGOs, a more nuanced conceptualisation is needed to account for the complexity found *within* these organisations.

For example, in the current literature one of the main factors separating an IIGO from an FIGO is that IIGOs do not have independent secretariats. It is true that some IIGOs have managed to work without one, such as the G7. Other IIGOs, such as the Paris Club (a creditor group which has dealt with the international debt of poor developing countries since 1956) have also managed to continue their functions with only a very small secretariat which is not independent from state members.²¹ However, other IIGOs, such as the Asia-Pacific Economic Cooperation (APEC), illustrate the existence of IIGOs with formalised, large secretariats in which independent IIGO staff and national officials work alongside one another. This possibility has not been considered yet in the literature, a situation which obscures the development of theories and empirical work on bureaucracies and IIGOs. For instance, are professional staff and seconded staff distributed equally? What type of relationships, agreements, and alliances are found among them? What are the potential delegation issues/solutions within IIGOs? Why, if the IIGO was initially designed without an independent secretariat, does it have one now?

This thesis argues that a multidimensional approach applied to IIGOs will better capture these, and other, nuances of IIGO design. Such an approach will allow more subclasses of a phenomenon that can be analysed and compared (George and Bennett, 2005), and will boost researchers’ capacity to retrieve in-depth data about institutional choices within IIGOs. Thus, in the next section I present a multidimensional framework with which to analyse IIGOs’ spectrum of formality by looking at six institutional dimensions.

²¹ It comprises ten staff members from the French Treasury and no independent staff (Paris Club, 2021).

2.3 A Multi-dimensional Approach to the Conceptualisation of IIGOs

The added value of a multidimensional approach to the study of institutions and cooperative efforts has been highlighted by authors researching more formal agreements, such as treaties (Bernauer et al., 2013; Lupu, 2016). For instance, Bernauer and colleagues (2013) reassessed the widely-shared assumption that greater depth in an agreement's required commitments can be associated with narrower participation (and vice versa). They argued that the depth of a cooperative effort is multidimensional and showed how different types of institutional dimensions (related to the depth of the treaty) can affect participation (Bernauer et al., 2013). Lupu's (2016) work demonstrated how to sharpen concepts by using a multidimensional approach to the different dimensions of states' preferences towards universal treaties. More recently, Martin (2021) acknowledged the productivity of the current research agenda on informal institutions in the IR literature, but she also called upon researchers to continue to sharpen concepts by studying the different dimensions informal institutions have.

However, the study of IIGOs from a multidimensional perspective is still rare in the literature. Therefore, this section proposes a descriptive framework with which to better capture the levels of *formality across different dimensions within the same IIGOs*. This will be especially useful to scholars who study the institutional design of IIGOs, their life cycle, and differences and similarities with FIGOs. I propose that instead of assuming that IIGOs are homogeneously informal, researchers can advance the research agenda in relation to these organisations by paying greater attention to the levels of formality that various dimensions of an IIGO show. In turn, each IIGO dimension may be at different points of the spectrum of formality, as Figure 2.2 shows. While the traditional IGO literature has implicitly focused on a singular choice between FIGOs and IIGOs, I present a typology of an IIGO's dimensions that reflects the full spectrum of institutional formalisation within IIGOs.

The key IIGO dimensions included in the framework are an adaptation of the institutional dimensions developed by Koremenos, Lipson and Snidal (2001) in their rational design project. I propose to look at the levels of formality of the following IIGO dimensions: membership rules and processes (*Membership*); the scope of issues covered (*Scope*); the monitoring and enforcement provisions (*Monitoring*) (*Enforcement*); the overall IIGO decision-making processes (*Decision-making*); and task centralisation through a coordination unit (*Coordination Unit*).

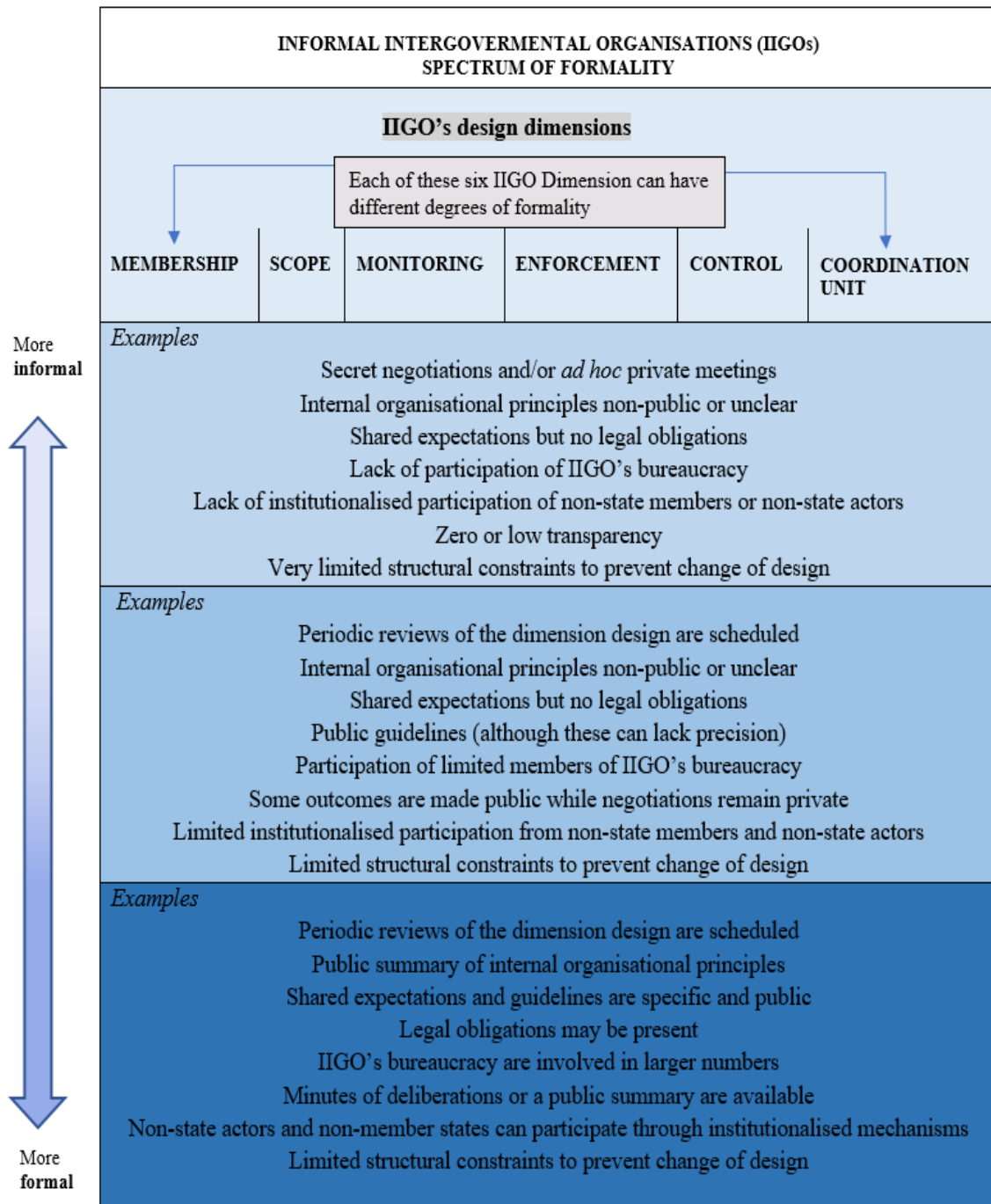


Figure 2.2 IIGO's Spectrum of Formality. Author's creation.

There are three main reasons to build on the work of Koremenos et al. (2001) in order to choose the dimensions of interest. One is that over the years, these dimensions have been broadly used by those interested in the design of international organisations and institutions, thus ensuring a consistent appreciation of its relevance in understanding cooperation through international organisations. Another is that, by grasping how these dimensions have been designed in the IIGO context, their similarities and

differences with those of more formal organisations can more easily be addressed. Thirdly, these dimensions have interested policymakers over the years (Koremenos, 2016); they are not the only dimensions available, but there is a clear reason to study them in the context of IIGOs.

Originally, Koremenos et al. (2001: 763) identified the following as key institutional dimensions: membership rules; the scope of issues covered; the centralisation of tasks; rules controlling the institution; and the flexibility of arrangements. These dimensions were deliberately broadly conceptualised so that their conceptualisation would allow scholars to refine them if needed to clarify the specific design issues attached to certain institutions (Koremenos et al., 2001), as was the case for the framework I developed here.

2.3.1 Membership and Scope

I have maintained in my framework the same nomenclature used by Koremenos et al. (2001) for the first two dimensions - membership rules (*membership*) and scope of rules covered (*scope*) - and the conceptualisation is similar. However, both include not only the outcome (e.g., exclusive and restrictive membership vs universal and inclusive, or deep vs broad scope) but also the particularities of the process used to reach them (e.g., how the discussion to decide which topics will be covered happened, or how the negotiations to accept a new member occurred).

For example, in some cases participation in an IIGO may be conditional on a country being a member of a FIGO or legal treaties on the same issue, as is the case in the Nuclear Suppliers Group (NSG). In others, states need to meet a threshold of economic or political power to join, as is the case with the Financial Stability Board (FSB). These caveats, and whether they are formally recorded or not, are important when assessing the levels of formality of the membership dimension. Therefore, the membership of an IIGO whose accession rules and negotiations are public (or broadly open to all members), contain explicit written expectations that new members must meet, or are bound in some sort of way by international law, will be at the high end of formality.

In contrast, the membership accession process in IIGOs in which negotiations are mostly secret or private (and to which some members may not be invited), or which do not follow an orderly and known process, will be at the lower end of formality. For instance, the Group-24, established in 1971 to coordinate the position of developing states on matters related to the international monetary system, has expanded its membership to include 28²² countries at the time of writing. Its membership dimension is at the lower

²² Algeria, Argentina, Brazil, Colombia, Congo, Cote d'Ivoire, Ecuador, Egypt, Ethiopia, Gabon, Ghana, Guatemala, Haiti, India, Iran, Kenya, Lebanon, Mexico, Morocco, Nigeria, Pakistan, Peru, the Philippines, South Africa, Sri Lanka, Syria, Trinidad and

spectrum of formality because, even though the organisation has made public the years in which new states joined the G-24, there is little information on the accession process, which criteria these countries met, or what is expected from them as members.

The same happens with the scope, in relation to which it is not only important who decides whether a topic is included in the IIGO's remit or not, but how the policy on that issue is framed and issued. It is not enough to observe whether or not an agreement is bound by treaty, as it is also necessary to understand the process through which members have given a legal nature to the document, who participated in the deliberations, and the transparency or lack of those deliberations. For instance, in an IIGO such as the G7, deliberations are at the lower end of the spectrum of formality as there are no binding policies, deliberations are closed, and the only information released is the information that members want the public to know.

However, in some IIGOs such as the FATF even though the decision of whether to include a topic or not on the agenda is a decision made first by the presidency and then by the plenary, it is also discussed within the broad membership of the organisation, which invites input from the private and non-profit sector, other international organisations, and associated member states. Although there is no public record of these deliberations, decisions about scope are later translated into clear and public standards. Moreover, the FATF has used other IIGOs to bind some of its standards internationally, as in the case of terrorism financing clauses and the most recent UNSC resolution on this topic. Thus, in this case, the scope of the FAFT is at the higher end of formality.

2.3.2 Monitoring and enforcement

I then include the *monitoring* and *enforcement* dimensions, which to date have not played a prominent role in the available conceptualisation of IIGOs. Koremenos et al. (2001) did not include these dimensions, and enforcement was included in the discussion by conceptualising “enforcement problems” as an explanatory variable of institutional design. I add it here as part of the dependent variable and a key dimension to be studied within IIGOs because, despite more and more studies showing that formal agreements are not always the best or preferred option to pursue compliance (Stone, 2004, 2008; Marcoux and Urpelainen, 2013; Koremenos, 2013), one of the central tenets about formal organisations that has persisted over the years is that FIGOs are better equipped to monitor and enforce rules (Downs et al., 1996; Mitchell, 1994; Hafner-Burton, 2005; Abbott and Faude, 2020).

Tobago, and Venezuela. They have also reached an agreement with China, and the G24 now presents its membership as: G24+ China (G24, 2021).

Excluding these dimensions from the conceptualisation of IIGOs would risk missing out on the key information needed to understand the overall IIGO design. Examining how IIGOs' monitoring and punishment mechanisms are designed can reveal new strategic routes used by states within the current complex landscape of IOs to enforce their policy interests (Hafner-Burton, 2008). For instance, APEC's monitoring dimension is at the higher end of the formality spectrum because its members are subject to an individual and a collective plan, and the results on how well they are aligned with those objectives is made publicly available.

Including these two dimensions as part of the conceptualisation of IIGO formality allows further exploration of how IIGOs achieve (or fail to achieve) compliance with their measures, and through which mechanisms. For instance, even though these dimensions have not yet been added to the conceptualisation of IIGOs, some articles have highlighted the power of the enforcement provisions that some IIGOs (including the FATF) are using. For instance, Morse (2019) has noted that the FATF blacklist can have important consequences because it is enforced by market forces.

2.3.3 Decision-making and coordination unit

The dimension highlighted by Koremenos et al. (2001) as "rules controlling the institutions" in this framework has been delimited to the overall, higher-up, decision-making mechanisms (*decision-making*). It does focus on state members' relative influence over the decision-making of the organisation, as suggested by Koremenos et al. (2001), but it includes both the official decision-making rules of the organisation such as plenaries and the less formalised meetings which take place higher up in the decision-making hierarchy such as boards of ministers or steering groups.

In IIGOs in which overall decisions can be taken in *ad hoc* settings, behind closed doors, and by a limited number of state members, the decision-making is situated at the lower end of the formality spectrum. If, however, an IIGO presents more formalised rules about voting, binds results under international law, publishes records of those decisions, and/or allows the participation of non-state actors in the decision-making, then that dimension is at the higher end of the spectrum of formality.

The centralisation of tasks (*coordination unit*) in this framework refers directly to whether an explicit coordination unit is present (e.g., a secretariat, as well as a chair taken up by a state member in these functions), and the amount of delegation granted to it (that is, whether it has hired independent bureaucrats or not). Thus, not only is the presence of a secretariat or unit of co-ordination relevant, but the amount and type of delegation given to it is also an important consideration (Roger, 2020). For instance, the coordination unit would not be the same in the G7, which is informal and has a rotating presidential

system with high-level national officials, compared to the G24, where there is a permanent secretariat within the IMF headquarters to support their Chair and Bureau, or in the APEC, which has developed a larger and more formal secretariat comprising independent staff with a technical profile.

The *flexibility of agreements* as generally conceptualised by Koremenos et al. (2001), is not included in my framework as a standalone IIGO dimension because IIGOs by definition have high levels of flexibility. Nonetheless, changes in dimensions may be path dependent from previous design decisions, which would either enable the fast-tracking or constrain the capability to change each of the dimensions mentioned above. Thus, the institutional rigidity of each dimension should be considered when analysing the evolution of all dimensions' levels of formality over time.

This typology will allow researchers to study further the sources of institutional design of a particular IIGO, and to trace the triggers of change in the formality of their dimensions over time. This increases the range of questions that can be raised about the causal mechanisms through which the current design has come to be as it is. Thus, it allows us to ask, for instance, why states ought to put some IIGO dimensions into international law and not others, or why they have decided to establish a secretariat which was not included in the initial design, and to trace the explanations for these decisions.

This descriptive framework can be useful for academics interested in expanding the knowledge about IIGOs, as it allows a comparison of the level of formality across the different dimensions of an IIGO. Moreover, the level of formality of a given IIGO dimension across time can also be compared, which will increase knowledge about the life cycle of IIGOs as their longevity increases (Vabulas and Snidal, 2021). For those interested in how these organisations differ from FIGOs the framework will also be helpful, as the dimensions presented for IIGOs can also be found in most FIGOs.

In the next section, drawing on different arguments from within the institutionalist literature, I develop a theory which can be used to study the variation of formality within an IIGO's dimensions and its evolution over time. However, the typology that I have presented above to observe IIGOs' formality could also be used by future researchers to develop theories from other theoretical approaches. Also, by applying the typology presented here to different IIGOs, the empirical observations and knowledge of these IIGO dimensions will be expanded, allowing competing and alternative explanations to be tested, and more nuanced theories about the formality of IIGOs to be developed.

2.4 A Theoretical Approach to Institutional Design Choices Within IIGOs

This section develops a theory to explain the variation of formality *within* IIGOs design over time. Authors such as Vabulas and Snidal (2013) have specified the conditions that make it more likely for a state to choose IIGOs instead of FIGOs to deal with a particular global issue. Others such as Jupille et al. (2013) have explored when states choose to use/change an existing FIGO or to create another one, the formality of which may differ (Jupille et al., 2013; Pratt, 2021). Academics such as Stone (2011) and Dreher et al. (2015) have also described scenarios in which states will choose to override the formal rules of FIGOs using less institutionalised practices. However, explanations about institutional design choices within the same IIGO are still underdeveloped, as these actors are often studied as whole entities instead of breaking them down into their constituent dimensions.

In this study I develop a theory that sits between what Voeten (2019) conceptualises as distributive rationalism, structural rationalism, and historical institutionalist approaches. My theory assumes that institutional choice is deliberate (as opposed to accidental and spontaneous); however, this does not imply that choice is made in a state of “pure rationality” (Jupille et al., 2013). Instead, I consider actors to be bound by a range of factors, including distributive politics (Voeten, 2001; Lipsky, 2015; Stone, 2011; Carnegie, 2014, 2015; Schneider and Slantchev, 2013; Schneider and Urpelainen, 2013), the technical complexity of the issue at hand (Abbott and Snidal, 1998; Martin, 2006; Johnson and Urpelainen, 2014), and the broader institutional context and learning (Farrell and Newman, 2010; Copelovitch and Putnam, 2014; Sikkink, 2017).

In order to identify the dimensions in which we can expect to observe more formality and how their design may evolve over time, three institutionalist explanations have been juxtaposed: power dynamics (Ikenberry, 2000; Stone, 2011; Vreeland and Dreher, 2014; Bayer et al., 2015), functionalist demands (Koremenos 2005, Rosendorff, 2005), and institutional learning (Copelovitch and Putnam, 2014; Fioretos, 2011, 2017).

I argue that these approaches can complement each other because states can use IGOs both to mitigate a global collective issue (Goldstein et al., 2000; Koremenos et al., 2001), and as tools of power redistribution (Fearon, 1998; Lipsky, 2015), among other aims. Moreover, the inclusion of the role of institutional learning allows scholars to account for what some authors describe as “contextual design” (Reinsberg and Westerwinter, 2021), which calls for institutional theories to better account for institutional context, timing, and sequence (Fioretos, 2011, 2017, 2019; Copelovitch and Putnam, 2014). Thus, this theoretical framework is in line with the research on bounded rationality which brings together various

aspects of historical institutionalism and rational choice within the IR discipline. This combination demonstrates how fruitful it can be for theory development to build bridges between approaches instead of presenting them as competing (Duffield, 2003; Gehring and Faude, 2014; Copelovitch and Putnam, 2014; Jupille et al., 2013; Fioretos, 2017; Reinsberg and Westerwinter, 2021).

The explanatory framework outlined here departs from the assumption that an IIGO are designed with elements of informality because the informal design provides benefits to the countries with greater bargaining power during the deliberations (such as lower sovereignty and reputational costs) (Vabulas and Snidal, 2013). It also assumes that most of the issues covered by IIGOs were already included in the mandates of large, well-established FIGOs, and could be addressed by them. For example, the United Nations could have solely managed terrorism financing issues. I argue that while powerful countries often have FIGOs at their disposal to deal with a given topic, they can also benefit from setting up IIGOs with low formality for exceptional times when they cannot secure their interests (or doing so would be too costly) in more formal forums.

Thus, I argue that powerful states will be inclined to maintain a low level of formality of an IIGO over time. I posit that powerful states should be expected to maintain the dimensions of *membership* and *decision-making* at the lower end of the spectrum of formality, in order to retain tight control over the organisational design. I suggest that these two dimensions are likely to contain safeguards introduced by powerful countries which will affect bargaining over the reform of those dimensions (Shepsle and Weingast, 1981; Fioretos, 2011; Fioretos, 2017).

However, powerful states may be willing to compromise some informality in the dimensions of *scope*, *monitoring*, *enforcement*, and the *coordination unit*. I highlight three potential paths through which the formality of a dimension may increase over time: a) high heterogeneity of preferences among members (Abbott et al., 2000; Keohane et al., 2000); b) when a dimension needs technical expertise, and its function is costly (Goldstein et al., 2000; Franchino, 2004; Johnson and Urpelainen, 2014; Clark, 2021); and c) when the legitimacy of the IIGO is at risk, or when there is evidence (from the design of another dimension or other institutional contexts) that greater formality would be more beneficial to them (Lake and Powell, 1999; Grant and Keohane, 2005; Page, 2006; Fioretos, 2017).

2.4.1 The role of powerful members' preferences

The most recent dataset to have been published on IIGOs, which was collected by Felicity Vabulas and Duncan Snidal (2021), shows that IIGOs have mostly been created and used to deal with high politics issues

such as security, peace, and high-level economic and political matters (Vabulas and Snidal, 2021).²³ Because of this, I assume that IIGOs often attract the attention of powerful countries,²⁴ and that those which hold greater relative power at the time of design will seek to translate it into asymmetric control over the organisation (Fearon, 1998). The mechanisms to do this, however, may not be as explicit as they are in some FIGOs (e.g., in the presence of quotas or veto powers).

At their core, power-based theories have the ideas that power is not distributed equally among states, and that global governance outcomes depend on how power is distributed, and which states hold it (Grieco, 1988; Web and Krasner, 1989; Krasner, 1991). However, these theories have often failed to integrate the role of power into theories about institutional design, as they consider IGOs to be a by-product of the interests of powerful states that will only operate when they wish, and always in their interests.

Other authors have highlighted the complexities of the intersection between power and institutions. For instance, Ikenberry (2000) shows how FIGOs can be mechanisms through which a hegemonic power can minimise future coercion costs by including weaker states in predictable legal agreements. However, Abbott and Snidal (2000) argue that FIGOs can be regarded as compromises that serve the purposes of states with different levels of power. Others have explored how power can be formally exercised through voting rules and the different opportunities for powerful countries arising from the design of such rules; for instance, whether decisions are adopted by unanimity, majority, or are weighted (Blake and Payton, 2014), and whether institutions are egalitarian or non-egalitarian (Bayer et al., 2015). In the last decade, there have also been studies on the link between states' power and institutional formality (Stone, 2011, 2013; Lim and Vreeland, 2013).

I argue that leaving aside whether it was the preferred option or not (i.e., if it was the only feasible design), the establishment of an IIGO took place because those holding greater power during the negotiation of the design saw some benefits in its informality. For instance, IIGOs often carry lower sovereignty and reputational costs, allow members to more tightly control information, and reduce issues associated with delegation such as agency slippage (Vabulas and Snidal, 2013; Roger and Rowan, 2021).

In this thesis, I build upon the definition given by Lupu (2016: 1221) and define states' preferences as the priority given to outcomes from their interactions with other countries and actors. For the main

²³ "The proportion of IIGOs that address security is 32% versus 4% of FIGOs; similarly, 25% of IIGOs cover broad political issues versus 14% of FIGOs." (Vabulas and Snidal, 2021: 863).

²⁴ I conceptualise "powerful countries" broadly to encompass material, economic, structural and political factors. Moreover, this power does not always have to be in relation to the world; some IIGOs may have been established by countries lacking global power, but which have significant regional power (Milewicz and Snidal, 2016). Thus, my conceptualisation is closer to that of "bargaining power". The most important factor is whether a state has sufficient leverage to threaten the IIGO with creating credible alternative multilateral rules (Voeten, 2001; Lipsky, 2015).

purpose of this theory, it particularly refers to states' most desired outcome from the design of an IIGO and each of its dimensions.

Most IIGOs memberships are smaller than those of FIGOs because they are often initially designed as a forum for states sharing preferences on a given issue, and lack a large formal coordination unit to manage a larger membership (Vabulas and Snidal, 2021: 865). Thus, at time 0 (the time of design) when IIGOs are designed by countries with aligned preferences, the low level of formality across dimensions should be homogenous, heightening the benefits of informality without incurring high risks.

Expectation 1a (at time 0)²⁵: The more homogenous the preferences among members at the design stage, the lower the level of formality across all IIGOs dimensions which can be expected.

However, global power dynamics are likely to change over the years. If an organisation is unable to accommodate the demands made by rising or new powers, a misalignment between the power of a country and their voice within the IIGO will occur, which can lead to the creation of new, competing international organisations (Lipsy, 2015, 2016; Pratt, 2021). There is already evidence of this happening in the case of FIGOs (i.e., the creation of the Chinese-led Asian Infrastructure Investment Bank when the World Bank (WB) already exists). The proliferation of international organisations mirroring competing preferences among states is, in fact, a common trend in today's global politics (Morse and Keohane, 2014). This makes IIGOs especially vulnerable, as their life has generally been shorter, and their resources often smaller than those of FIGOs.²⁶

We should expect, then, that IIGOs' founding members will have to share some of their power over the organisation by including new members and sharing out some of their initial control, especially in exceptional times when prospective members have sufficient power to threaten the organisation with alternative options (Voeten, 2001; Lipsy, 2015; Pratt, 2021). This can lead to scenarios in which the preferences of the countries which were more powerful at the design stage are not aligned with those of new members. Thus, the heterogeneity of preferences is likely to increase over time.

A similar situation could arise if a strong global shock occurs that redefines the preferences of some of the powerful countries, who are members of the IIGO, but not others. Thus, even though the countries

²⁵ Time 0 being at the time of design, and time +1 refers to any time after that in which a reform could occur.

²⁶ The informality of IIGOs also grants them great institutional structural flexibility, which will make them highly susceptible to power shifts. Recent studies show that "weaker but rising" powers also use IIGOs primarily to get their way in situations in which FIGOs working in the same area remain difficult to change (Vabulas and Snidal, 2021).

which joined the IIGO at time 0 may have had aligned preferences on a given issue, their positions may evolve over time, also increasing their differences.

When preference heterogeneity increases, two strategic environments may emerge. The first scenario is one in which states will seek more formal arrangements to overcome potential distributive and enforcement issues. The importance of states' preferences in affecting the design of international institution and organisations and the extent to which countries ultimately comply with them have long been discussed in the literature (Downs et al., 1996). For instance, the literature has shown that in cases in which cooperation is sought among members with diverse preferences, institutions with dispute resolution bodies can foster agreements (Abbott et al., 2000; Keohane et al., 2000). States can thereby protect themselves and secure some of their interests from the actions of other powerful countries. The second scenario relates more to the informality intrinsic to IIGOs and the space that this design gives to powerful states to exercise asymmetric control due to its fewer institutional constraints (Vabulas and Snidal, 2013; Eilstrup-Sangiovanni, 2015). When the heterogeneity of preferences among members is high, strong states may favour informality over formality to prevent weaker states from blocking their interests by building coalitions (Eilstrup-Sangiovanni, 2015: 276). Powerful countries can thus avoid losing the capability to exercise asymmetric control at very low reputational cost, as the institutional constraints are fewer (Koremenos, 2016).

However, I argue that if scenario 1 occurs and states chose to increase the formality of the organisation, instead of increasing the overall formality of the IIGO, they may choose to *only increase the formality of specific dimensions* to help to prevent cheating and make serious commitments with their interests. This would allow to preserve the benefits provided by informality to the IIGO members more in general.

Expectation 1b (at time +1): The greater the heterogeneity of preferences, the more formal the *scope*, the *monitoring* and the *enforcement* dimensions could become.

The presence of a greater diversity of preferences among members can lead to an increase in the formality of the scope of issues covered. When the heterogeneity of preferences about a given issue is higher, powerful states may seek to lock into the agenda/mission of the IIGO topics that are especially important to them (in part so that they are not displaced by other topics which are more relevant to new members) (Steinberg, 2002). IIGOs may issue standards, guidelines, and similar documents that, although they are not as constraining as hard legal commitments, provide a common basis for domestic implementation and increase the political cost of violation by creating common expectations (Abbott and Snidal, 2000). The more they need these functions to be clearer, the more formalised the scope may become.

With greater preference heterogeneity also comes a higher fear/risk of cheating, which may also lead to an increase in the formality of dimensions such as monitoring and enforcement in order to increase reputational costs (Koremenos et al., 2001) - functions which are traditionally attributed to FIGOs (Mitchell, 1994; Downs et al., 1996; Simmons, 2000; Dai, 2005; Hafner-Burton, 2005; Abbott and Faude, 2020).

While Chayes and Chayes (1995) praise the persuasive function of international law, critics of this “managerial approach” such as Downs et al., (1996) have argued that stronger forms of enforcement such as sanctions are needed to achieve compliance. Over the years some studies have however highlighted how punishment clauses are left out of formal agreements because it is easier to exercise them through informal governance mechanisms (Koremenos, 2005, 2013). Alternatively, when enforcement mechanisms are included in treaties, scholars have shown they are not always used, and other types of strategic enforcement are more successful (Stone, 2004, 2008; Marcoux and Urpelainen, 2013; Carter and Stone, 2015).

I argue that IIGOs grant the opportunity to states to make a credible commitment to an issue area by presenting a process of monitoring and enforcement which looks formal, but which is not as formal and risky as those within FIGOs. Without committing to legally binding punishment mechanisms, the increased formality of monitoring and enforcement in IIGOs brings greater transparency about members’ actions, and consequently, greater sovereignty costs. This transparency will give more information to the other IIGO members while allowing the organisation to maintain control of how to use such information (a task which can become more complicated than in a FIGO). For instance, powerful states may use the increased transparency of the monitoring/enforcement dimensions to publicly identify non-compliant countries - which would activate enforcement forces outside the organisation, such as those of markets (Morse, 2019) or domestic audiences (Dai, 2005).

2.4.2 The role of functionalist demands

Within an IIGO, not all dimensions will have the same level of technical knowledge or the involvement of the same number and type of participants. The decision-making of an IIGO, for example, can remain informal and limited to a small number of members provided that those involved in it have reached agreement on how to weight bargaining inputs and take decisions. For instance, it has already been shown that in FIGOs such as the IMF, even though the state representatives on the Executive Board have the responsibility to approve IMF programmes, they mostly consider what has been presented to them by the IMF’s bureaucrats (Martin, 2006; Chwioroth, 2013).

I expect a similar dynamic to occur in some IIGOs, especially in those involved in issues that are highly political but also highly technical, as is the case with financial and development matters and AMF/CTF in particular. In this way, some IIGO dimensions such as the coordination unit will need higher technical knowledge and precision.

Empirical expectation 2a (at time 0): States may choose to design the *coordination unit* slightly more formally than other dimensions when the IIGO is dealing with a topic that requires high levels of technical expertise.

Although I stated above that an IIGO's design is endogenous to powerful countries' preferences, this does not mean that leading states do not want the IIGO to have some level of functionality. The initial function for which the IIGO was designed may vary over time and increase in complexity. The direction of this complexity may not been foreseen by the initial designers, and may risk overwhelming the design and capacities of the IIGO, driving states to require expertise from technical bureaucracies and to delegate some control (Barnett and Martha Finnemore, 1999; Nielson and Tierney, 2003; Franchino, 2004; Hawkins et al., 2006).

The FATF, for example, was designed to bring together leading countries to combat money laundering. Over the years, the organisation has also come to deal with terrorist financing and proliferation financing, and to help states battle issues such as corruption. Dealing with each of these topics requires technical expertise and a deep understanding of the complexities of international financing. Moreover, the expansion of the FATF's scope has also brought an increased workload in other dimensions such as monitoring, and resulted in a greater number of participants requiring coordination by the FATF's bureaucracy because state members did not have the capacity nor the expertise to carry out the necessary centralisation alone.

Empirical expectation 2b (at time +1): The more complex the issue with which the IIGO is dealing, the more technical expertise is required and the more formal technical dimensions, such as the *coordination unit*, could become

Johnson and Urpelainen (2014) highlighted that the need for expertise is a crucial factor in explaining the participation of an IGO bureaucracy in the design of new organisations. Contrary to FIGOs, IIGOs begin operating without an independent secretariat in many cases (or with a very small one) in order to keep the sovereignty costs of those involved low, and to maintain close control of the information (Vabulas and Snidal, 2013). In FIGOs, formal coordination units comprising international bureaucrats such as secretariats have been identified as one of the benefits of cooperation through such organisations, because

they can implement policy more effectively and collect better information (Abbot and Snidal, 1998). In fact, Johnson and Urpelainen (2014) argued that IGOs designed solely by states, without bureaucrats, tend merely to be political forums or “talking shops”.

I argue that it is likely that some dimensions may be more akin to “talking shops” than others. For instance, APEC decisions are taken at the Leaders and Ministerial meetings, which are indeed high political arenas and likely to be “talking shops”. However, most of APEC’s daily activities and projects are structured into four committees on trade and investment, in which the discussions are more technical. This structure has worked smoothly because APEC has expanded and increased the formality of its secretariat over the years. Thus, there is also the possibility that organisations which were initially only political forums then evolved over time to include more technical dimensions because of the accumulated effects of time and events and the increasing complexity of the issue(s) they are trying to solve (Franchino, 2004).

In those cases in which the expertise of the secretariat is not sufficient due to the scale and complexity of the issue at hand, or when the costs are no longer bearable for members,²⁷ IIGOs may seek the partnership of other IGOs, especially FIGOs, which have more substantial bureaucratic machineries and larger budgets in place, even to the extent of eventually merging operations on a permanent basis (Clark, 2021; Eilstrup-Sangiovanni, 2021). For instance, the Budapest Process established in 1991 to find co-ordinated solutions for orderly migration consists of 52 state members which co-operate on a regular basis with seventeen regional and international organisations that they call “participant organisations”, with which they share the burden of operational action (Budapest Process, 2021).

However, we should regard these partnerships as happening only between FIGOs and IIGOs that share some overlap in institutional membership (Sommerer and Tallberg, 2019) and/or functions (Hofmann, 2011; Urpelainen and Van de Graaf, 2015). In order to maintain their agency in relation to other FIGOs and to avoid losing their place in the international system, higher formality in the practices shared with other IIGOs and a clear specification of who does what can be expected. Thus, we should expect IIGOs to partner with other IGOs, especially FIGOs, when a function demands greater levels of expertise and financial resources, contributing to the increased formality of the coordination unit.

²⁷ We should remember that most IIGOs are designed as “low cost” organisations (Abbott and Faude, 2020),

2.4.3 The role of institutional learning

My theory borrows from historical institutionalism (HI) the importance that context and sequencing play in institutional design constraints (Voeten, 2019). This is especially relevant given that my theory aims to understand how the level of formality evolved over time across an IIGO's dimensions. When one dimension undergoes modifications, my theory argues that these should be understood both in the context of previous designs and the current institutional context in which the reform has taken place (Copelovitch and Putman, 2014; Fioretos 2011).

I argue that institutional choices are usually path dependent rather than *de novo* innovations coming from "clean slates" (Krasner, 1984; Keohane and Victor, 2011; Colgan et al., 2012), and are influenced by the learning experiences of states, both within and outside the organisation (Fioretos, 2017). I add one caveat, which is that not all shocks are equally important in size and content, and not all shocks affect all countries' preferences in the same way. When a shock directly affects one of the most powerful countries in the membership and changes its preferences about organisational change, some *de novo* designs may appear. In this way, adding temporal observations allows us to test whether power dynamics persist over time despite a critical juncture or change, and how this occurs and affects the design of IIGOs.

Using Fioreto's (2017) terminology, I identify two paths from the HI literature through which institutional choices over time are path dependent and can slow down or fast-track changes in the level of formality of some IIGO dimensions. The first is that changes in formality are path dependent from the initial design, in which case it is likely that the initial designer countries have locked in the balance of power of the design in some way (even if this has not been done as formally or explicitly as in FIGOs).

Empirical expectation 3a (at time +1): Changes in formality are path dependent on the initial design. Because of this, *membership* and *decision-making* will not experience formalisation at the same pace as other dimensions due to the safeguards which were locked in by the initial designers to secure their continued asymmetric power over the IIGO.

Returning to the arguments derived from power-based approaches, and as is the case with FIGOs, I argue that powerful states have a comparative advantage during the design of IIGOs over weaker countries (Fearon, 1998), as they have greater bargaining power (Lipsy, 2015, 2016) and will seek to lock in power inequalities and translate them into asymmetric control over the organisation. I suggest that this is likely to happen in dimensions that have greater distributional effects, i.e., decision-making and membership. For instance, in formal organisations power has traditionally been locked in through non egalitarian voting

systems (Blake and Payton, 2014; Bayer et al., 2015) and by restricting the membership of key bodies (the prime examples being the United Nations Security Council and the Board of the IMF). In the case of IIGOs, I expect that the safeguards that the initial designers established in these dimensions will slow down changes to the level of formality of those dimensions.

The second path upon which institutional choices are dependent is what I conceptualise as institutional learning, combining what Fioretos (2017: 377) identifies as positive feedback effects, increasing returns, and self-enforcing problems, which means that countries learn from their previous institutional experiences.

Empirical expectation 3b (at time +1): Changes in formality are also path dependent on institutional learning. We can expect the formality of a dimension to increase when the current design of the dimension is deemed to be harming the legitimacy of the IIGO, or greater formality has been shown to offer increasing returns (i.e., benefits for IIGO members are being reported, at least for those with greater power).

In other words, countries will be more or less willing to reform a given dimension depending on their different institutional experiences. For instance, on occasions when a given dimensional design is deemed to be damaging the legitimacy of an IIGO, I expect that changes to that organisation will be fast-tracked. The literature has already shown how powerful states may compromise on some of the benefits they obtained at the time of an IIGO's design as a concession to weaker states when the legitimacy of the institution, or some of its practices, is questioned (Grant and Keohane, 2005; Stone, 2011). On the other hand, in those dimensions where the current design creates benefits to the most powerful states, I expect organisational changes to be slower (Page, 2006).

2.5. Conclusion

Although there has been a recent and productive effort from some authors to reclaim the importance of IIGOs in today's world politics, the empirical evidence on, and understanding of, IIGOs' particularities continue to be notably less well developed than for FIGOs. In order to fill this gap, the aim of this chapter has been twofold: first, to offer a framework with which to further explore the formality of IIGOs' dimensions in order to contribute to a more nuanced conceptualisation of these actors; and secondly, to propose a theoretical approach through which variation across formality within IIGOs over time can be explained.

In order to guide potential empirical analysis such as the study presented in this thesis, I have proposed three broad expectations based on power dynamics, functionalist demands, and institutional learning arguments. However, these are not the only possible approaches that could account for the variation in formalisation across the different design areas within an IIGO. Other explanations could also be relevant; for instance those focusing on domestic political factors such as the regime types of powerful member states (Carlson and Koremenos, 2021), or theories grounded in the role of non-state actors in building more informal global governance structures (Westerwinter et al., 2021).

Moreover, this framework could also be applied by academics following a different ontology, and could highlight new explanatory factors. All these explanations should not be regarded as competing with each other, as they are part of a dialogue in which points of confluence can be identified, allowing richer conceptualisations to be established and further developed.

The multidimensional framework designed to analyse the level of formality across dimensions within IIGOs has been presented in this chapter in general and abstract terms, because it is thought to be applicable to any type of IIGO present in the current international system. In the next chapter, in which I outline the methodology used to carry out the empirical analysis of this thesis, I provide more in-depth information on how I operationalised each of the dimensions presented here in order to analyse the level of formality across the different dimensions of the Financial Action Task Force (FATF) over the chosen time period of thirty years.

CHAPTER 3. Methodology: A pathway from theory to data analysis of the FATF's design

3.1 Introduction

In the previous chapter, I developed both (i) a framework with which to analyse an IIGO's spectrum of formality from a multidimensional approach, and (ii) a theory explaining why an IIGO's dimensions may show different levels of formality over time due to power dynamics, functionalist demands, and institutional learning.

In this chapter, I describe how I designed the present empirical work in order to answer my research question: *What explains the variation in formality of an IIGO over time?* In doing so, I explain why the Financial Action Task Force was selected as a good "test bed" for my theory (Flyvberg, 2006: 230), and identify the variables and causal mechanisms that I analysed using process tracing. I also include a review of how the data was collected through FATF institutional documents, semi-structured elite interviews, and documents from other sources (including private and non-profit sector representatives and other IGOs). In order to do all this, I took into consideration the prior scholarly work on how best to carry out qualitative case study research (Achen and Snidal, 1989; Collier and Mahoney, 1996; Van Evera, 1997; Odell, 2001; George and Bennett, 2005; Seawright and Gerring, 2008; Slater and Ziblatt, 2013), and the best practices used by scholars who have carried out case-study research in politics and international relations (Liphart, 1968; Martin, 1992, Finnemore, 1996b).

Although the concept of case study varies depending on the specific research context (Ragin and Becker, 1992; Guerring, 2004), there is a rich body of literature on the characteristic methodological features of this type of research designs (Eckstein, 1975; George and Bennett, 2005; Ragin and Becker, 1992; Van Evera, 1997; Yin, 1994). Broadly, a case can be understood as a single instance of a broader phenomenon. In the context of this thesis, the case is the Financial Action Task Force (FATF), an IIGO in which *within-case* variation is studied over a period of thirty years.

The main reason for proceeding with a single-case to study within-case variation using process tracing is because this approach is best suited to achieving the two main research objectives of: (i) contributing to a more nuanced conceptualisation of IIGOs; and (ii) analysing plausible explanatory mechanisms that can explain the FATF's uneven formalisation over thirty years. Process tracing is especially valuable in this type of research because it "places theory and data in close proximity" (Checkel, 2006: 369), and is particularly suitable when complex relationships over an extensive period of time are the object of study (George and Bennett, 2005; Bennett and Elman, 2006; Mahoney and Goertz, 2006).

Moreover, case studies have been shown to be particularly helpful in the “development of sharper concepts, subtypes, and measurement procedures” (George and Bennett, 2005: 76), an idea already put forward by other authors such as Keohane (1986) and Odell (2006). As I explained in the previous chapter, over the past decade there have been key advances in the development of the conceptualisation and understanding of IIGOs (and their differences from formal IGOs). However, IIGOs have tended to be analysed as complete entities and classified either as formal or informal, even though a number of IIGOs show different levels of formality across their institutional dimensions. The present research therefore seeks to offer a conceptualisation that better captures those particularities.

Also, single-case studies have demonstrated that if well applied, they represent a useful method with which to explain the conditions and causal mechanisms under which a particular outcome occurred, instead of calculating the probability or frequency in relation to conditions and the appearance of such outcomes (George and Bennett, 2005: 282). The theoretical expectations presented in my explanatory framework include complex relationships among variables, which is why this design is especially suitable in pursuing the research objectives (Ragin, 1987; Levy, 2002, 2008; Brady and Collier, 2010). This has already been the case in other issue-areas of the IR literature, such as democratic peace theory (George and Bennett, 2005), and topics in the subfield of international political economy such as how organisations can shape states’ interests and behaviours (Martin, 1992; Finnemore, 1996; Odell, 2001).

The present chapter starts by introducing the research design. After that, I explain how I proceeded to collect the data. Lastly, I clarify how I conducted process tracing to establish whether the FATF’s dimensions show different levels of formality over time, and why (Beach, 2017; George and Bennett, 2005; Steinberg, 2007). The conclusion briefly summarises the chapter.

3.2 Research Design

This section introduces the research design of this study. Before doing so, Table 3.1 summarises the main decisions taken in the research design, each of which will be discussed in turn in the rest of the section.

RESEARCH DESIGN SUMMARY																
Research problem and Research objectives	<p><i>Problem:</i></p> <p>(i) The conceptualisation of IIGOs in the current literature is too restrictive.</p> <p>(ii) The research agenda on formality and institutions needs richer data on IIGOs' design particularities and evolution over time.</p> <p><i>Objectives:</i></p> <p>(i) Obtaining fine-grained data about the variation of formality within the FATF, which has increased in formality over the years in some dimensions, but not in others.</p> <p>ii) Gaining insight into the causal mechanisms that can explain different levels of formality across the different dimensions within the FATF over time.</p>															
Case selection	<p>The research follows a single-case design in which within variation is studied over time using causal-process tracing.</p> <p>The case selected is the FATF, an IIGO which shows the outcome of interest and will be analysed from a longitudinal approach along three different consecutive periods over thirty years.</p> <p>The three periods are separated by three global shocks representing critical junctures: 9/11; the 2008 financial crisis; and the rise of ISIL in 2014.</p>															
Operationalisation of variables	<table border="1"> <tbody> <tr> <td rowspan="6"><i>Dependent Variable:</i> IIGO dimension's formality [Each dimension can be at different ends of the spectrum of formality, i.e., they can have <i>high, medium, or low</i> levels of formality]</td> <td>Membership rules (level of formality)</td> </tr> <tr> <td>Scope of issues covered (level of formality)</td> </tr> <tr> <td>Monitoring (level of formality)</td> </tr> <tr> <td>Enforcement (level of formality)</td> </tr> <tr> <td>Decision-making (level of formality)</td> </tr> <tr> <td>Coordination Unit (level of formality)</td> </tr> <tr> <td rowspan="3"><i>Explanatory Variables:</i></td> <td>Preferences of powerful members</td> </tr> <tr> <td>Need for technical expertise</td> </tr> <tr> <td>Institutional learning</td> </tr> <tr> <td colspan="2"><i>Causal mechanisms:</i></td> </tr> <tr> <td colspan="2"> <p>i) I expect a higher level of formality in the dimensions of scope, monitoring, and enforcement when the heterogeneity of preferences among powerful state members increases;</p> <p>ii) I expect the coordination unit to increase in formality the more technical expertise which is required to run the IIGO;</p> <p>iii) Decision-making and membership are expected to change less as I expect these dimensions to have safeguards established by the designers. Moreover, dimensions whose informality is a threat to the legitimacy of the organisation are likely to become more formal over time. However, if the current level of formality is providing increasing returns, we should expect slower change.</p> </td> </tr> </tbody> </table>	<i>Dependent Variable:</i> IIGO dimension's formality [Each dimension can be at different ends of the spectrum of formality, i.e., they can have <i>high, medium, or low</i> levels of formality]	Membership rules (level of formality)	Scope of issues covered (level of formality)	Monitoring (level of formality)	Enforcement (level of formality)	Decision-making (level of formality)	Coordination Unit (level of formality)	<i>Explanatory Variables:</i>	Preferences of powerful members	Need for technical expertise	Institutional learning	<i>Causal mechanisms:</i>		<p>i) I expect a higher level of formality in the dimensions of scope, monitoring, and enforcement when the heterogeneity of preferences among powerful state members increases;</p> <p>ii) I expect the coordination unit to increase in formality the more technical expertise which is required to run the IIGO;</p> <p>iii) Decision-making and membership are expected to change less as I expect these dimensions to have safeguards established by the designers. Moreover, dimensions whose informality is a threat to the legitimacy of the organisation are likely to become more formal over time. However, if the current level of formality is providing increasing returns, we should expect slower change.</p>	
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Strong points	Internal validity and richness of data															
Limitations	External validity															

Table 3.1 Research Design Summary. Author's creation.

3.2.1 Research problem and research objectives

The main *research problem* that motivates this study is the lack of prior systematic research, and consequently data, *on the variation in levels of formality in IIGOs*, not only at the time of design but also over time.

To date, the conceptualisation of IIGOs largely derives from that of FIGOs.²⁸ As a consequence, most studies on IIGOs have treated the informality of their design as a homogenous characteristic, allowing researchers to draw comparisons between FIGOs and IIGOs (Vabulas and Snidal, 2013, 2021; Roger, 2020). However, refined theories and concepts solely referring to the design and evolution of IIGOs as stand-alone actors with their own characteristics have not been developed. This is puzzling, because as the previous theoretical chapter explained, there are examples of important IIGOs exhibiting different levels of formality across their dimensions. I aim to study this variation and the plausible causal mechanisms behind it.

For example, in the FATF case, the coordination unit increased in formality after its design, moving from a small unit handled by a couple of state officials to a permanent secretariat. However, the membership accession processes have continued to be very informal. To date, no explanations or descriptions of causal mechanisms in the literature have been proposed to explain how such an outcome is possible in the context of IIGOs.

Thus, this study has been designed keeping in mind the two main *research objectives*: i) Obtaining fine-grained data about variation in levels of formality within IIGOs to help sharpen the conceptualisation of these actors; and ii) gaining insights into the causal mechanisms that can explain the different levels of formality found across the dimensions of an IIGO.

George and Bennett (2005) explained that a research objective must be in line with the research programme of the topic that the author is investigating. My research question is closely aligned with the current state of the institutional literature. On the one hand, a growing body of literature on institutional complexity has called for greater and richer data to be gathered on the actors configuring the current institutional landscape (Eilstrup-Sangiovanni and Westerwinter, 2021). The more extensive the information available about each of the actors involved in today's complex world politics, the better the theories which can be constructed about the complex relationships among (and within) these actors will be (Alter and

²⁸ Broadly speaking, as was explained in the previous chapter, FIGOs are formal entities with a permanent secretariat and states as members (Pevehouse et al., 2020: 494). Organisations are considered to be IIGOs when at least three states are involved which share a number of explicit expectations, but they lack a legal treaty. They also hold recurrent meetings, but lack institutional arrangements such as headquarters or secretariats (Vabulas and Snidal, 2020: 861).

Meunier, 2009; Pratt, 2018, 2021; Westerwinter et al., 2021). On the other hand, among a recent surge of attention from the literature towards the link between formality and institutions (Westerwinter et al., 2020), scholars such as Lisa Martin (2021) have already called for a more multidimensional approach to the study of informal institutions in order to develop a more nuanced conceptualisation. I take these bodies of literature as an indication that the field is both in need of, and ready for, an in-depth analysis of levels of formality within organisations that are not highly institutionalised.

Also, the lack of data and clear evidence are key handicaps of the broader literature on the AML/CTF global governance complex (GGC) (Yepes, 2011; Deleanu, 2017; Levi, 2018), which is also hindered by a lack of agreement or even a sufficiently deep debate about its definitions (Clunan, 2006). This, this means that the present study on the FATF is also relevant to other studies more focused on security and financial regulatory systems, and the AML/CTF global governance complex in particular.

3.2.2 Case selection

As has been explained, I selected the case of the Financial Action Task Force as the unit of analysis for my research in order to study *within-case* variation *over a period of thirty years*. In this section, I justify why the FATF is a suitable case for studying whether the causal mechanisms presented in the previous chapter are at work, and why three specific shocks were selected to divide the timeframe.

Because of the early stage at which the theory of IIGOs currently finds itself, especially in terms of the link between formality and design over time, I decided that an in-depth case would be used to assess whether the theorised expectations were indeed driving the increased formalisation of the FATF. The analysis of this case was decided to be through the use of process-tracing, which has been identified as very well suited to addressing questions related to finding out why the outcome of the dependent variable has occurred (Blatter and Haverland, 2012). In the present research, this question is: *why have some dimensions of an IIGO become more formal over the years than others?*

The literature has argued that that if only one case is selected due to the specific research goals, then it is advised that it should be a positive case (Van Evera, 1997; Blatter and Haverland, 2012: 28).²⁹ This means that the outcome of interest must be observable. In the context of this thesis, coexisting formal and informal dimensions should be present in the case selected.

²⁹ If more than one is selected then the first should be a positive case while the following ones should be possible cases (Blatter and Haverland, 2012: 28).

Thus, case selection when carrying out case-study research following process tracing should consider: (i) the specific goals of the research (i.e., explaining a particular outcome with reference to theoretical or practical reasons), and (ii) the accessibility of the data (so that the empirical information needed to support causal claims can be identified) (Blatter and Haverland, 2012: 25-27). In the next subsections I explain the rationality for each of the decisions while selecting the FATF case.

3.2.2.1 Why the Financial Action Task Force?

The Financial Action Task Force was selected for this study for the following reasons: (i) it has become more formal over the years, but this formality is not equally distributed across the dimensions of its design; (ii) it involves powerful countries, deals with technical issues, and has been in place for thirty years, which allows the theorised expectations to be tested; (iii) the FATF has become one of the key players in the AML/CTF regime, which makes knowledge about this organisation substantive to academics and policymakers; (iv) despite its informal nature, several sources of data were identified from which to retrieve empirical evidence, i.e., it was deemed to be accessible.

The FATF met the criteria of being both theoretically and practically relevant. Theoretically, the FATF is what in process tracing is called a “positive case”. In other words, it represented a positive case in which my theory-based expectations could be analysed (Van Evera, 1997). However, why this has happened has not previously been the subject of study in relation to the FATF or any other IIGO. This allowed me to break new ground in testing whether the explanatory variables of interest highlighted in the theory chapter were indeed relevant to the FATF case.

The FATF members which are also members of the G7 and the G20 can be regarded as a proxy for powerful countries. Also, the issue of money laundering and terrorism financing (more recently joined by proliferation financing), as well as being political issues, are also highly technical, meaning that states are likely to need to ask for technical expertise to engage with them. Thus, the case of the FATF offered the possibility of analysing situations in which both powerful states and technical issues are involved, which in turn would allow me to test my theoretical expectations about power-dynamics and functionalist arguments as introduced in the previous chapter. Moreover, the organisation has lasted for over thirty years, allowing observation both of path dependency processes and the role played by institutional learning, which are part of the third theoretical expectation that I introduced in my theory.

In addition, the case of the FATF is not only of interest to academics but also to policymakers, as the importance of this organisation in security governance has increased over the past two decades (Morse, 2019). It now has a reserved seat at G20 submits, the UNSC makes recurring references to the FATF, and its monitoring and enforcement practices are used across numerous actors in the AML/CTF global governance complex for different purposes (e.g., exerting pressure or threatening states with the withdrawal of development aid).³⁰

Also, despite its informality and the lack of prior research on its working practices, I identified different sources of data which could provide empirical evidence to test the theorised expectations. The FATF maintains strict confidentiality around much of its internal documentation and does not offer minutes as some FIGOs do; this is intrinsic to the IIGO design. However, within the broader population of IIGOs, the FATF does offer a range of institutional documents with rich descriptions of how the organisation has evolved over the years (especially its annual reports). This type of documents can be hard to find in relation to IIGOs with lower levels of formality.³¹ Moreover, the number of non-state actors involved in addressing these issues is considerable, as it includes banks, non-profit organisations, and other IGOs, enabling the retrieval of information about relevant events from sources other than the FATF itself.

Lastly, my previous personal work experience as an intern at the United Nations Office for Drugs and Crime allowed me to gain important knowledge on how the global regime against money laundering and terrorism financing is designed and how its hierarchies work. Knowledge of this regime in particular was required as a potential gateway to greater access to people working at the FATF and on money laundering and terrorism financing issues. Thus, even though there was an acknowledgement that access to IIGOs in general would be more restricted than in other cases such as FIGOs, the FATF did appear to ensure an adequate level of accessibility to information in comparison to other IIGOs.

3.2.2.2 Why divide the FATF case into three time periods?

The process tracing of documents is also a methodology that allows the analysis of a sequence of events over time (George, 2005: 190), again aligning with the research goals. The timeline of this research reaches from 1989 (when the FATF was established) to 2019 when the organisation turned 30 years old, just before

³⁰ Interview 8. UN Official working on AML/CTF technical assistance programmes. Autumn 2020.

³¹ For example, the Club de Berne, an IIGO comprising representatives from intelligence agencies from 29 states and its Counter Terrorism Group, for which hardly any public publications can be found).

the collection of data began. This timeframe allowed an in-depth analysis of the theorised expectations while controlling the point at which new data was being added.³²

Collier and Collier's (1991) research, published as *Shaping the Political Arena*, presents a complex form of the before-after design, which inspired the present research design.³³ The authors use "critical junctures" as periods of change, providing them with a framework for observing the establishment of international regimes. In my research the shocks are also defined as critical junctures that have the power to produce discontinuity in my explanatory variables:³⁴ the preferences of state members, the need for technical expertise, and institutional learning. In other words, shocks are not theorised as the main explanatory variable with which to explain whether an IIGO's dimension is formal or informal, but are instead expected to create discontinuity in some explanatory variables (Gerring and McDermott, 2007). This design allowed me to control within variation because I was able to analyse each dimension over time (controlling for institutional context) and when comparing across dimensions in each period of time (holding the context constant).

The three shocks were selected because of their relevance to the broad context of money laundering and terrorism financing, and to the organisation being studied. Given that the research sought to explore how discontinuity in variables occurs and to assess the variation in formality within a given IIGO, it made sense to choose crises close to the topic under investigation. For instance, the Ebola crisis of 2014 would have been useful in a study of IIGOs in the field of global health cooperation, but would have shed little light on how the FATF functions. The shocks selected were therefore the 9/11 terrorist attacks on the United States of 2001, the 2008 global financial crisis, and the rise of ISIS and its attacks in Europe in 2014.

3.2.3 Operationalisation of variables

3.2.3.1 *Dependent variable: IIGO Formality*

In the context of money laundering and terrorist financing, the case of the FATF was approached longitudinally by dividing it into three periods separated by three global shocks. In each time period, the levels of formality of the FATF were analysed using the explanatory framework presented in the previous

³² With the start of the COVID-19 pandemic, the functioning of the FATF was disrupted, changing the normal course of activity of the organisation, as plenary meetings had to be cancelled or rescheduled.

³³ Even though they do so in a comparative setting and their goal is to establish co variation of variables in various cases instead of within-variation, as in the current research.

³⁴ Exogenous shocks in research designs have commonly been used by political scientists; however, this varies from study to study. As summarised by Gerring and McDermott (2007), one of the uses common among economists is when a shock is highly correlated with the main variable of interest. In another approach, more often found in comparative politics and international relations (especially in studies about change and path dependence), the shock is understood as a peripheral variable that sets the background conditions necessary for the analysis of the other variable. My research adopts the latter approach.

chapter, an adaptation of Koremenos et al.'s (2001) institutional dimensions. I proposed to observe the level of formality of six IIGOs dimensions: the rules for accessing membership (*membership*), the scope of issues covered (*scope*), monitoring and enforcement provisions (*monitoring*) (*enforcement*), overall decision-making rules (*decision-making*), and the coordination unit (*coordination unit*). Table 3.3 provides an overview of how the six different dimensions are operationalised and the type of enquiries made here to measure whether a dimension had/has 'high', 'medium' or 'low' levels of formality.

IIGO dimensions	Brief definition
Membership	<p>Includes:</p> <p>(a) the type of membership (e.g., exclusive and restrictive membership vs universal and inclusive);</p> <p>(b) the particularities of the process used to reach it (e.g., limited members in an <i>ad hoc</i> meeting or after an open discussion of all members following a known process of accession); and</p> <p>(c) the type of obligations associated with being a member (binding, shared expectations, or private commitments).</p>
Scope	<p>Includes:</p> <p>(a) the type of scope (e.g., broad or deep; one or more topics);</p> <p>(b) the particularities of the process to reach it (e.g., at a Plenary or in an <i>ad hoc</i> meeting? Were non-state actors consulted or not? Were IIGO bureaucrats involved in the drafting or not); and</p> <p>(c) the type of obligations generated (is the scope typified and bound by international law, is the scope presented in the form of guidelines, and are the rules regarding the issue private?).</p>
Monitoring	<p>Includes:</p> <p>(a) the type of monitoring and information retrieved (e.g., are the evaluations public or private; who is subject to being evaluated; are evaluations scheduled or sporadic);</p> <p>(b) the particularities of the process (e.g., who is involved in the monitoring practices - member state officials, the IIGO bureaucrats, others? How exactly is the obtained information distributed? Does it go to the affected country first, or is it made public at some stage? How are the subjects of the monitoring advised of that process?); and (c) the type of obligations generated (what happens if the results of the monitoring are not satisfactory?).</p>

Enforcement	<p>Includes:</p> <p>(a) the type of enforcement (e.g., is it achieved through institutionalised forms of enforcement such as formal sanctions, or is it executed through other practices such as peer-pressure);</p> <p>(b) the particularities of the process (e.g., who decides who is subject to enforcement, who decides how the enforcement mechanisms should be designed, and who can participate in such processes); and</p> <p>(c) the consequences of lack of enforcement (are the incentives and costs for lack of compliance clearly stated?).</p>
Decision-making	<p>Includes:</p> <p>(a) the type of overall decision-making structure (How are decisions taken? By votes, consensus, in private or in public forums?);</p> <p>(b) the process of decision-making (is there more than one body in which decisions are made? If yes, what is the hierarchy among them? Who is allowed in each of them?);</p> <p>(c) the type of decisions taken (are they bound by a treaty or not; can they have been changed with more or less difficulty? Who do these decisions affect?).</p>
Coordination unit	<p>Includes:</p> <p>(a) the type of coordination unit (e.g., a chair, a President, and/or national officials; is it a secretariat?);</p> <p>(b) the type of staff employed (national officials who have been seconded or independent staff hired for their technical profiles?); and</p> <p>(c) the involvement of the coordination unit in the overall functioning of the organisation (does it have drafting privileges, or does it only provide admin support?).</p>

Table 3.2 Author's creation

Depending on how each of the above IIGO dimensions was designed in the FATF, some of them should show greater levels of formality than others, as I showed in Figure 2.2 in the previous chapter. I summarise its content in Figure 3.1, below, to refresh some examples of how formality can vary along each dimension, from lower to higher levels of formality.

Level of Formality IIGO Dimensions	Very Low- Low	Medium	High – Very High
1. SCOPE 2. MONITORING 3. ENFORCEMENT 4. COORDINATION UNIT 5. MEMBERSHIP 6. DECISION-MAKING <i>[Each of them can show a different level of formality]</i>	(1) Secret negotiations and/or <i>ad hoc</i> private meetings (2) Internal organisational principles are non-public or unclear (3) Shared expectations but no legal obligations (4) Lack of participation of IIGO's bureaucracy (5) Lack of institutionalised participation of non-state members or non-state actors (6) Zero or low transparency (7) Very limited structural constraints to prevent change of design	(1) Periodic reviews of the dimension design are scheduled (2) Internal organisational principles are non-public or unclear (3) Shared expectations but no legal obligations Public guidelines available (although these can lack precision) (4) Participation of limited members of IIGO's bureaucracy (5) Some outcomes are made public, but negotiations remain private (6) Limited institutionalised participation from non-state members and non-state actors (7) Limited structural constraints to prevent change of design	(1) Periodic reviews of the dimension design are scheduled and a public summary of internal organisational principles is provided (2) Shared expectations and guidelines are specific and public (3) Legal obligations may be present (4) IIGO's bureaucracy is involved in larger numbers (5) Minutes of deliberations or a public summary are made available (6) Non-state actors and non-member states can participate through institutionalised mechanisms (7) Limited structural constraints to prevent change of design

Figure 3.1 Summary of IIGO's spectrum of formality. Author's creation.

A mixed deductive and inductive approach was used when analysing the data in order to achieve more specific examples of levels of formality. This is to say, although the empirical work is guided by this typology, the exact forms of (in)formality that appear when process tracing the data will be pointed out and described in detail below. For instance, the decision to admit a new member into the FATF may have been made by consensus in its plenary, or may have been previously decided in more informal meetings such as *ad hoc* groups. However, the design of this research and the approach of process tracing allow those examples to be more clearly identified (e.g., was it made in an *ad hoc* group or in a private group well established within the IIGO?).

Moreover, the longitudinal design allows this research to study the variation in the dependent variable in a single period of time (e.g., do membership and monitoring have the same level of formality at a given point in time?), and to analyse the variation over time of each dimension (e.g., have the membership or monitoring processes changed in their levels of formality?). For example, in the case of the FATF the scope has increased in formality over the years, and the FATF has now attached legal obligations to some of its policies. However, in looking at the FATF's scope between 9/11 in 2001 and the 2008 financial crisis, we can observe that the process to expand its scope of rules to terrorism financing and publish guidelines on that topic was decided in as informal a manner as other matters.

3.2.3.2 Explanatory framework: explanatory variables and causal mechanisms

(i) Powerful members' preferences.

First, I consider that all countries with full membership have a comparative advantage in terms of their ability to influence choices in comparison to countries that are only “associated” members through FSRBs. Then, within members I measure power from three main sources: (i) political power in the international community at a given point in time, (ii) economic resources, or (iii) strategic geopolitical position to combat ML/TF. The first two reasons define the capacity that those countries have to establish alternative organisations. The third one reflects the fact that strategically important countries hold an enhanced bargaining position because they have something to offer in FATF negotiations. For example, the role played by certain regions that may contain terrorist group routes/zones of operations.

For example, in the particular case of the FATF, at the time of writing (in early 2022) the members of the G7 and G20 have been powerful members within the FATF because of their important and ongoing economic, political, and strategic strength and relevance both in world politics and in the AML/CTF regime from early 1990s through to the present day. While the US has been a country with a strong voice since the FATF's creation, other states such as Saudi Arabia have recently joined the organisation and injected more capital, and thus also have the ability to influence changes. China is another such example. India, which joined in 2010, is not only important because of the size of its financial system but also because of its geopolitical position and the different terrorist groups that have operated on its territory. In contrast, other long-standing member states have only ever possessed regional power, such as Argentina. These states are considered weaker countries as they do not have the same bargaining power, and thus are less able to impose their preferences in FATF negotiations about design or other matters.

Second, I assumed that power dynamics are not static and evolve over the years. The redefinition of preferences is expected to come from two sources: (1) exogenous shocks; and/or (2) the entry of new powerful countries to the FATF.

The literature on states' preferences has shown that it is very difficult to estimate these, because they cannot be directly observed (Lupu, 2016). One common way to do so in the literature has been to look at proxies such as states' voting records at the UN General Assembly (Voeten, 2000). This approach is, however, more often used in comparative and quantitative studies.

In line with the methodological approach followed in this research that aims at understanding the design preferences of FATF members, I measure information on preferences for two sources. One of these was the research participants who were present during the negotiation of the design features at different points in time. These interviewees, drawn from both more and less powerful member states, were therefore able to give me a sense of the lay of the land during the FATF negotiations. The other source was the public declarations of FATF members in other forums including G7/G20 summits, UNSC public debates, and global conferences such as "No money for terrorists", organised by France.

(ii) *Technical expertise.*

I understand measure the requirement of technical expertise as the need for states to consult with other actors from outside their own national officials to carry out the functions of the organisation. This can happen if: (i) the FATF adds a new topic to its scope of rules covered; (ii) the FATF starts to perform a new function that it has not been performing before, or (iii) the complexity of topics or functions that are already covered by the FATF increases over time or because of an external shock.

When the FATF was created, it was designed to address a very specific issue: how to stop the flow of the proceeds from drug-related crimes that were being laundered. However, at that point in time the international financial system was not as regulated nor as complex as it is today. Over the years, the FATF has faced new threats such as virtual currencies that were not imaginable at the time of its initial design in 1989. Thus, even though the information the FATF was required to gather and act upon has always been technical, its complexity has increased over the years. For instance, when proliferation financing was added to the FATF's remit, only a very few experts actually had in-depth knowledge about the topic. Therefore, the necessary skills and data were limited, implying that additional specific technical expertise had to be acquired by the FATF.

Moreover, the FATF mutual evaluations have expanded over the years, both in terms of contents and the number of countries from vastly different geographies. For mutual evaluations, I therefore also measure the extent to which specific regional input was needed. For doing this, I consult if a new FSRBs was set up or not; if there were specific workshops about a new topic added to the scope such as proliferation financing or how to deal with foreign fighters; or if the FATF had to resort to partners to carry out the function.

(iii) *Institutional learning.*

I expect that, depending on the experiences that state members have had, the increase in the levels of formality of dimensions may be fast-tracked (in the case of positive or negative feedback) or slowed down (with informal safeguards introduced at the time of design or redesign).

In order to assess whether the FATF received negative feedback, instances of conflict and discontent from countries based on speeches in other forums (i.e., the UNSC) were assessed. I looked for any forms of criticism of a specific dimension, and if it existed, whether it intensified over the years. I also looked at which actors made the criticisms, and the extent to which they targeted the design of the dimension and its level of formality.

Similarly, I looked for positive feedback and direct statements about the proper functioning of particular dimensions. I took into account whether, during the FATF's periodic reviews, the FATF consolidated the design of some dimensions in a more formal or informal way over the years and the reasons for doing so. Evidence of positive feedback would also be found in instances where the level of formality of a given dimension had allowed the FATF members to achieve a previously stated goal.

To assess the role of path dependence and whether there were/are safeguards within those dimensions with larger distributional effects, I carefully assessed how the design has evolved over the years and the actors that have participated in the most informal meetings.

3.2.3 Research design validity

Due to my research goals, I decided that it would be beneficial to study one informal IIGO in depth. This was because the benefits of this design to answer my research question were deemed potentially greater than other alternatives. The empirical expectations that I introduced could be applied to investigate whether they had occurred or not, while showing the exact relationship among the variables of interest. Thus, the

goal was not to generalise findings to the whole population of similar IIGOs, but to contribute to the specification of causal configurations that have made the outcomes in the FATF possible.

This research has two important strengths: its internal validity, and the opportunity to obtain large amounts of rich data on the causal mechanisms for which I developed my theoretical expectations. This is because the method of process tracing relies on gaining a comprehensive overview of the “temporal unfolding of the causal process, the ability to provide a dense description of critical moments, and the possibility of gaining deep insights into the perceptions and motivations of important actors, the accessibility of a case is the primary precondition for investigation” (Blatter and Haverland, 2012: 25).

Qualitative case study research, by definition, involves a small sample of cases. This makes random selection impossible. However, as authors such as Seawright and Gerring (2008) have highlighted, the fact that cases are not selected randomly should not be considered a weakness *per se* for two main reasons. First, a randomised sample would not necessarily provide the leverage needed to answer the research question, and second, political scientists have developed a number of strategies over the years to select cases in a systematic manner in order to address the potential issues arising from the manual selection of cases (Gerring and McDermott, 2007).

In my case, the selection of the case was linked to the outcome of the dependent variable that is theoretically interesting. Even though at times selecting the dependent variable may be a difficult task, it is not a handicap when “cases are sufficiently data-rich to permit process tracing” and “if the cases have large within-case variance on the study variable, permitting multiple within-case congruence procedures” (Van Evera, 1997: 47). This research does not aim to give an exact account of the co-variation among variables in different cases. Instead, the selection of the FATF case, which is a positive case,³⁵ should be seen as an added advantage of the design in achieving the research objectives, as the causal relationships drawn are based on the epistemology and techniques of causal process tracing (Blatter and Haverland, 2012).³⁶

³⁵ The author knew that the organisation presented greater formality in the present than it had when it was first designed, and that its formality was not equally distributed across IIGO dimensions. However, the causal mechanisms through which the formalisation had happened, and the points in time when it occurred, were unknown and theoretically puzzling.

³⁶ Blatter and Haverland (2012) added that even in those cases in which the researcher wants to highlight whether a causal factor is necessary for an outcome or not, the first logical step is to select a case in which such outcome has occurred. If this is done, then in order to assess whether such a factor is extendable to a broader population, the researcher should carry out further additional cases (possible cases) – but a possible case will depend on the prior study of the positive case, which is what the present thesis is presenting (Gerring, 2004: 351; Mahoney and Goertz, 2004; Ragin, 2004: 128–33).

Thus, due to the early stage which IIGOs theorisation is still at, especially in terms of linking levels of formality to changes in design over time, in-depth within-variation single-case study of the FATF was the strongest fit, as it allowed me to prioritise internal validity and the richness of the data.

3.3 Data Collection: Sampling Strategy

In-depth process tracing requires, by definition, the collection of various types of data (Ulriksen and Dadalauri, 2016). The analysis of the FATF's formality relied heavily on two main types of data: (i) institutional documents from the FATF; and (ii) transcripts from the semi-structured interviews I carried out with the elite key actors involved in the FATF who represented different groups involved in the design reform process. These two sources were triangulated and put into context by consulting (iii) secondary data sources, including academic literature, media outlets, public datasets, and reports from the private sector, the non-profit sector and other IGOs.

3.3.1 Documents

(i) FATF institutional documents

Because the FATF was established in 1989 and has since digitalised all the public documents they have published to date, I was able to rely on this official source to retrieve the institutional data. The first step was to identify the types of information that the FATF publishes in documents, such as the outcomes of its plenary meetings, its standards, and other publications providing guidance on a particular issue.³⁷

Once the types of documents were identified, from a population of 859 documents, I selected what the FATF calls “reports”, which in total comprised 37 documents (at the time of data collection 2020-21), because of the high relevance of their content to the research question. Of these 37, 31 were Annual Reports (of between 30-70 pages each), and the rest were FATF reports to the G20. I also carefully revised the documents left out for each year of study and used them when necessary to complete the information given in the Annual Reports. For instance, if a publication directed banks on how to manage beneficial ownership, I did not analyse the whole document and its technicalities (but I did confirm the reason for publishing that

³⁷ A full list of the types of documents available is included in Annex 1.

document at that time). However, when a Ministerial Declaration was published, I thoroughly processed it as the data was likely to be fully relevant to the research question.

Annual Reports and FATF reports to the G20 were selected from the broader population of documents for two main reasons. First, these documents, especially the annual reports, are where the FATF reflects on the changes to its design. Although it has also produced “outcome publications” in which it summarises if a new country has been added to its blacklist or if a new topic has been added to the agenda, the extended version and details of such reforms are more fully elaborated upon in the FATF’s annual reports. Secondly, the FATF reports to the G20 and its other types of Ministerial Declaration (which are always referred to in their respective annual report), were less descriptive and contained the official justifications for a particular reform. The original Declarations by the G7 and G20 which contained content on money laundering and terrorism financing were also by identifying the summits in which these groups had referred to the FATF (these summits were often referred in the FATF Annual Reports). Thus, Annual Reports offered better background information than publications whose content was more technical, such as guidelines, or states the specific outcome of national mutual evaluations, and made the sample selected more representative of the population of documents available.

Because I used the process tracing method to analyse the documents, a larger quantity of documents would have complicated the management of the data without enough justification. The selection of these documents, however, is skewed towards the documents that the FATF and other IIGOs such as the G7 and G20 decided to make public and maintain on their webpages over the years. This implies that the information available, although very rich and relevant, was the “official version” of what happened, and that there was missing data without which any assessment of the causal mechanisms of interest could be incomplete or even misleading (Gonzalez-Ocantos and LaPorte, 2021). This is why I also relied in other type of documents and elite interviews.

(ii) Documents (from other sources)

In order to fill the gaps created by the information missing from the FATF’s institutional documents and to obtain relevant data on less institutionalised practices, I decided to also rely on further documents from other sources such as private sector and non-profit organisations.

For instance, reports from non-profit organisations that actively collect information on the FATF activities and write reports about it, such as the European Centre for Not-For-Profit Law Stichting (ECNL), and private sector organisations highly invested in the development of the FATF’s activities, such as the Wolfsberg Group (which includes 30 major banks) were used to situate the FATF documents and the

declarations of my interviewees. I also collected data from books such as *Treasury's War: The Unleashing of a New Era of Financial Warfare* (2013) by the former senior Treasury and White House official, Juan Zarate, and from reports published by the IMF and the WB regarding their AML and CTF activities in conjunction with the FATF. I further referred to UNSC resolutions and UN reports regarding the broad regime. This served to triangulate the documents from the FATF and the data from my interviews with elites which were carried out later.

In order to gain a better image of the extent to which the FATF style regional bodies were aligned or not with the FATF statements, their reports were also consulted when there were doubts about the positioning of the different actors involved in the FATF. Nonetheless, as with the FATF reports, in this case the documents also gave the “official version” of events. Because of that, I also included into my pool of interviewees some representatives of FATF Style Regional Bodies (FSRBs).

Lastly, I consulted some internal documents to which I was granted off-the-record access. These documents were not used directly in the writing up of the empirical chapters, but they did serve to guide and contextualise the research on certain choices that were then further confirmed and/or denied by those present in the negotiations who I was able to interview.

The bias associated with each type of document was considered during the data collection and analysis stages to approach data from a reflective perspective. I acknowledge that the information available in the FATF documents is biased towards what its members want the public to read, and it may also even contain a bias towards the interests of its leading members. Moreover, every year the country that holds the presidency is in charge of drafting the Annual Report, which may also influence the type of content presented. Also, it is acknowledged that the “hotter” information is not available either. However, these documents still help to build a comprehensive timeline of how changes in the design of the FATF dimensions occurred over time. Even in those cases in which the exact deliberations or processes through which a change was produced were not available, by process tracing the available documents in the correct order, the researcher can spot when a change happened and consult other sources to expand the information that is excluded or limited.

Regarding non-FATF documents, apart from the interests of the organisations issuing the documents (whether non-profit, IGOs, or private sector bodies) there was also recognition that the information had been filtered twice. First, the accessible data is again biased towards what the states involved with the FATF have shown to them, and secondly, the recollection of facts may be influenced by

the partisan interests of the sources.³⁸ Nevertheless, these pieces of evidence allowed me to complete the storyline and create a more comprehensive context. By carefully tracing them and then putting them together, I offer a rich account of the FATF's design evolution that has never been published before.

(iii) Semi-structured individual interviews with open-ended questions

Institutional documents were a good source of data on the number of changes in dimensions over time, and on differences in the structuring of the dimensions. However, the informal nature of the Financial Action Task Force (FATF), in combination with the limited prior research focusing on this organisation made it necessary to gather data through interviews with elites in order to shed light on the causal mechanisms through which a dimension was further formalised or left informal.

Intensive, in-depth interviews are especially useful when seeking to understand motivations and preferences (Rathbun, 2008). In fact, this method allows the gathering of data that would otherwise be extremely difficult to access (Berry, 2002). Interviewing is most useful when establishing the importance of agency or ideation actions such as perception or learning (Aberbach and Rockman, 2002; Mishler, 1986: 279; Rubin and Rubin, 1995).

After building a clear idea of which dimensions have become more formal over time and how the FATF's evolution took place, the process of carrying out the elite interviews began. The research process was designed in this order because a researcher should never undertake an intensive interview without being fully prepared (Brenner, 1985). Thus, the interviewer should first consult and explore in depth the primary data and secondary data sources which are publicly available (Berry, 2002).

I decided to use semi-structured interviews in order to adapt to the experience and background of my interviewees and obtain as much information as possible on their specialist areas of expertise. I used individual interviews instead of group interviews/focus groups, because with this type of questioning it is easier to maintain some degree of control over where the conversation is going, while listening to well-developed answers (Brinkmann 2013: 27-28). Also, sensitive topics such as ML and TF are easier to discuss one-to-one, as this format means confidentiality in a trusted environment and high discretion can be ensured. The initial design choice was for face-to-face interviews; however, the COVID-19 pandemic meant I had

³⁸ When data comes from autobiographical memoirs, nationality bias as well as the fact that memories are not exact representations of facts were considered. In such cases, information was again contrasted with other sources to look for an alignment of facts, and thought was given as to whether such observations could be used as evidence.

to reconsider this initially preferred approach. I went to the closest option to face-to-face interviews, which is online video interviews.

The number of people who have actual, practical knowledge of how the FATF functions is very limited compared to people who know about other formal organisations such as the UN (where the staff numbers are far larger, and where notable people from around the world have attended and worked for almost a century). The FATF has had a shorter life, its staff numbers are still very limited (although slowly increasing), and even though the number of participants in some of its activities such as the mutual evaluations or the plenaries can be high, not many people have access to the decision-making bodies or to all the parts of the organisations equally.

For these reasons, the study population was not very large. Moreover, each country sends highly-trained staff from different ministries; this means that countries do not always send people with the same “job”, which complicates the search and can skew it in numerous ways. Until very recently (mid-2021) the FATF did not offer a directory of its delegates, and it also does not keep a repository of information on past delegates. Nevertheless, interviewing has been proved to be productive in those cases in which the outcome of interest was only restricted to a few decision-makers “creating a bottleneck of political power that increases the importance of agency in the story” (Rathbun, 2008: 17).

I decided to rely on LinkedIn to do my main search for participants. I sent a message to the people I found who were working at the moment or had worked at/with the FATF for several years in the past. In those cases where the inbox was not open but an email address could be found somewhere on the internet, I sent an email. I also contacted people who were mentioned in some of the FATF’s annual reports and whose contact details were public (this search was less fruitful than the one carried out on LinkedIn). The “snowball” technique was applied to recruit more participants, although it only worked in a couple of instances, as interviewees were generally not comfortable with sharing data on other people (as Zoom does not allow you to be “introduced” to the co-worker who is seated next to the interviewee).

Ultimately, a total of 21 interviews were carried out, two of them off the record.³⁹ I followed Kvale and Brinkmann’s (2008) approach which argues that we should “interview as many subjects as necessary to find out what you need to know” (Kvale & Brinkmann, 2008: 113). When I had conducted these 21 interviews, I had already obtained the necessary data to answer my research questions as the interviews were carried out thoroughly, including several preparation hours (four hours minimum each), were of long

³⁹ A list with number and ranks of the interviewees is included in Annex 2. Interviews lasted between 60 minutes and two and a half hours. The time allowed depended on interviewees’ availability. On average, most interviews lasted one hour and 15 minutes.

duration (one hour minimum), and I ensured the careful management of transcripts and notes afterwards (which took at least the duration of the interview multiplied by 2.5).

The interviews were carried out between August and December 2020. The first one, which was treated as a pilot interview, was face-to-face and a relatively long interview (as at that point in time, the COVID-19 measures and the geographic location of the interviewee allowed this). This interview also served to provide further general information on the overall organisation, and some confidential documents were granted on an “off the record” basis. The rest of the interviews were carried out via either the Zoom or Microsoft Teams video chat platforms, with the researcher based in Glasgow.

The interview guide was developed using different sources, including the existing literature on the AML/CTF regime and the functioning of IGOs, data obtained from public documents on the issue, and the experience the researcher had gained from personally participating in international forums.⁴⁰ The interviews were not intended to assess or confirm the exact variation in levels of formality, but to generate context on the process that had led to these changes. The interview guide addressed several general themes that were presented to all participants, with the focus depending on the experience of the person being interviewed. Social sciences require the weighting of conflicting evidence and research should aim to offer the best interpretation based on the evidence (Rathbun, 2008); this includes understanding who was in a position to know the true facts regarding the outcome, and who was being more speculative. A clear understanding of the interviewee’s position, curriculum vitae, and experience helped me to separate opinions from facts. This preparation also allowed me to avoid questions whose answer would have been speculative because of the lack of experience of the interviewee on a particular issue.

Post-interview work required transcribing the interview (which I did manually because of the sensitivity of the issue), translation in some cases (I only carried out interviews in English or in Spanish - my mother tongue – as these are the two languages that I know well enough to ensure that meaning would not be lost in translation). It also included the annotations and searches for further information towards which I was redirected. For instance, there were cases in which the interviewee was not keen on mentioning countries’ actions directly, but was willing to redirect me to relevant documents.

In the case of interviews, I acknowledge that both personal and professional bias may be present. I approached each interviewee with an awareness of how their nationality or professional profile could be shaping their discourse. As was explained above, I did intensive research on the subjects of my interviews in order to be aware of their areas of expertise and to increase the chances of differentiating between

⁴⁰ A list of typical themes is included in Annex 1

observations (that despite the risk of bias in perception, were based on first person observation) or guessing statements (that were rejected because they did not have a high enough quality to serve as evidence). The interview data was key to obtaining observations that could be considered “confessions”, as will be further explained when I justify how the data analysis proceeded.

Ethical Considerations

Ethical considerations were present during the whole research project, from the design stage through the collection of data during interviews, to the anonymisation of documentary sources during the transcription, analysis, and storing of the data. I attended courses on Research Integrity and Data Management during my three years of PhD studies and participated in Ethics sessions carried out by the School of Social and Political Sciences in the two years prior to the start of my research (2018 and 2019).⁴¹

The interviews were initially designed to be carried out mainly face-to-face (the option of online interviews was left open, but it was assumed that this would only be used in exceptional or unforeseen circumstances). When I prepared the research design I completed my ethics application, in which all the steps of my interview process, from how I intended to contact participants to what type of questions I planned to ask, were reviewed. The information and consent forms, which were always sent to the participants before finalising the date for the meeting, were also reviewed by the ethical committee. I gained approval for all the documents and was ready to start fieldwork by the end of March 2020. In fact, when the COVID-19 pandemic began and the first lockdown took place, the first travel tickets had already been purchased and the first couple of interviews dates secured.

Adaptation to participants’ circumstances and a process of continuous reflexion and self-examination to ensure that I was acting ethically and in a non-harmful way were ongoing from the start. I did not hesitate to cancel the arranged interviews and adhered to the new guidelines issued by the university when the first COVID-19 lockdown took place, which was to stop any fieldwork. Although I had already received approval to carry out online interviews, as I had foreseen that some interviewees may prefer to be in a different location, I did not start the process of interviewing right away. First, because it was advised by the university that under the new and highly stressful circumstances in which we were living, asking people for interviews may risk harm to them by adding more stress to their lives. Secondly, because most of the people I had first arranged meetings with were not comfortable carrying them out through the internet, as money laundering and terrorism financing are sensitive issues.

⁴¹ Further modules on data management and data protection were also completed online during 2020. On these courses, I was trained not only in designing the fieldwork but also in maintaining up-to-date knowledge of relevant new rules and regulations.

I therefore waited until the global pandemic began to ease and the university guidelines lifted the ban on carrying out fieldwork involving human subjects before I started to recruit again and carry out interviews. By that time, I had also given people time to adjust to working from home, and those who agreed to be interviewed were comfortable in using video calls, thus reducing the potential stress and associated issues for participants with this method. Most of them were already working from home with secure systems. I was also working from home with a university desktop computer and I used the Zoom and Microsoft Teams university accounts. Then, the data was carefully stored and managed in the secure drives provided by the university, following all the protocols and guidelines on data management issued by the University of Glasgow.

The questions were not thought likely to create any pressure or stress on the interviewee. Moreover, I stated at the beginning of the interview that if at any point they were not comfortable then they should stop and let me know. This did not happen; however, when a question potentially touched upon information which they felt was too sensitive, interviewees sometimes did say that they were not at liberty to discuss that. I reinforced to them that this was okay, then moved to the following question.

Most studies on interviews recommend that the researcher records the conversation (Aberbach and Rockman, 2002: 674). I recorded the audio of each of the interviews after acquiring the permission of the interviewee. Having a recorded version allowed me the freedom to ask follow-up questions during the interview and engage in the conversation better with the interviewee without any fear of not capturing the exact text (Brenner, 1985: 154; Berry, 2002: 682). Having a recording also secures against reinterpretation from one's notes and enables direct quotes (which may be the only available data about a particular variable). Nonetheless, the option to go off record at any point was also given to the interviewee, as if they were to give me important information, even if I could not quote it directly, this might serve as a hint in the creation of future questions for the following participants.

All the interviews were directly transcribed by me to preserve the confidentiality of the content. Transcripts were anonymised and stored on a secured server, as planned. In order to anonymise the data, only the number of interview and the (very general) rank of the interviewee was recorded, in order to avoid any possibility of identification as the number of people working in this area is very small.⁴²

⁴² Despite all these efforts, I still encountered a number of people that I could not interview because they did not feel comfortable with signing the consent form. They directly explained their reluctance by saying that signing the consent form would have been a burden to them, and that they were especially uncomfortable with sharing their signature.

3.4 Data Analysis: Process Tracing

Process tracing has been identified as one of the best approaches with which to study causal mechanisms in action as it allows the researcher to identify the link between the dependent and the explanatory variables (Odell, 2006). It consists of carefully mapping the process through which an outcome has come to show a given form/value, and the extent to which it coincides (or does not coincide) with prior theorised expectations (Beach, 2017). In the case of the FATF, this involved the study of how a given dimension has come to show different levels of formality and the extent to which the theoretically derived expectations introduced in the previous chapter have been met, or not.

The present research was carried out following process tracing because this methodology enables a focus on the causal process of observations, allowing researchers to get inside the “black box” of decision-making and to explain in depth why a particular event took place (Brady and Collier, 2010). Moreover, this methodology often generates a richness of data that cannot be achieved otherwise and that can be very valuable for future research. For instance, as explained by Levy (2008: 12), many propositions in bureaucratic politics have their roots in the intensive study of Allison’s (1971) analysis of the Cuban missile crisis. Closely aligned with the specific research goal of this thesis, process tracing is also useful to test theoretical propositions in early stages (Levy, 2008), and it has been used in IR studies over the years (Drezner, 1999).

As is the case with most of the concepts used in this chapter, there is still no complete consensus on an exact definition for this method. For instance, George and McKeown (1985) first used the term to refer to “tracing the decision process by which various initial conditions are translated into outcomes” (1985: 35). Their focus was on obtaining a picture of an agent’s decision-making processes. However, the concept has come to be used with a much broader conceptualisation, which now includes the careful description of causal processes and allows the testing of a wider range of plausible theory-based causal mechanisms (Crasnow, 2012; Brady and Collier, 2010). Collier (2011) added that process tracing is an analytical tool that allows the researcher to draw descriptive and causal inferences from evidence, and George and Bennett (2005) explained that process tracing as a methodology well suited to carry out analysis of a sequence of events over time. I have used process tracing here as an analytical tool to assess whether the theorised causal mechanism presented in the previous chapter can explain the uneven formality of the FATF’s design over three consecutive periods of time spanning thirty years.

3.4.1 Applying process tracing

Both documents and transcripts of interviews were process traced to analyse whether the causal mechanisms selected had happened or not by observing “the sequence and timing of events and contemporary interpretations of those events” (Hall, 2013: 22). Thus, in applying process tracing I followed what Bennett and Elman (2007: 183-184) consider to be the two crucial best practices of this method: (1) I paid explicit attention to alternative explanations in terms of “what else could be true”; and (2) I undertook relentless empirical research into those hypothesised processes with a wide range of sources, always considering the potential motivations and biases of each source.

In order to carry out process tracing adequately, apart from identifying the causal mechanisms under study, it is necessary to identify what is known as “diagnostic evidence” (Collier, 2011: 824), which must be done using prior knowledge. In my case, the pieces of data were selected using the explanatory theoretical framework presented in the previous chapter and the operationalisation of the variables in the research design presented in this chapter.

Moreover, even though the analysis is done over time, in order to properly describe how a sequence took place, it is first necessary to accurately describe the event at a given point in time. Hence, the descriptive part of process tracing does not start with changes or sequences, but with snapshots of specific moments (Collier, 2011). My research has done so by carefully explaining the state of the dependent variable before the moment at which change starts to be studied. Institutional documents were the main source for clearly establishing the sequence.

Turning to the use of the transcripts of the interviews, I consider the data resulting from my conversations to be relevant information that is not publicly available, and that can shed light on why the choice of greater or lower levels of formality took place. Keohane, King and Verba (1994) advised against using interviewees to do the researcher’s job, and I agree. My interviewees were not asked about the causal mechanisms being studied; however, they were questioned about measures of the explanatory and dependent variables (e.g., were there any important disputes in how to approach the drafting of standards in proliferation financing and the actors involved in it?).

After that, I could classify the period of time to which the observations retrieved from other sources fitted. I did so by clearly identifying the source of the data too so that I could carry out this process in a reflexive way considering the potential bias of the sources (as explained in the previous section).

After building a clear image of the sequence of events, I classified the evidence I had gathered into three groups, following Blatter and Haverland (2012: 110-119). First were those observations that were necessary to provide a “coherent picture” of how the causal mechanism had worked, or not. Second were those pieces of evidence which could be considered “smoking guns”, which are a “coherent cluster of observations that closely link cause and effect in time and space”. Thirdly, I used the term “confessions” to classify those pieces of evidence that provided me with “greater knowledge about the perceptions, motivations, and anticipations of important actors in crucial moments” (Blatter and Haverland, 2012: 110). Once the pieces of evidence were in sequential order and classified by importance, I could assess whether they were enough, or if I needed to consult further sources. When a satisfactory number/quality of pieces of evidence had been obtained for each period of time, they were used to write the empirical chapters.

As was briefly mentioned during the description of the research design, in order to elaborate or assess theories, process tracing should have expectations introduced before starting the analysis so that the researcher can assess whether observed processes match with the theorised causal mechanisms or not (Gerring, 2007; Hall, 2003). However, at the same time the in-depth search for evidence allows the researcher to be exposed to “serendipitous discovery”, as they might inductively uncover under-theorised factors that may be of relevance (Hall, 2003: 395). In other words, process tracing allows the researcher to study their topic both deductively and inductively. This allowed me to inductively obtain more precise measurements of levels of formality across dimensions in the FATF and to explore whether any crucial causal factors had gone untheorised. For instance, I theorised that the more complex the topic which the IIGO handles the more formal its coordination unit will become, because states will need further technical expertise from international bureaucrats. Even though this is the main mechanism that guided the empirical analysis, it also considered whether that increased need for technical expertise also triggers increases in levels of formality of any other IIGO dimension, which would be a more inductive process.

In practice, the study of formality and the kind of data that I needed to collect were dictated by three broad and theoretically derived expectations. Specifically, the first expectation on power dynamics required knowledge about the preferences of the FATF members, especially those with greater power. The second required knowledge of how the different expertise needed to manage AML/CTF and proliferation financing. Lastly, the third required that I collected data that reflected how states incorporated experiences from their institutional past.

I first looked in the institutional documents for data that could help me to draw a general picture. Then, in the interviews I asked two types of question: one more directed to the description of the dimensions, such as “What does the steering group of the FATF actually look like and who sits on it?”; “Who was

invited to the deliberation about proliferation financing and who participated in its drafting?"; and "Why was it decided that the monitoring had to continue in this formal?" A second set of questions was more directed at obtaining a flavour of the "feeling of the room" at key moments. For instance, I asked: "Were all members in agreement that Saudi Arabia should be a member?"; "Who was against the further formalisation of the FATF secretariat?"; or "What factors were taken into account to jump from a temporal to an open-ended mandate?"

I interviewed officials who were delegates of both powerful and weaker member states of the FATF in order to get answers from different perspectives. I also consulted with "associated members" and staff from the FATF-style Regional Organisations, and with representatives of non-state actors that had been involved recently with the FATF. This allowed me not only to gain different perspectives of the same facts to reinforce what happened and what was probably more opinion-based (which in the latter case was excluded from the analysis) but it also helped to reduce the "official bias" of the FATF documents, as interviewees offered information that would have impossible to obtain through public documentation. Also, I left some time between interviews, so that I would have time to put together what I had learned and to prepare for the next interview with that added knowledge.

Because it would have not been good practice to only rely on what people said, I triangulated the data I gathered. I cross-checked the information given by the interviewees with the official version offered by the FATF, and with other sources including reports from other organisations and actors, the media, academic text, and books.

Following these steps, the theoretical expectations presented in the previous chapter were subject to a hard test because in order to be accepted or refuted I had to find several pieces of evidence from numerous sources and consider alternative explanations. With this I could go beyond what in other types of research could be considered a "comfortable fit", maximising one of the strong suits of this methodology, which is providing high levels of internal validity and a rich quantity of data of great quality (Gerring, 2007).

3.5 Conclusion

This chapter began by presenting the research design that I used to guide my empirical work. It offered a review of the research problem and the main research goals, the selection criteria followed to choose the FATF as a single case study, the operationalisation of the variables and causal mechanisms, and a discussion of the research's validity. I explained that I set out to analyse the level of formality of the FATF's *membership, scope, monitoring, enforcement, decision-making, and coordination unit* dimensions at three consecutive periods of time separated by shocks. The main goal of doing so was to assess through within-

case analysis if the theorised explanatory variables (*preferences of powerful countries, functionalist demands, and institutional learning*), were relevant to explain the outcome observed in the FATF, and to understand exactly how the complex relationships between variables occurred (Gerring, 2011). In order to do so, process tracing was carried out on documents and transcripts from the interviews, sources of data whose selection was also justified in the chapter.

The thesis now moves to Chapter 4, which situates the FATF in its broader institutional context highlighting its role in the global anti-money laundering and counterterrorism regime over the past three decades.

CHAPTER 4. The Financial Action Task Force evolution in context

4.1. Introduction

Financial scandals such as the Panama Papers (2016), the Danske Bank scandal (2017-2018), the FinCEN Files (2020), and the recent Pandora Papers (2021) have all made money laundering a recurrent ‘star’ in the press, which raises the question of how these schemes are orchestrated and manage to escape law enforcement. For instance, when the Panama Papers were released, outlets such as *The Financial Times* published articles on “how laundered money shapes London’s property market” (Evans, 2016). Similarly, the system to launder money from Russia to Europe through the Danske Bank resulted in the publication of pieces on how this “money-laundering scheme that ran from 2010-2014, funnelled more dirty money through the UK than any other country” (Barr and Levett, 2017).

Likewise, when there is evidence that terrorist groups are increasing their financial revenues and when terrorist attacks happen, journalists raise questions about who is behind the funding. For example, media outlets voiced these enquiries in articles such as “Paris attacks: Where does ISIS get its money and weapons from?” (Brooks-Pollock, 2015) and “Who's Funding ISIS? Wealthy Gulf 'Angel Investors' ” (Windrem, 2014). Some follow-up stories are also produced, such as in the case of the French cement firm Lafarge, which was “charged with complicity in Syria crimes against humanity” and “suspected of paying nearly €13m to ISIS and other militants” (Agence France-Presse, 2018).

The time and resources that countries have committed to trying to solve these issues has also been highlighted in articles questioning the current AML/CTF framework, such as one published by *The Financial Times*, “A gaping loophole’: dirty money fight still unfinished 20 years after 9/11” (Silverman, 2021). Although Silverman (2021) uses 9/11 as a reference point to review the approach followed by the US to address these issues, countries such as the US and the UK leading the AML fight began criminalising money laundering in the 1980s, and at the end of that decade the first steps towards the current AML/CTF regime were taken.

While money laundering can be understood as the “processing of assets generated by criminal activities to obscure the link between the funds and their illegal origins” (IMF, 2021), terrorism financing involves “the solicitation, collection or provision of funds with the intention that they may be used to support terrorist acts or organisations (IMF, 2021b). These two phenomena vary in different ways. For instance, terrorists can get their funds from legitimate sources and their motives to commit crimes usually differ from that of money launderers and criminal gangs, and the amounts have been traditionally larger in

money laundering (Gardner 2007: 327). However, both ML and TF involve illicit financial flows and the exploitation by perpetrators of similar vulnerabilities in the financial system (e.g., levels of transactional opacity). Both issues have been addressed over the years by the same international organisations and by similar initiatives, and have therefore generally been conjoined under the umbrella term of Anti-Money Laundering and Counter Terrorism Financing (AML/CTF).⁴³

Today's interdependent world has made it increasingly difficult to imagine solutions to international cooperation issues that might be handled by a single coordinated set of rules, or what Raustiala and Victor (2004: 279) have called an "elemental regime". However, present-day challenges are usually addressed by global governance complexes (GGC), broadly defined as "overlapping institutions and actors that govern a particular global policy issue", which "invite a focus on a wider range of institutions and actors - both formal and informal, state and nonstate" and which "emphasize temporal processes" (Eilstrup-Sangiovanni and Westerwinter, 2021: 2-4). ML and TF are no exception; indeed, over the years, the number of international institutions tasked with addressing these global issues has significantly increased in line with the rising complexity of the interactions and interlinkages involved.

What started with a couple of articles in a United Nations International Convention focusing on narcotics and related activities⁴⁴ in 1988 was soon consolidated by the US and its allies from the G7⁴⁵ nations into the first ever international organisation to focus solely on money laundering, the Financial Action Task Force (FATF). Since then, the FATF has increased in its complexity, as has the broader international AML/CTF context in which is embedded. In this context, the FATF has become a cornerstone organisation in the collective action on AML/CTF. It reaches over 200 jurisdictions which have endorsed the FATF's policies and are subject to its monitoring, and issues a blacklist that is feared around the world. However, the FATF has not achieved this alone.

This chapter traces how the FATF grew in the context of the broader institutional landscape, and includes a snapshot of how their partner IGOs were also becoming embedded in this Global Governance Complex. I first introduce the context in which the FATF was designed, and outline how the organisation operated in its first years. After that, I provide a snapshot of the institutional context of the FATF's evolution after 9/11, after the global financial crisis of 2008, and when the expansion of ISIL from 2014 for a time seemed unstoppable. The chapter concludes with a brief summary.

⁴³ Since 2012, proliferation financing has also been one of the activities that the organisations in AML/CTF deal with. However, it has not yet been integrated into the joint acronym. It does, however, sometimes appear as CPF.

⁴⁴ United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, adopted in December 1988 in Vienna (Articles 3 and 5).

⁴⁵ Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

4.2. Beginnings

Despite some early advances in countries such as the US (and to some extent the UK),⁴⁶ which were the first states in the world to criminalise ML in the mid-1980s (Durrie, 2013), it was only towards the end of the 1980s when other national legislation started to emerge more widely around the world. The increased attention given to ML coincided with the negotiations of the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (hereafter referred to as the Vienna Convention).⁴⁷

The introduction of two articles into the Vienna Convention referring to the proceeds of crimes was the first attempt to internationalise ML.⁴⁸ From that moment on, other international organisations also started to contribute to the conversation. For instance, the Basle Committee on Banking Regulations and Supervisory Practices, which at the time comprised the central bank governors of the G10 countries, issued its first manifesto on money laundering in 1988.⁴⁹

If there was not anywhere near much debate back in the 1980s as there is now on money laundering, there was even less discussion of terrorism financing. Indeed, there is little record before the 1980s of specific concerns about terrorism financing, and when they did arise they were mostly restricted to domestic terrorism and groups (e.g., the Irish Republican Army [IRA] in Ireland or Euskadi Ta Askatasuna [ETA] in Spain). For example, the European Convention on the Suppression of Terrorism (1977) did not refer specifically to terrorism financing.

⁴⁶ Previous national legislation in the United States was later to influence the drafting and image of international agreements (Stessens, 2000; Durrieu, 2013; Duyne et al., 2018), in particular, the Bank Secrecy Act (BSA) and the work done by the Office of Foreign Assets Control (OFAC). The BSA was passed at a time when the US was concerned by the amount of money flowing between its borders and safe havens such as the Bahamas or Switzerland (Duyne et al., 2018). Although the BSA was far from achieving its initial goals and was focused more on tax evasion than on directly addressing money laundering, it did serve as a source of inspiration for legislation to come (Stessens, 2000). Reading it closely reveals ideas such as the need for financial institutions to keep track of their clients' information, which resembles today's Know Your Customer (KYC) rules. We can also see some similarities between today's FATF blacklist and the list of Specially Designated Nationals imposed by OFAC in 1986 (Forsman, 2020; Stessens, 2001). By then, those on the list OFAC list would find it increasingly difficult to do business in the US, because businesses, citizens, or entities under the jurisdiction of OFAC would no longer do business with them.

⁴⁷ Discussions started upon the request of the UN General Assembly in 1984 for a new international Convention on Narcotics (A/40/777) and lasted until the signing of the Convention in 1988. It was included in Articles 3 and 5, under the label of "proceeds of crime" (UNLibrary, 2021).

⁴⁸ This document did not solely focus on money laundering; on the contrary, the issue was added as yet another cooperation issue to be solved by the regime countering the traffic and production of narcotics and other psychotropic substances. Although money laundering does not, by any means, only proceed from the proceeds of drug trafficking, the latter was the open window through which the criminalisation of these proceeds from crime was established internationally (Duyne et al., 2018; UNODC, 2020).

⁴⁹ These guidelines highlighted the need to identify consumers and the risks of doing business with partners dealing with illicit assets. In other words, the idea that "knowing your customer" was necessary was already in the air (BIS, 2020).

4.2.1 The FATF design and evolution in its early years

Only one year after the signing of the Vienna Convention, the Financial Action Task Force (FATF) was created at the G7 Summit at the Arche de la Défense in France to deal with money laundering internationally (FATF, 1990). The idea of creating a completely new international organisation, which was initially established as a “temporary task force”, was precipitated by growing concerns over the risks and threats that money laundering could cause to the international financial system, and discontent regarding how such illicit financial flows were being handled (or not handled) at the international level (Zarate, 2013).

In 1990, the FATF’s leading members⁵⁰ informally decided a number of shared expectations regarding the international AML approach, and made public the FATF’s 40 Recommendations, which became the first global standards focused on countering money laundering (FATF, 1990). A year later, in 1991, the FATF introduced a monitoring system with which to evaluate their members’ national frameworks against money laundering. Also, the FATF established a very small secretariat to support its administrative functions (which was located in the OECD’s headquarters), and decided that the presidency of the organisation would rotate each year (FATF, 1991,1992). At that time, the FATF’s members also decided to organise their streams of work through the creation of working groups that would follow up on the decisions taken by the plenary, the official decision-making body. It was also decided that the plenary would be advised by a steering group configured by seven members, which would rotate according to internal rules at some point over the years (FATF, 1991).

During those first years (until 1992) the FATF opened its membership to include all OECD countries and major financial centres of the world at that time. The membership did not expand again until 1998, when a process to include “strategically” important countries started and brought Mexico, Brazil and Argentina into the FATF (FATF, 1998). The process of accession to the FATF was presented in the early years as a combination of granting the organisation access to the region in which a member is situated, endorsing its policies, and being subject to its monitoring, all in exchange for having a say in the decision-making of the FATF and its initiatives.

Before that limited expansion of the membership in the late 1990s, the FATF had previously started its regional expansion using FATF-Style Regional Bodies (FSRBs), as since the beginning the organisation wanted to achieve a global reach - without having to grant universal membership. To give just one example

⁵⁰ The G7 participants were Canada, the European Commission, France, Germany, Italy, Japan, the United Kingdom, the United States, and they were joined by eight extra jurisdictions: Australia, Austria, Belgium, Luxembourg, the Netherlands, Spain, Sweden, and Switzerland (FATF, 2018)

from among the first FRSBs created, the Caribbean Financial Action Task Force (CFATF) was established in 1991 (FATF, 1993; CFATF, 2021). France, the Netherlands, the United Kingdom, and the United States were the sponsors behind it, and these countries are still key donors to states in the region (CFATF, 2021). The investment made by these developed countries in this region reflected the strategic role that the region played (and plays) in drug routes (UNODC, 2000). For example, the heroin transportation route from Colombia to the US, and the trafficking of psychedelics (specially ecstasy at that time) from the Netherlands to the United States (UNODC, 2000) were of great concern.

This is just one example, but similar ties can be found in the other FRBSs. For instance, the Asia/Pacific Group on Money Laundering was created between 1995 and 1997 because FATF members wanted to bring the offshore financial countries in the region into their compliance zone, and large amounts of money and resources were provided by Australia (FATF, 1994, 1995, 1998). Nowadays, the links between these regional areas and key richer “friends” are still present through the financing of these regional organisations, as officials from MONEYVAL⁵¹ and GAFILAT⁵² stated during the interviews.

From then on, these FSRBs members needed to endorse the FATF Recommendations and undergo mutual evaluations in line with the same methodology as full FATF members, as full compliance was expected. However, FSRBs were not granted direct access to the FATF’s decision-making process because they were not granted full membership. Instead, as would be seen in future years, members of FSRBs were allowed to defend themselves in evaluations and give their opinions regarding matters of interest to them, opportunities which they would otherwise not have had. Not having representation in the FATF became more dangerous over the years because the organisation expected compliance regardless of whether a country was a member or not, and sought to punish those that were not deemed compliant.

In following this carefully controlled development path, the FATF achieved their goal of covering most countries/regions in the world by bringing them under the supervision of those regional bodies that would follow the FATF methodology and be subject to the jurisdiction of these organisations. However, the decision-making at the FATF is still protected and reserved to its members, as the FATF considers the regional bodies to “associated members” (FATF, 2006: 5).

⁵¹ Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.

⁵² Financial Action Task Force of Latin America.

Lastly, in 2000, the FATF created its first blacklist of non-compliant states (including non-member states), in a strategy known as the process on non-co-operative countries and territories (NCCTs).⁵³ This list applied to all countries around the world, not just to members, and it was decided informally with limited transparency and information, which led the initiative to attract substantial criticism, as “any one could be listed” and a delegate at that time commented that they “still remembers the tension, you could breathe it”⁵⁴ because if a state failed, the minister in question would receive a letter asking for improvements.

4.2.2 The FATF’s institutional context between 1989-2001

While the FATF was rapidly setting the grounds for an international network to deal with money laundering, at the UN many delegates and officials were working towards the drafting of a Convention on Money Laundering, or at least a report on the AML situation around the world.⁵⁵ None of these came to pass, due to disagreements among UN members⁵⁶ and competition among UN staff from different departments.⁵⁷ They did, however, continue to undertake some work and carry out some restructuring of the UN anti-ML program. Indeed, during these years, the UN established the Global Programme Against Money Laundering that has been run ever since by the UN agency UNODC, with the goal of ensuring an integrated approach to technical assistance and capacity building by offering specialised training. Its mandate has been updated over the years in various UN resolutions.⁵⁸ Also, Resolution A/RES/S-20/2 (1998) was issued. This was a political declaration calling for the intensification of efforts in countering money laundering, highlighting the importance of international, regional, and subregional cooperation, and renewing the recommendation that states should join the Vienna Convention (1988).

During the 1990s, the UN still took the lead on countering terrorism financing, which was still not yet an issue within the FATF’s scope. Even though the 9/11 attacks in 2001 represented a clear turning point in the development of the regime, some important mechanisms had been designed and implemented shortly beforehand. For instance, in the mid-1990s, the negotiation of “measures to eliminate international terrorism” in the UN’s *ad hoc* committee created after Resolution A/RES/5/2010 resulted in what some years later became the first International Convention for the Suppression of the Financing of Terrorism in 1999. At that same time, a new regime of “smart” UN sanctions designed to cut off some terrorist groups’

⁵³ In February 2000, the FATF issued its first public list, which included a number of countries it considered to be “non-cooperative” in the international fight against money laundering. Some authors have argued that the list was precipitated because the Seychelles was making large profits from money laundering practices (Nance, 2018).

⁵⁴ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

⁵⁵ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

⁵⁶ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

⁵⁷ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020. Autumn 2020; and Interview 19 - UN official in the 90s. Winter 2020.

⁵⁸ Resolutions 74/177 (2019), 73/186 (2018), 72/196 (2017), and 71/209 (2016) (UNTC, 2019)

resources started with UNSC Resolution S/RES/1967 (1999), imposing restrictions on the Taliban. This marked the beginning of a sanctioning regime that has continued to evolve over the years, adapting to new groups and times, right up to the present day.

During those early years, the International Monetary Fund and The World Bank were only participating in these issues sporadically. They were invited by the FATF to some of its working groups and plenaries but the reach of their actions in this area was not fully relevant until 2001, when in the aftermath of 9/11 these two financial organisations brought AML/CTF into their mandates, and entered into partnership with the FATF to help in monitoring countries around the world.

In the words of an interviewee who has been working in AML/CTF for over 20 years, and who was at the WB in the 1990s:

“When I started working in the World Bank [24 years ago], anti-money laundering and terrorism financing were considered outside the scope of development. After the USSR fell apart, there were no regulations in place in that region, and this translated into a number of criminals moving money freely and being able to launder it without problems. Organisations such as the BASEL group were already stating that criminals should not have access to licensing and banking services, but that did not actually mean anything to former Soviet states and their allies. It was in that context when more and more people realised that financial supervision had a key role to play. Because we do a lot of financial supervision, the IMF and the WB realised that we should have a role in this regime that was emerging”. Interview 16.⁵⁹

The role of other informal organisations of high political importance, such as the G7, was very important during these years. On the one hand, the G7 created the FATF and tightly controlled its decision making during this first decade, as they were its founders and the informal design allowed them to do so. On the other hand, as well as declarations on money laundering the G7 started to issue statements on counter terrorism financing: for instance, in the Ottawa Ministerial Declaration on Counterterrorism (1995), ministers said that they had agreed to “pursue measures aimed at depriving terrorists of their sources of finance” (University of Toronto, G8 Repository, 2020).⁶⁰

⁵⁹ Interview 16. WB officer since the early 2000s. Autumn 2020. Online.

⁶⁰ This idea was repeated in the Ministerial Conference on Terrorism in Paris (1996), at which the G7/8 called on all states to adopt “regulatory measures in order to prevent movements of funds suspected to be intended for terrorist organizations, without impeding in any way the freedom of legitimate capital movements” (University of Toronto, G8 Repository, 2020)

Also, the creation of the FATF and its expansion also resulted in the creation of another type of informal organisation, the Egmont Group, in 1995. This informal body was established after a call by the FATF to its members to establish functional Financial Intelligence Units, in order facilitate financial intelligence sharing. It remains in place, and it offers a space for members of national financial units (state officials) to come together and share their knowledge and experience (Egmont Group, 2022).

Organisations such as the Basle Committee on Banking Regulations and Supervisory Practices continued to maintain close relationships with the FATF,⁶¹ and the first European directive against money laundering was issued in 1991 (Council Directive 91/308/EEC).⁶² Others, such as the European Bank for Reconstruction and Development (EBRD), worked intensively on raising awareness in order to ensure that those on the receiving end of the measures still felt part of the process and contributed to it. This action targeted the private sector, particularly banks, as at the beginning they were not interested in these rules at all, and as the rest of initiatives mentioned above prepared the context for the introduction of terrorism financing into this regime as soon as 9/11 occurred. In the words of a former member of the EBRD:

“When European banks had to start implementing AML in the mid-90s they did not want to. It was the most boring subject to them, they did not want to talk about it, implement it, or see AML as a problem at all. It took some time and a lot of training to convince many non-state actors that nowadays participate daily and routinely to combat these crimes”. Interview 13.⁶³

Lastly, although the FATF members always wanted a fluid relationship with the private sector and started to have meetings with them in the 1990s, it was not until the 2000s that the latter became more interested after realising that they could be fined if they did not comply, and that the policies issued at the FATF would actually have a direct impact on their daily activities.

4.3 The 9/11 Attacks on the US and the Breakthrough of Counter Terrorism Financing

By 2000, states had built up some background experience of working in the internationalisation of AML. The FATF had already established some of its activities (e.g., the issuing of policy, the monitoring of its members, and the listing of non-compliant countries), and other organisations including the UN, the IMF, and the WB were aware that they needed to be part of this increasingly important global effort. Also, regional organisations such as the EBRD were working on training all actors involved, including those in

⁶¹ It currently continues to act as an observer at the FATF.

⁶² Although this directive was more symbolic than practical, it served the purpose of showing that the EU supported the idea of strengthening and expanding the regime, and it served as the foundation for the following directives, which were stronger in their aim to protect the EU Single Market.

⁶³ Interview 13. Officer at the EBRD in the 1990s. Autumn 2020.

the private sector. Strategic ideas about terrorism financing and how to act internationally against it were also gaining traction, especially at the United Nations.

Nonetheless, it was only after the terrorist attacks of 9/11 that consensus was reached about the importance of the issue and it was included in the mandate of the FATF and other organisations such as the IMF and the WB – which were still working on integrating AML into their activities. The considerable shock produced by 9/11 motivated countries to the extent that they broadly supported a number of CTF initiatives globally,⁶⁴ among which were a number of actions focusing on terrorism financing. The 9/11 attacks on the US not only boosted the global action against terrorist financing and its integration into the FATF's scope but they also prompted the global expansion of the AML/CTF more generally.

4.3.1 The FATF's evolution after 9/11

Although it has been estimated that the 9/11 attacks themselves cost no more than half a million dollars for the terrorists to carry out (a modest investment given its terrible consequences), there is also evidence that Al Qaeda invested millions from the mid-1990s onwards to build up the capacity needed to carry out the attacks (Zarate, 2013). This milestone event sped up the creation of new institutions countering terrorism financing that rapidly added to the extant anti money laundering regime (Clunan, 2006). It is hard to speculate on what would have happened to the regime if 9/11 had never occurred, as this shock prompted an environment more able to absorb changes pushed by a number of (powerful) countries.⁶⁵

Regardless of the FATF's previous lack of interest in terrorist financing up to when the terrorist attacks in 9/11 took place in the US, the-then US Treasury Secretary, Paul O'Neill, quickly sought the help of the FATF. O'Neill expressed the US's interest in positioning the FATF as the institution leading this process at the international level during an extraordinary FATF Plenary (O'Neill, 2001). He further proposed an action plan for the FATF, which included the adoption of special Recommendations on terrorism financing, and urged the organisation to ensure that all countries, not just FATF members, were complying with the standards, by extending the self-assessment requirement to every country in the world (O'Neill, 2001). At the end of this special plenary, the FATF published a public statement announcing "Eight Special Recommendations", the focus of which was on CTF (a fifth was later added, in 2005). These became the most important global standards on terrorism financing, as they went a step further than the UN

⁶⁴ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

⁶⁵ After 9/11, the US launched a powerful campaign against terrorism financing and money laundering, in which one of the main goals was to expand the international regime against these crimes. It wanted to reshape globally how key private actors such as banks operate in the international system in the post 9/11 world (Zarate, 2013). The EU also passed Directive 2001/97/EC of the European Parliament and of the Council of the European Union in December that year, which became the Second Directive on Money Laundering, and which broadened the definition of money laundering and redefined some of the existing provisions in the first one, including the legislation needed to comply with the 40 FATF recommendations.

Convention on Terrorism Financing and included provisions agreed in UNSC resolutions in these topics, such as Resolution 1373 (2001) (Rosand, 2003).

None of this should come as a surprise since, as mentioned above, the topic of terrorism financing had been on the UN and G7 agendas for years. Until 9/11, there had simply not been enough interest to raise this issue as a priority on the international agenda.⁶⁶ Apart from those 8 Special Recommendations that were decided quickly via an informal process by FATF members in *ad hoc* meetings of which there are no records, between 2003 and 2004 the FATF revised all its Recommendations (FATF, 2004). In order to do so, the process of these discussions notably increased in formality. It included consultations with the private sector and the collaboration of other organisations such as the IMF and the UN; moreover the FATF regional style bodies (FSRBs) were also invited to participate (FATF, 2004).

During these years the FATF also increased the formality of its monitoring process, which involves “mutual evaluations”, by partnering with the IMF, the WB, and the FSRBs, and published a common methodology to assess national frameworks on AML and CTF. From then on, its monitoring activities have been carried on in conjunction with these partner organisations.⁶⁷ Nonetheless, these changes also resulted in an increased workload for the FATF secretariat, which for the first time presented a clear organigram and had a larger number of functions delegated to them, including coordinating the mutual evaluations.

After 9/11 there were two key accessions to FATF membership: Russia and China (Duyne et al., 2018).⁶⁸ Having these countries⁶⁹ on board expanded the reach of the AML/CTF rules to parts of the world where they had previously been absent and lent the FATF’s internationalisation extra legitimacy (Zarate, 2013).

Although the FSRBs expanded in these years and a great number of jurisdictions were included under the FATF standards, there were no major changes to how decisions were taken, which continued to be by consensus and only by the FATF members (supported by its steering group). Nonetheless, as was mentioned above, the FSRBs became partners of the FATF and the IMF and WB in carrying out the monitoring of the

⁶⁶ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

⁶⁷ It was also agreed that the AML/CTF evaluations would be part of the Financial Sector Assessment Program, a joint initiative between the IMF and the WB designed to measure strengths and weaknesses in the international financial sector.

⁶⁸ During these years, the US worked closely with its partners France and the UK to establish an important regional body, the East and North Africa style body (Zarate, 2013). In the same time period, the EU also launched its Third Directive on Money Laundering [Directive 2006/70/EC] in 2006, in the wake of the Madrid (2004) and London (2005) bombings, extending the regime’s obligations to Designated Non-Financial Business and Professions, including lawyers, notaries, accountants, and real estate agents.

⁶⁹ South Africa also joined the membership during these years (FATF, 2006)

AML/CTF complex. Lastly, during this time period the FATF boosted its communications with other non-state actors such as private sector bodies, while maintaining limited contact with others, including representatives from the non-profit sector. Thus, after 9/11 the FATF notably increased the complexity of its design and daily activities.

4.3.2 The FATF's institutional context between 2001-2007

The UN also increased its work on terrorism financing after the shock. Just one day after 9/11, on 12th September 2001, the UNSC issued Resolution S/RES/1368 condemning the attacks on US soil. This resolution was mainly symbolic, and the full UN machinery went into action on 28th September 2001, when the UNSC approved Resolution S/RES/1373 (2001), one of the most important resolutions post-9/11 on countering terrorism, in which provisions referring to terrorism financing had an important place.⁷⁰ In fact, this resolution expanded the scope of the International Convention (1999). In comparison to the Convention, the Resolution also used stronger wording that implied a mandatory nature (Hinojosa-Martínez, 2014).

Another particularity of this resolution was that it led to the creation of a new body in the UNSC, the Counter Terrorism Committee (CTC), which in 2004 through Resolution 1535 established the Counter Terrorism Executive Directorate (CTED) to monitor the implementation of Resolution 1373, a body with which the FATF has closely worked over the years at different points in time. Also during these years, the regime of sanctions that started with S/RES/1967 (1999) continually expanded its reach, including further restrictions to address certain groups' expansion and mutation. For instance, Resolution 1390 (2002) removed territorial limitations.⁷¹

The UNSC was not, however, the only UN body to have been active during these years. The previous GPML programme run by the UNODC continued to provide Technical Assistance and Capacity Building. Also, the UN General Assembly also contributed to the fight against terrorism financing by passing a set of rules addressing terrorism.⁷² In addition, the UN Convention against Organized Crime

⁷⁰ This resolution tends to be considered as a resolution on terrorism financing, but in fact that is a misleading classification. It is true that the resolution includes numerous obligations regarding terrorism financing, from criminalising those funding terrorist acts to the need to freeze assets and deny safe havens to terrorists and their supporters. However, it is important to highlight that the resolution also covers other activities such as intelligence-sharing among states (included but not limited to financial information), border controls, arms trafficking, judicial assistance in this matter, and control of the use of communications and technologies by terrorists (UNSC, 2001a).

⁷¹ It continued targeting the Taliban, Al Qaida, Bin Laden, and those working with them, but expanded to do so wherever they were located rather than just in Afghanistan, as had previously been the case. Also, Resolution 1526 (2004) established yet another body, the Analytical Support and Sanctions Monitoring Team, which was tasked with following up on the implementation of the sanctions. This activity continued over the years; for instance, S/RES/1735 (2006) included the need to notify within two weeks if a national had been listed, and S/RES/1730 (2006) established a focal point within the UN secretariat.

⁷² For example Resolution A/RES/60/288 (2006) and subsequent updates to it, which established the first Global Counter-Terrorism Strategy, and the Plan of Action to which world leaders committed at the 2005 September Summit (UNOCT, 2018).

(UNTOC) and the UN Convention Against Corruption (UNCAC) also entered into force in this decade, in 2003 and 2005 respectively.

The contacts between the IMF and the WB which had started in the previous decade intensified by 2001, and soon after these events the two organisations included AML/CTF action in their mandates (FATF, 2002). From then on, they also directly participated in the FATF monitoring process, and both helped to draft the methodology and participated in a pilot programme in 2003 along with the FATF and the FSRBs. Since then, they have remained involved in the monitoring carried out by the FATF. Also in the early 2000s, they started to carry out technical assistance and capacity building programmes to help member states facing difficulties to establish national AML/CTF frameworks in line with the FATF's Recommendations (IMF, 2002).

As they had done in the previous decade, the G7/8 continued to issue ministerial notes on how to address the threat posed by terrorism financing and money laundering, including specifying the roles to be played by IOs such as the UN, the FATF, the IMF, and the WB (G7, 2002). The Egmont group continued to expand, and private representation increased. They were not only included in the process of revising the Recommendations between 2002 and 2003, but associations such as the Wolfsberg Group,⁷³ which had first committed to work against money laundering with a series of principles issued in 2000, also added a statement on the suppression of terrorism after 9/11 (Wolfsberg, 2002).

4.4 The 2008 International Financial Crisis and the Interest of the G20 in AML and CTF

By the end of 2007, the FATF had expanded its mandate to include terrorism financing, and embedded Special Recommendations on TF issued after 9/11 within its Recommendations. The monitoring was already being carried out by the FATF, the IMF, the WB, and the FSRBs, and the global network was expanding. Moreover, the relationship between the UNSC and the FATF had been reinforced since both had increased their CTF activities. Also, the FATF expanded its membership to include Russia, South Africa, and then China into its decision-making body in the wake of the global financial crisis in 2008.

Although this strategy was focused on countering terrorism in general, the space dedicated to addressing questions regarding terrorist financing in these resolutions has gradually increased in recent years.

⁷³ "The Wolfsberg Group is an association of thirteen global banks which aims to develop frameworks and guidance for the management of financial crime risks, particularly with respect to Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies." (Wolfsberg Group, 2022:1).

4.4.1 The FATF's evolution after 2008

After the global financial crisis of 2008 hit, the G20 leaders intensified their interest in the FATF and again asked to it to contribute to efforts to manage the consequences of the shock. The 2008 crisis brought attention back to the overall soundness of the financial system and ML and TF's negative effects on global financial stability.

Following the G20's instructions, when revising its Recommendations in 2012, the FATF included proceeds from further financial crimes such as corruption and tax crimes, which up until then had formed part of the remit of other international bodies. Moreover, during these years and without having anything to do with the financial crisis, the FATF also extended its mandate to cover the financial aspects linked to the proliferation of weapons of mass destruction (proliferation financing). The FATF claimed that this was due to the meaningful threats posed by North Korea and Iran (FATF, 2019).

At around the same time, the FATF intensified its public statements reinforcing its commitment to the protection of the international financial system and published new blacklists. This blacklist 2.0 of the FATF was endorsed by the G20. Today, this listing, which is maintained by the FATF's International Cooperation Review Group (ICRG), is regarded by many as the "teeth" of the system, as the grey and blacklists of the FATF result from this process. The practice of naming and shaming non-compliant states through these FATF lists has already produced terrible economic consequences for those included on them. For instance, the chances of a listed country having correspondence banking relationships are noticeably reduced.⁷⁴

The FATF also revised its common methodology in 2013 to standardise and expand its technical compliance assessments.⁷⁵ In addition to requiring technical compliance with the 40 Recommendations, the assessments henceforth included a second part on effectiveness measured against 11 Immediate Outcomes.⁷⁶ By this time, the FATF was already assessing over 130 jurisdictions, after consolidating its relationships and conditions with its (by this time) eight FATF Style Regional Bodies, which were treated as "associated members" (FATF, 2006:5) and regarded as "Free Standing Organisations" (FATF, 2012: 3). In practice, this meant a close collaboration in areas such as the monitoring and the discussion of the scope

⁷⁴ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

⁷⁵ For more on this, see "Methodology for Assessing Technical Compliance with the FATF Recommendations and Effectiveness of AML/CTF Systems" (FATF, 2013).

⁷⁶ These are set out in the "Methodology for Assessing Technical Compliance with the FATF Recommendations and Effectiveness of AML/CTF Systems" published in 2013 (FATF, 2020).

between the FATF and FSRBs while not granting full membership benefits to these regional bodies. Also, during these years the FATF welcomed India and South Korea into its membership, both G20 countries.

4.4.2 The FATF's institutional context between 2008-2013

The UN continued to work in the issue area of money laundering through technical offices such as the UN Office on Drugs and Crime, and also actively continued its CTF work at the United Nations Security Council level. During these years, however, there was a turn towards linking their activities (which were considered intrusive by a growing number of representatives of civil society and the third sector) with human rights, resulting in new measures to protect those rights in the context of implementing CTF/AML legislation. For instance, the CTED engaged in conversations with non-profit organisations before the FATF did so, to discuss how the legislation at that time was creating logistical problems for those working in the field.⁷⁷

The sanctions issued by the UNSC that began by targeting the Taliban before 9/11, in order to ensure fairness in the listing process the UNSC established the Office of the Ombudsperson through Resolution S/RES/1904 (2009). Individuals, groups and entities wishing to be de-listed could submit a request to this office.⁷⁸ Despite continued criticism, in 2011 the UNSC identified the necessity to shape its sanctioning regime to new realities and issued Resolution 1988 (2011) which set out a separate set of sanctions from the ones directed at the Taliban. That same year, in Resolution 1989 (2011), the name “Consolidated List” was replaced by the “Al Qaeda List”.

The UNSC was also working on a number of resolutions on countering proliferation financing (e.g., UNSCR 1540 (2004) and UNSCR 1874 (2009)), and the FATF standards in this issue area were introduced in its Recommendations in 2012, in line with the wishes of the US and some of its allies after the FATF had demonstrated its ability to achieve greater compliance with UNSC provisions than the council itself had been able to achieve in the aftermath of 9/11.

The IMF and the WB continued to work alongside the FATF in the discussion of the methodology and in the execution of mutual evaluations, while intensifying their commitment to tracking and blocking illicit financial flows globally. Moreover, the IMF's specific donor-supported trust fund was launched in 2009 to address AML/CTF issues, and although the first period expired in 2014, it has since been extended.

⁷⁷ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020; also Interview 6. NPO representative to the FATF. Autumn 2020.

⁷⁸ This mandate was extended by resolutions S/RES/1989 (2011), 2083 (2012), 2161 (2014), 2253 (2015), and 2368 (2017). Doubts about the fairness of the process were already being voiced, so in 2008, Resolution 1822 highlighted the need to carry out a review of the people listed, and the reasons given for doing so.

Also, in 2011, the Board of the IMF supported the inclusion of the AML/CTF on financial integrity issues that could be subject to Article IV consultations.

Informal Organisations such as the Egmont Group continued to expand and to work on related issues, as these topics remained on the global agenda. In this time period the G7 and the G20 were increasingly important; previously, the FATF had closely followed the desires of the G7, but after the 2008 financial shock the FATF publicly reinforced its links with the wider G20, and justified many of its actions, such as the expansion of its mandate and the blacklist relaunch, by saying that they were in response to calls by the G20 for such action. Indeed, since then, references to the FATF's work at the G20 summits have increased. Even though the G7 continued to carry weight within the FATF and maintain close (but informal) control over its actions, the relationship with the G20 was more publicised, and strengthened over the years.

4.5. Skeletons in the Closet: The Rise of the Islamic State of Iraq and the Levant (ISIL)

The expansion of ISIL to different regions of the world, its rapid growth and control over territories and people, and its attacks on the West (2013-2014) again shocked the FATF and undermined its members' interests. By then, the FATF had been in place for over two decades and the AML/CTF regime had been internationally consolidated. Nonetheless, the direct threat of ISIL and its capacity to wage war and attack Europe not only awoke demons from the past for FATF members, but also showed that a long road still lay ahead in its efforts to properly cut off sources of terrorist financing.⁷⁹

4.5.1 The FATF evolution after 2014

The rapid rise of ISIL and its attacks on the soil of FATF members such as France represented another shock affecting the evolution of the AML/CTF activities. ISIL compelled the international community to come together against a common enemy and urgently prioritise the need to establish measures to defeat it (FATF, 2016). It brought the focus back to terrorism financing and resources, as there was a clear need to research and understand how this group was funded, resulting in some modifications to the FATF Recommendations in order to cover new modus operandi, such as the return of foreign fighters. However, these changes were not as significant as those which occurred after 9/11, as the FATF mainly relied on previous work - no new special recommendations were issued; instead they were edited to cover new trends.

⁷⁹ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

Even though completely new recommendations were not issued, the FATF's members did attach legal obligations to criminalise terrorism financing by participating in the drafting of Resolution S/RES/2462 (2019), which explicitly states the need to comply with the FATF's policies.

During these years, the FATF also continued to address threats related to money laundering, especially after the scandal of the Panama Papers in 2016.⁸⁰ It also edited its Recommendations in order to improve the information asset requirements (2017) and to include virtual assets (2018) (FATF, 2017, 2018). Most importantly to the remit of the present research, there were long negotiations on the future institutional design of the FATF. Questions such as the status of the organisation (i.e., whether to reform it and transform it into a treaty organisation), the duration of its mandate, and how long presidencies should last were all discussed. In the end, the organisation did not change its legal nature and maintained its design as an informal organisation.⁸¹ Nonetheless, its mandate was changed from “temporal” to “open-ended”, its presidency terms were extended to two years instead of one, and the role of the Vice-President was reinforced. No major changes occurred at the decision-making level, and the secretariat's functions, despite its moderate growth, did not change either.

Although for many years the FATF had delegated technical assistance activities to its partners, in 2016 it decided to create its own body for this purpose, FATF TREIN. The body was set up and staff were hired, but at the time of writing it is inactive, and is more a “zombie” organisation than a functional one.⁸²

During this period the FATF also continued to maintain fluid conversations with the private sector through the FATF Private Sector Consultative Forum, and with its regional organisations. Furthermore, numerous associations of people working on money laundering and terrorism financing (such as ACAMS) have also emerged over the years. These conversations, as well as consultations with the other 24 observers of the FATF, have helped the organisation with its research, methodological discussions, and standards revisions. After many years demanding that it should happen, non-profit organisations (NPOs) were finally included in these conversations, after the FATF decided to grant their representatives some chairs at the FATF Private Sector Consultative Forum (to which access had been denied in the past).⁸³

⁸⁰ An enormous leak of financial and legal records evidencing the risks posed by offshore companies (ICIJ, 2016). Although the leaks were not directly focused on money laundering, they offer a snapshot of a system that enables this type of crimes.

⁸¹ Although there has been some confusion, especially after the efforts in recent years to present an image of leadership on issues related to TF and ML, as the FATF is not a treaty-based organisation, and although it is now an open-ended one, its legal nature, and thus its obligations under international law, remain the same as when it was first created.

⁸² Interview 18. Delegate to the FATF (State Member). Autumn 2020

⁸³ Interview 6. NPO representative to the FATF. Autumn 2020.

In fact, it has been in this most recent period that NGOs have finally made their voices heard, not just through pressure at the UN (and the UNSC in particular, further developing their conversations with the CTED), but also by associating together (e.g., the Global Coalition of NPOs) to change the FATF's Recommendation 8 which they saw as harmful, as it implies that these organisations are risky, resulting in countries and banks cutting off relationships with them without explanation instead of carrying out a sector-adapted risk assessment.

4.5.2 The FATF's institutional context between 2014-2019

Countries have continued to carry out mutual evaluations without major changes alongside the IMF and the WB, which continued to engage with AML/CTF more broadly. For instance, the IMF's specific donor-supported trust fund was launched in 2009 to address issues in AML/CTF, and although the first period expired in 2014, it was extended. Meanwhile, the WB has become involved in initiatives straddling the AML regime and the corruption regime, as the Stolen Asset Recovery initiative was designed and developed with the UNODC.

The work carried by the UN also continued to expand in the mid-2010s, and a number of resolutions issued at the UNSC level have introduced clauses and links to terrorist financing. For instance, Resolution S/RES/2178 (2014) linked the new risk of foreign terrorist fighters to terrorism financing, S/RES/2322 (2016) called upon states to improve financial information sharing (and by doing so, to work more closely with the private sector), and S/RES/2331 (2016) linked terrorism financing and trafficking in people, an idea reiterated by S/RES/2388 (2017).

Despite an increase in attention towards the issue, there is still no UN convention on money laundering, and it was not until April 2019 that the UNSC issued the first resolution focused solely on terrorism financing, S/RES/2462 (2019). Most importantly, the resolution was drafted and discussed by states that were members both of the UNSC and the FATF, and the role of the FATF was highlighted and reinforced in it. This meant that from then on, all the FATF's members should endorse the FATF's policies and act in accordance with its expectations.

Some comments on the negotiations (both those which are publicly available and those drawn from my interviews) highlight that the first draft presented by France was written mostly with language from Resolution 1373 and the subsequent resolutions recalling its obligations (Security Council Report, 2019).

Despite the use of this agreed language the negotiations were still lengthy, especially regarding the need to safeguard the work carried out by humanitarian organisations.

The sanctions regime that began in 1999 also continued to evolve during these years. At the beginning of 2015, in Resolution S/RES/2199, the UNSC called upon states to ensure that their nationals and people on their territory did not give financial resources to the so-called Islamic State in Iraq and the Levant (ISIL), or to the Al-Nusrah Front (ANF). Moreover, in the aftermath of the terrorist attacks which occurred on the 13th of November 2015 in Paris, the UNSC adopted Resolution S/RES/2253 (2015), which expanded the listing criteria to individuals and entities supporting ISIL. In July 2017, the UNSC adopted Resolution S/RES/2368 (2017) reaffirming the need to continue with the embargo on individuals and entities related to ISIL and the Al-Qaida Sanctions List.

In 2017, a new UN Office on Counter Terrorism was established. The UNOCT was a brand-new office within the UN, which competes directly with other UN agencies such as the UNODC. Its mandate includes coordination functions and the delivery of technical assistance and capacity building. It is important to note the key role played by Saudi Arabia as the donor responsible for 47% of the extra budget for this office (money outside the 4% funds it receives from the UN's general budget). This donation was agreed while Saudi Arabia was negotiating its accession to the FATF, which shows its interest in becoming an important player within the global AML/CTF governance complex.

The IMF and the WB continued to work in the AMF/CTF issue area by contributing to the monitoring of jurisdictions around the world and by establishing technical assistance and capacity building programmes to client countries still struggling to put forward national legislation in these areas.

It is also worth highlighting that although the role played by the G7 has remained important in the past decade,⁸⁴ it also seems to have left space for the G20 to step in. The G20 gave increased attention to the FATF, making this institution part of their public statements, and granting the FATF presidency a seat at its table, as a symbolic additional leader of the organisation in meetings between the G20 and central bank governors (FATF, 2019). Moreover, the partnerships of the FATF with other institutions have grown exponentially over the years, and at the time of writing, 23 organisations, including the UN, the OECD, Egmont, and INTERPOL contribute actively to its work (FATF, 2019).

⁸⁴ The G7 nations have continued to hold parallel informal meetings before the FATF's plenaries. These do not occur as often with the G20 because the number of countries involved is higher.

4.6 Conclusion

In this chapter I have explored how the FATF itself, and the global AML/CTF governance complex in which it is embedded (which most recently has also incorporated the combating of proliferation finance) have evolved over the years. This snapshot has provided a clear picture of the main actors, which is necessary to understand how and why institutional choices about the FATF's design over the years were taken by their members.⁸⁵ It has also highlighted that what happened in the FATF did not occur in isolation, and that it would have been different if this international network had not been at its disposal. For instance, the FATF may never have been able with its current limited membership to monitor the number of regions that it now covers without the help of the IMF and the WB, and of course its FSRBs. Similarly, if the FATF's initial membership had not expanded to include China, India, and Saudi Arabia into the membership they may have risked losing the endorsement of the G20, and weakened the effect that its blacklist has on those listed thanks to the reaction of the international markets.

All in all, it can be observed that among the longest-established IGOs, a pattern of task distribution has developed. On the one hand, the FATF and the UN (especially the UNSC) have the greatest responsibility in setting standards and rules and creating policy. The supervision/monitoring is also handled by these two institutions (although in different ways), along with the IMF and the WB. While the UNSC's monitoring mostly relates to ensuring compliance with a particular resolution or convention, and in many cases is confidential, the FATF (and FRBs), IMF, and WB share a single methodology through which they assess country performance in the fields of AML and CTF according to the FATF Recommendations. When it comes to helping countries improve their AML/CTF frameworks, the main actors are the IMF, the WB, and UN agencies such as the UNODC. The FATF has, however, so far failed in its attempt to fully establish an effective technical assistance body, although one has been set up. Further, informal organisations such as the G7 and the G20 gather feedback and pressure which are translated to the above IGOs (as their members are also part of the key decision-making bodies in the regime), giving them the means to shape decisions, often through informal channels.

As has been observed, the FATF has been increasingly open over the years to the entry of key actors, which then had the power to shape policy, while the UNSC's work on terrorism financing has remained closely controlled by the 5 permanent members of the UNSC.⁸⁶ The creation of the new UN office can be also understood as reflecting the failure of some rising countries to gain more power in other UN bodies, in which the status quo remains tightly controlled such as the UNSC. Precisely what position and role this

⁸⁵ Many actors are involved in the regime, which is why I focus strictly on the actors that are analytically relevant to my research.

⁸⁶ P5. France, China, Russia, United Kingdom, United States.

new UN Office on Counter Terrorism will play remains to be seen, as having only been established in 2017 its potential still remains largely unknown.

I now move to the second part of this thesis, in which I present the results of my research in chronological order. In those chapters greater detail on how the different dimensions of the FATF underwent changes to their levels of (in)formality and why are presented.

CHAPTER 5. Making compromises: the increased formality of some of the FATF's dimensions after 9/11

5.1 Introduction

This thesis began by asking a general question that has not yet been systematically addressed in the literature: *What explains the variation in formality of an IIGO over time?* Using the descriptive and explanatory frameworks introduced in the previous chapters, this chapter answers a more targeted question: *Why did the FATF members compromise the informality of some dimensions and not others after 9/11?*

The period under study in this chapter (2001/2007) was marked by the context created by the 9/11 terrorist attacks committed on American soil in 2001 by Al Qaeda. These events redefined the priorities of the United States and its allies regarding the use of the FATF, which from that moment onwards was put forward as an organisation dealing with terrorist financing as well as money laundering (FATF, 2002). This chapter shows that 9/11 did generate an exceptional context for the FATF in which a number of institutional changes occurred, including some linked to the formality of the design of its dimensions. At this point in time, the homogeneity of preferences among the membership continued to be high; however, the need for further technical expertise grew, and institutional learning from the past on what levels of formality were working (or not) in different FATF dimensions was already available.⁸⁷

It shows that FATF's powerful members preferred informality over formality in the immediate aftermath of the terrorist attacks across all its dimensions. However, it also shows that FATF powerful members had to compromise on some of the initial informality in the dimensions of *scope*, *monitoring*, and *coordination unit*. Three factors influenced the increased formality in these three dimensions: (i) the *high heterogeneity of preferences* among the FATF members and the non-member states from which compliance was sought; (ii) the need for *greater technical expertise* from IOs' bureaucrats due to the expansion of the FATF mandate and its jurisdictional reach (developments unforeseen in the initial design); and (iii) the *institutional learning* gained in the past that the FATF's members could legitimately access information from countries in regions outside its membership through the FATF Regional Style Bodies (FSRBs).

⁸⁷ For instance, when 9/11 occurred, the FATF's members were not carrying out any mutual evaluations because they were engaged instead in collating the information and lessons learnt from the previous two rounds to improve the following one. This process was interrupted by the 9/11, and was influenced both by the entry of new countries into the FSRBs, and the inclusion of terrorism financing into the FATF's mandate.

The FATF's membership, decision-making, and enforcement dimensions remained as informal as they had been before the shock of 9/11, and the informal safeguards introduced by the FATF's founding members in these dimensions with larger distributional costs become clearer (e.g., the control over the decision-making that the steering group actually has).⁸⁸

Thus, this chapter shows that even in the wake of a shock of the size of 9/11, the FATF did not increase the formality of its entire design but only its scope of rules covered, monitoring, and coordination unit. Nonetheless, even in these three dimensions that increased in formality in the years after 9/11, informality was preferred in the immediate aftermath of the shock. For instance, even though in the years after 2001 more formality was granted to the scope of rules covered between 2002 and 2003, as will be shown in this chapter, the eight Special Recommendations on TF that expanded the FATF's mandate were drafted and agreed very informally. My findings also highlight that the FATF's powerful members did not compromise on informality after 9/11 in the two dimensions with the greatest distributional costs: the decision-making and the membership. Also, the findings show through the lack of action in the criticised dimension of enforcement that institutional learning alone may not be enough reason to increase the formality of a dimension if it is not a strong priority for the FATF's members.

The next section advances the context for the FATF's reforms between 2001 and 2007, highlighting the significance of 9/11 and restating the main variables of interest for this research. The chapter then moves on to analyse how the formality of the dimensions of scope, monitoring, and coordination unit were increased between 9/11 in 2001 and 2008. After that, it introduces how the FATF's membership, decision-making, and enforcement did not become more formal. The chapter finishes by summarising the main findings and their implications for the overarching argument of the thesis.

5.2 The FATF Context Between 2001 and 2007

The coordinated terrorist attacks that Al Qaeda perpetrated on US soil on the 11th of September 2001 had a huge impact around the world, as people watched the attacks in real time and the footage was repeated on news broadcasts for days. The fact that the hegemonic global power at that time had been attacked on

⁸⁸ The formality and design of the enforcement dimension, which had received substantial criticism for its dependence on a very informal blacklist, did not change; however, states stopped adding new countries to the blacklist. This was the first step ahead of the later changes discussed in the next chapter. In the meantime, the priority for the FATF's members was not so much AML compliance, but instead that countries around the world were acting on building and maintaining CTF frameworks.

its own soil (“if it was happening in the US, it could happen anywhere”)⁸⁹, the high number of victims (not just Americans but of numerous nationalities), and the fact that the attacks were perpetrated by a transnational terrorist group (not a national one, as had been happening in other countries),⁹⁰ were some of the reasons that led to the general shock among the international community that resulted in strong political support⁹¹ for the US in particular, and the new counterterrorism measures more generally. One of the counter terrorism areas which was boosted after 9/11 was the fight against terrorism financing (Clunan, 2006), which was soon incorporated into the FATF’s mandate.⁹²

I argue that most of the topics handled by IIGOs could also have been addressed in the already-established formal intergovernmental organisations (FIGOs), and that IIGOs were created because their informal designs carried some inherent benefits for those countries holding greater bargaining power during the design stage. This occurred in the case of the FATF both at the time of design and after 9/11.

To begin with, the FATF was established in 1989 when the United Nations (UN) was already dealing with the issue of global money laundering. A UN official who was already working on money laundering at the time recalled that the “creation of the FATF was a classic example of an intergovernmental organisation that was set up to do what some countries had tried to do through the UN but failed”.⁹³ At the same time, during the early years of the FATF its members reiterated that they wanted to maintain the organisation’s informal design: “The essential objective should be to maintain the informality which the FATF has adopted and to avoid a rigid bureaucratic approach” (FATF, 1991: 17).

When 9/11 occurred, the topic of terrorism financing was already being handled at the United Nations. In fact, the UN had already a sanctions regime to counter the financing of the Taliban and Al Qaeda, and a couple of years earlier had passed the UN Convention on the Suppression of Terrorism Financing (1999). After 9/11, the UNSC quickly issued Resolution 1373, an important part of which sets out measures to reduce TF. However, the US and its allies opted for the informal route of the FATF to put forward the 8 Special Recommendations on TF and to issue a global questionnaire to gather data on the present state of the world’s CTF frameworks. The FATF members were happy with the performance of the organisation to date in the field of money laundering: “By 2001, the FATF’s success as an anti-money laundering standard-setting body led to a significant change to its mandate. Following the terrorist attacks of 11 September 2001 in the United States, the FATF took immediate action and developed clear standards

⁸⁹ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

⁹⁰ Interview 1. Member State delegate to the FATF (State member). Summer 2020.

⁹¹ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

⁹² The FATF had only mentioned it as a form of criminal action that could be linked to money laundering cases, and as a national issue for some countries (FATF, 1996).

⁹³ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

to prevent terrorist financing.” (FATF, 2018:12). This mandate expansion brought changes to the FATF design.

As has already been explained, I argue that to fully understand an IIGO’s lifecycle, we can benefit from breaking them down into their different constituent dimensions. In the previous chapters I introduced six institutional dimensions that can be found in IIGOs: scope of rules covered, monitoring provisions, enforcement provisions, type of coordination unit, membership, and decision-making.⁹⁴ Table 5.1 compares how the different FATF dimensions were situated on the spectrum of formality before 2001 and between 2001 and 2007.


Level of formality in FATF dimensions		Before 9/11	At the end of the period 2001-2007
High - Very High			
Medium			Scope Coordination Unit Monitoring
Very Low- Low		Monitoring Scope Coordination Unit Enforcement Decision- Making Membership	Enforcement Membership Decision-Making

Table 5.1. FATF spectrum of formality before and after 9/11. Author’s creation.

I argued that each of the six IIGO dimensions could show different levels of formality, and theorised that such variation could be driven by: *the heterogeneity of preferences among powerful members, demand for technical expertise from international bureaucrats, and institutional learning.*

⁹⁴ A full description of the IIGO spectrum of formality can be found in Chapter 2, in Figure 2.2.

(i) Heterogeneity of preferences from 9/11 to 2007

When the FATF was first created, its most powerful members' preferences on the issue of money laundering were homogenous.⁹⁵ Then, within its first three years of functioning, the FATF included into its membership further relevant countries occupying key positions in the international financial system.⁹⁶ In fact, in 1992 the FATF stated that because "it had reached its goal of widening membership to all OECD countries and important financial centres at the time", it had decided "to stop accepting new members" (FATF, 1992: 18). The FATF's members further justified that decision to freeze the membership by linking back to the desired informality of its structure: "For an organisation that prides itself on its informality of procedure and ready ability to achieve consensus, this is clearly approaching the maximum membership possible" (FATF, 1992: 18). Thus, during its first years the FATF only accepted countries with similar preferences in countering the internationalisation of money laundering.

The events of 9/11 then reshaped the preferences of the US, the most powerful country at that time within the FATF membership. However, this redefinition of priorities and preferences did not necessarily translate into an increase in heterogeneity of these preferences across the other FATF members. In the words of one interviewee who was working on the anti-money laundering regime prior to 9/11: "The day after 9/11, everything changed in the regime. Going back to that period, it is impossible to overstate the political support that the US received after 9/11. It just burst everybody".⁹⁷ Thus, even after the shock of 9/11, the heterogeneity of preferences among the FATF's most powerful members remained low.⁹⁸ Thus, the homogeneity of preferences among powerful FATF members in 9/11 and in the years after continued to be high.

(ii) Demand for further expertise in form IOs bureaucracy after 2001

Despite the technical expertise it had needed since its founding to adequately deal with the issue of money laundering, the FATF did not rely on its own secretariat of international bureaucrats,⁹⁹ as this was

⁹⁵ The FATF was founded in 1989 by the G7 (the US, the UK, France, Japan, Canada, Germany, and Italy), and the Commission of the-then European Community (FATF, 1991), which later became the EU.

⁹⁶ During its first year of functioning, the period between 1989 and 1990 known as FATF I, eight more developed countries were invited to join: Sweden, the Netherlands, Belgium, Luxemburg, Switzerland, Austria, Spain, and Australia. A year after that, during FATF II (1990-1991), the Task Force decided to invite to their meetings, and to ask to endorse the 40 Recommendations issued in 1990, the nine OECD countries that were not present during the first period: Denmark, Finland, Greece, Iceland, Ireland, New Zealand, Norway, Portugal, and Turkey. All but Iceland became FATF members in December 1990 (FATF, 1991). In addition to these new members, The Gulf Cooperation Council, Singapore, and Iceland endorsed the FATF standards and became members in 1992.

⁹⁷ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

⁹⁸ At that time the G7, especially the US and the European countries.

⁹⁹ The work was mostly carried out by national officials, who are accountable to their own country's ministers and governments, and only attend the FATF when there are scheduled meetings (i.e., they are not based in Paris). This changed after 9/11 when apart from those national officials, both independent and endorsed staff were included in the secretariat. The secretariat staff is

something that state members explicitly wanted to avoid (FATF, 1991). Although a small secretariat was established with three people to assist FATF members in 1992, at the end of the day “practically all the work was carried out by state members, as the secretariat did not have the means or the capacity to actually get involved”.¹⁰⁰

However, soon after 9/11 its members incorporated the fight against terrorism financing into its scope of rules covered and activities (FATF, 2002). This, inevitably, brought an increase in the complexity of the FATF’s mandate and daily activities, as suddenly the organisation was tasked with simultaneously dealing with two issues rather than focusing on just one. Also, even though these issues can be addressed using similar means, they have their own particularities. Not even the FATF’s members were fully informed and knowledgeable about the technical detail of the differences between AML and CTF at that stage.¹⁰¹

Moreover, at the same time the FATF was opening its scope and monitoring its dimensions so that non-members could also contribute to discussions (including non-state actors). At the same time this created the need to coordinate a greater number of activities involving a larger number of actors, for which greater bureaucratic knowledge and experience was required.

(iii) Institutional Learning from 9/11 to 2007

From its founding onwards, the FATF established periodic reviews to discuss its direction and how its operations were being carried out, which became an important opportunity to include feedback from previous years to inform future decisions, and even in its beginnings, designers fed back from prior discussions in other forums. For instance, when the FATF first published its Recommendations its members incorporated points which had already been agreed in the Basel Statement of Principles (FATF, 1990: 16).¹⁰²

Although when 9/11 happened there was a lack of practice in dealing with terrorism financing issues, the FATF had been around for 12 years, allowing its members to exploit the mechanisms of the organisation that best fit their purpose while avoiding others, incorporating the lessons learned over the years. The experience of the organisation was used in two ways: first, by US officials who wanted to engage in CTF through the FATF, and who used its AML experience to leverage that decision (Zarate, 2013); and secondly,

Paris-based and works at the FATF headquarters every day, and both types of staff are accountable to all the FATF’s members. Nonetheless, those endorsed by their countries usually have a close relationship with them. The independent staff hired by the FATF have a less “political” profile and even though they are accountable to the FATF’s members, this is in a more abstract way. The three types are technical profiles most of the time so that the work gets done, but where they are based and their level of independence and accountability to the FATF varies.

¹⁰⁰ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

¹⁰¹ Interview 14. Member Delegate to the FATF at that time. Autumn 2020.

¹⁰² All the FATF’s initial members were present in those negotiations except Australia, Austria, and Spain (FATF, 1990:11).

to design reforms based on their previous experience such as using previously established evaluation procedures which had proved useful to them before (FATF, 2002, 2003, 2004, 2005, 2006).

Thus, the heterogeneity of preferences among powerful FATF members remained low, the need for further expertise from international bureaucrats increased, and the necessity of relying on past experience with which some AML parallels could be drawn grew in importance. In this context, the FATF increased the formality of its scope of rules covered, monitoring, and coordination unit, and maintained the informality of its membership, decision-making, and enforcement. In the next sections I develop how and why this occurred.

5.3 FATF Dimensions That Increased in Formality After 9/11

Between 9/11 and the financial crisis in 2008, the FATF dimensions that increased in formality were: (i) the scope of rules covered; (ii) the monitoring mechanism; and (iii) the coordination unit. As table 5.3 shows, these three dimensions were altered from the low end of the formality spectrum to present characteristics of medium-level formality.

Dimension	Before 2001	Between 2001 and 2008
Scope of rules covered	<p><u>Level of formality: Low</u></p> <p>Periodic reviews (only open to states)</p> <p>No records of deliberations</p>	<p><u>Level of formality: Medium</u></p> <p>Periodic reviews (open to members, associate members, observers, and non-state actors)</p> <p>Outcomes publicly available (although deliberations and input were not)</p>
Monitoring	<p><u>Level of formality: Low</u></p> <p>Periodic review (open to states and limited number of FSRBs)</p> <p>Evaluations carried out by state members</p> <p>Brief summaries of the evaluations made publicly available</p>	<p><u>Level of formality: Medium</u></p> <p>Periodic reviews (open to states, larger number of FSRBs, the IMF, and the WB)</p> <p>Evaluations carried out by state members, IMF, WB, and FSRBs members. Led by the FATF's secretariat</p> <p>Public common methodology Official version of full evaluations made publicly available</p>
Coordination Unit	<p><u>Level of formality: Very Low</u></p> <p>Small in size</p> <p>Only “assistance” functions</p>	<p><u>Level of formality: Medium</u></p> <p>Larger in size and delegated duties (gained representation role, coordination of monitoring, assistance in other dimensions)</p>

Table 5.2 Dimensions that increased in formality between 2001 and 2008. Author's creation, based on information from FATF Annual Reports from 1990 to 2009.

5.3.1 Scope of rules covered

When looking at the scope of rules and issues covered by FATF from 2001 to 2007, it is clear that members took two different courses of action with regard to their standards, collected since 1990 in the FATF Recommendations. First, in the extraordinary circumstances created in the immediate aftermath of 9/11, FATF members issued eight Special Recommendations on Terrorism Financing, which were decided very informally. Secondly, FATF members engaged in a more nuanced reform of the scope of rules covered by the organisation. This reform increased the formality of the design of the scope dimension by changing the processes through which the Recommendations were to be discussed and drafted in normal circumstances. I discuss both in the next paragraphs.

Less than two months after 9/11, in an extraordinary plenary held in Washington in October 2001, the FATF's members expanded the scope of the organisation by publishing Eight Special Recommendations on Terrorism Financing, which were to be added to its 40 existing Recommendations on Money Laundering (FATF, 2002).¹⁰³ The process by which these new standards were issued was very informal. The FATF's members could have called for a special plenary meeting just after 9/11, established some working groups, and opened up the text to consultation with the private sector or its FATF-Style Regional Bodies (FSRBs) - as they had planned to do before 9/11 for the revision of their Recommendations. Instead, they did the work informally in private *ad hoc* meetings, quickly, and without explaining how the deliberations took place or which members had participated (FATF, 2002).

The introduction of these Special Recommendations, along with many of the other reforms that took place after 9/11, was led by the United States (O'Neill, 2001). Even though the FATF had not worked on terrorism financing before, there were no huge discrepancies among members' views on the issue, as all were in a climate in which it was difficult to oppose counterterrorism measures without a very strong argument.¹⁰⁴ In the words of a national official involved at that time: "there was shock among the international community that resulted in an unprecedented degree of political support for the US".¹⁰⁵ There was, therefore, a low heterogeneity of preferences at that time among FATF members regarding initiating action against terrorism financing. Thus, the use of informality to issue the Special Recommendations on the aftermath of 9/11 was in line with the theorised expectation that powerful members prefer informality over formality and that the higher homogeneity of preferences among key members, the more informal the dimensions are expected to remain.

However, the climate generated by 9/11 was an exceptional circumstance that did not last forever. Between 2002 and 2003 the FATF's Recommendations, which had become the main international AML/CTF standards by then, were reviewed for the second time in its history. The process through which this revision was carried out increased the level of formality of the scope dimension from then on.

In comparison with the process of the previous revision in 1996,¹⁰⁶ when FATF members engaged in the 2002-2003 revision there were a number of processual differences that raised its formality: (i) the actors included in the discussion were greater in number and more diverse (rather than just members, the

¹⁰³ A 9th Special Recommendation was added in October 2004 (FATF, 2005), and because of that, after 9/11 references to Nine Special Recommendations instead of eight are common.

¹⁰⁴ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

¹⁰⁵ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

¹⁰⁶ When the FATF first expanded its scope from countering the laundering of proceedings from drug related crimes to money laundering more generally

later revision involved members, associates, regional bodies, and private sector representatives);¹⁰⁷ (ii) the FATF made public the decision to establish three working groups and an *ad hoc* group during 2001-2003 specifically for this task; and (iii) more IIGO bureaucrats were involved in the coordination of the processes. Also, the revised 40 Recommendations adopted in June 2003 were significantly broader in scope and detail than the 1996 Recommendations had been (FATF, 2004).

If we follow the spectrum of formality presented in Chapter Two, the scope dimension moved from the lower end of the spectrum to the middle ground during this review process. Nonetheless, even though a wide range of actors was consulted and a clearer schedule of meetings was published, the decision-making on what was to be included and what left out continued to lie with the FATF's states members. In fact, this reform was done in line with a "mindset from some powerful countries within the FATF membership".¹⁰⁸

I expected the scope dimension to increase in formality when there was a fear of cheating by other powerful members, or when its informality was generating reputational and legitimacy costs to its members. However, the findings show that the theorised causal mechanisms need to add some caveats as the increased formality of the scope dimension of the FATF after 9/11 was more complex than that.

When 9/11 happened the scope dimension behaved as expected, in that powerful countries with homogenous preferences will choose more informal designs. However, some months later the FATF members increased the formality of the scope dimension that would be used in normal times. This increase in formality requires the addition of some caveats to the theorised expectation about the scope dimension because it was the result of: a) the goal of the FATF's members to expand its jurisdictions outside its membership; b) the need to deal with a number of particularities related to the nature of terrorism financing and money laundering for which the technical expertise of other actors was required (e.g., banks) as a consequence of 9/11; and c) the knowledge that the best way to legitimately approach non-member jurisdictions was through a move to greater formality (after the success of the slightly more formal monitoring dimension in the previous years, compared to the criticism that the very informal enforcement had suffered); and as a consequence of the fast expansion of the FATF during these years, d) the increased number of actors involved also required greater levels of assistance from the IIGO's bureaucracy.

Evidence that the goal stated by the FATF members before 9/11 to achieve widespread endorsement of the FATF's standards and activities was important in the redesign of the scope dimension can be found in the

¹⁰⁷ The FATF launched a Consultation Paper on 31st May 2002 to which all interested actors could contribute until 31st August. More than 150 written comments were received in this exercise (FATF, 2003). Additionally, the private sector was consulted twice, in October 2002 and April 2003, before publishing the final version at the FATF June Plenary of 2003 in Berlin (FATF, 2003).

¹⁰⁸ Interview 14. Member Delegate to the FATF at that time. Autumn 2020.

annual reports dating from those years. In the words of the FATF (2002): “As the primary objective of its current mandate, the FATF is committed to promoting anti money laundering initiatives in all continents and regions of the globe” (FATF, 2002: 7). To achieve this, it had been agreed that: “the review process should be an open and transparent one, with involvement from FATF members, observers and FATF style regional bodies, as well as seeking input from the financial sector” (FATF, 2001: 20).

This was because the countries from which the FATF wanted to archive endorsement in general had less aligned preferences than the states within the membership of the organisation at the time. Indeed, the FATF’s priorities were not even “primary” issues for many of the countries from which the FAFT sought endorsement. This meant that the FATF’s members had to show credible commitment to the FATF and its policies, thus demonstrating that they were serious about compliance on ML and TF (Zarate, 2013). Also, because the FATF had just experience in the strong criticism the year before (2000) due to its blacklist, and its members knew that the Recommendations had to look somehow rule-based so that they were endorsed globally and its legitimacy was not challenged by non-members (FATF, 2001).¹⁰⁹

The decision to increase the formality of the scope dimension was also affected by the lack of expertise on counter-terrorism financing measures in the years after 9/11 (for which not even FATF members were fully prepared at the national level).¹¹⁰ The FATF had been created with staff whose knowledge mostly related to anti-money laundering¹¹¹ and the coordination unit was not strong enough¹¹² to provide technical input.¹¹³

Thus, the exceptional context created by 9/11 allowed the FATF’s members to handle the scope of rules covered in an informal way. However, they knew that if they wanted to expand their jurisdiction to non-members with which preferences were more heterogenous and maintain it in the long run (beyond the effects of the shock) they would need to increase the formality of the scope of rules covered to increase its legitimacy. Although they preserved the decision-making process as open only to FATF members in this area (i.e., they did not allow the discussion of standards or actions going against their interests), they did increase the number of actors invited to participate in the discussions about the Recommendations, including not only FSRBs members but also staff from other IOs and representatives from the private sector. Apart from lending greater legitimacy to the FATF Recommendations, as the standards all countries are expected to follow, this move also helped the FATF’s members to obtain the technical expertise and

¹⁰⁹ Interview 14. Member Delegate to the FATF at that time. Autumn 2020

¹¹⁰ Interview 14. Member Delegate to the FATF at that time. Autumn 2020.

¹¹¹ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

¹¹² Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

¹¹³ Interview 14. Member Delegate to the FATF at that time. Autumn 2020.

information that they needed to make their policies specific enough (as their own national officials lacked the necessary expertise at that stage).

5.3.2 Monitoring

The FATF's members decided early on that some type of monitoring was needed to assess the progress of its members in the adoption and implementation of the Recommendations (FATF, 1990). This task was pursued through an annual self-reporting exercise and a mutual evaluation of national AML frameworks carried out among FATF members every 4-5 years (FATF, 1991). The decision to slightly formalise the monitoring dimension was made to allow FATF members to show their commitment to the organisation and its mandate to the world, as the following quote shows: "These decisions, perhaps unique to bodies of this kind, assure the global community that the major financial centre countries are truly determined to adopt and implement effective countermeasures against money laundering" (FATF, 1991: 3).

When 9/11 took place, the FATF's members used the two types of monitoring that it had been using for years, but with some differences. While a self-reporting questionnaire was used to collect data on national CTF frameworks both inside and outside the FATF membership, mutual evaluations were used as a departure point to create and advance a more formalised monitoring dimension (FATF, 2002, 2003). Thus, just after 9/11, the FATF launched a self-assessment questionnaire to survey the state of preparedness of their members' legal systems for the fight against terrorism financing (FATF, 2002). Again, as had happened with the standards, the associated questions were discussed quickly among the FATF's full members without a formal process, and some parts were drawn from already-agreed language among powerful countries, as collected in UNSC Resolution 1373 (2001).

With a membership of 31 members at the time, the FATF ultimately received assessments from 130 countries (FATF, 2002). It was a practice that built on the lessons learned over the previous ten years of asking its own members to self-evaluate and collect their data on legal and financial matters related to money laundering through a "compliance grid" (FATF, 1991: 3). The informality with which the questionnaire was drafted solely by FATF members in unrecorded *ad hoc* meetings is in line with the expectation that these decisions will remain informal when there is homogeneity of preferences among powerful members, as was anticipated in my initial theorisation and argument. In this case, it also meets the expectation that when a dimension is deemed to be working, the same level of formality will be maintained.

In the aftermath of 9/11, however, the FATF also initiated discussions with the International Monetary Fund (IMF), the World Bank (WB), and the FATF-Style Regional Bodies (FSRBs) about a common methodology with which to carry out mutual evaluations (FATF, 2002). As a result, a reform of the mutual evaluation process was carried out, since which time the formality of the monitoring dimension has been notably higher, as: (i) the process began to be executed with partners outside the FATF membership; (ii) the FATF published a public and detailed methodology that is periodically reviewed accounting for the input of all actors involved; and (iii) it now generates and publishes mutual evaluation reports presenting the main results of the monitoring process.

Some thinking about the need to develop a common methodology on anti-money laundering was already on the table before 9/11, but the attacks on the US sped up such collaboration (FATF, 2002: 15), as the FATF report from 2001-2002 indicated: "In partial response to the events of 11 September 2001, the International Monetary and Financial Committee and World Bank Development Committee endorsement, in November 2001, enhanced participation by the IMF and the World Bank in anti-money laundering work" (FATF, 2002: 15-16). From November 2001, the IMF, the WB, and the FATF worked closely together to develop a common methodology, and FSRBs were also invited to participate in the conversations (FATF, 2002).¹¹⁴

Although all these changes moved the dimension of monitoring higher along the spectrum of formality, it did not reach the maximum level and remained somewhere in the middle, as had also been the case with the organisational scope. As had happened with the FATF's scope, the formality of the monitoring did not increase due to a lack of trust among allies within the FATF. However, there was recognition of a high heterogeneity of preferences between the FATF's powerful members on the one hand and the non-member countries on the other. Again, the FATF's members had learnt from past experiences that if they wanted global compliance, they needed to show that they were serious about AML/CTF and establish some type of monitoring which was legitimate enough not to be challenged (as had happened with its blacklist in previous years).

Furthermore, the FATF rapidly increased the number of countries subject to evaluations after 2001, a process which carried human, material, and technical costs that the FATF would have not been able to

¹¹⁴ This common methodology was first piloted by the IMF and WB between October 2002 and October 2003, and was finally presented and adopted by all by 2004 (FATF, 2004). The methodology was adopted by the FATF Plenary in February 2004 and endorsed by the IMF and WB in March 2004 (FATF, 2004: 13). The FATF started its third round of mutual evaluations in January 2005 -four years later than scheduled, and six years after the second round had finished (FATF, 2005). After that the FATF also published the "Handbook for Countries and Assessors" which set out the necessary instruction and guidance for those involved in the evaluations (FATF, 2006).

meet alone.¹¹⁵ They did not have enough staff or national officials to cover all the jurisdictions, they did not have the budget to cover the visits and the extra working hours, and they did not necessarily have the AML/CTF expertise.¹¹⁶

I also expected the monitoring dimension to increase in formality either when there was distrust among powerful FATF members or when there was evidence that increased formality would help the organisation to achieve its goals. In this case, the second mechanism was stronger. The FATF mutual evaluations had worked well for the FATF members during the last ten years, and the FATF members used their experience to negotiate a more global monitoring system with its partners (IMF, WB, FSRBs). Evidence of this is that the new monitoring methodology built on the type of mutual evaluations that FATF members had already designed when the organisation was first created.¹¹⁷ According to the FATF report from 2003, this methodology was also based on the text of the FATF's 40 Recommendations, as well as on work done by the Basel Committee, the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors principles (IAIS) (FATF, 2003).

The FATF's members built upon the prior experience of the FATF in carrying out mutual evaluations. Moreover, FATF members also relied on the experience of the IMF and WB in surveying states' financial sectors and used language already accepted by other financial institutions. They also shared the costs with formal IGOs with larger budgets. Thus, by increasing the formality of the monitoring dimension, the FATF's members achieved greater leverage to assess non-member countries, split costs, and drew on expertise from international bureaucrats outside its own secretariat.

5.3.3 Coordination unit

Efforts to counter money laundering require the input of staff with detailed technical expertise. In this context, the FATF could have established a coordination unit by hiring independent staff with expertise both in the technical aspects of money laundering and in the management of international cooperation programmes, as many formal IGOs do. However, it was decided that such expertise would come from the national officials of state members (e.g., from different sources such as treasury ministries or law enforcement agencies) in order, as explicitly stated by the FATF's members, to avoid developing a rigid

¹¹⁵ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

¹¹⁶ Interview 14. Member Delegate to the FATF at that time. Autumn 2020

¹¹⁷ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020

bureaucracy (FATF, 1991: 17). All of the individuals involved in the FATF's daily activities were national officials from the member states in the early 2000s.¹¹⁸

Nevertheless, and even though the FATF navigated its two first years without any sort of IIGO bureaucracy under the Chairmanship of France, back in 1991 the Task Force had decided that the FATF presidency would rotate every year and that a small secretariat should be established in Paris within the OECD headquarters. Those who were at the FATF decision-making table during the 1990s confirm that the secretariat was tasked with a role of “assistance” of its members, as the member states were the ones actually compiling the reports and the secretariat at that time comprised only a couple of low-paid staff.¹¹⁹ This is reinforced by the early public claim made by the FATF itself that the budget should follow the OECD contribution formula, but that the “size and cost of this secretariat should be extremely limited, probably in the range of 2 to 4 million francs each year”¹²⁰ (FATF, 1991: 19).

However, immediately after 9/11 the assistance from the secretariat sharply increased (as it was tasked with coordinating the data from the self-reported terrorism financing reviews) and in the following years, the FATF's members started to delegate more functions to this body, thus increasing its formality. After 9/11, the first time the budget of the secretariat was made available (in 2004) it was already 1,636,000 Euros (three times the maximum established when the secretariat was initially designed) (FATF, 2004). Not only had its size and budget increased, but the secretariat's structure and the tasks in which it was involved had expanded too. It went from having to prepare the monitoring reports “with the supervision of the FATF (members)” (FATF, 1991: 18) to monitoring assessments which, even though most continued to include national experts, were led by at least two members of the secretariat after 9/11 (FATF, 2006: 6).

The increased formality of the FATF's coordination unit could also be observed through the establishment of a clear organigram showing which staff had been hired for each different function of the Secretariat (this was made public) (FATF, 2004). In 2006, the Executive Secretary thanked the FATF's members for “substantially increasing their contributions” and added: “with the arrival of these new staff

¹¹⁸ “In addition to Summit Participants (G7+ Commission of European Communities) eight countries (Sweden, the Netherlands, Belgium, Luxemburg, Switzerland, Austria, Spain and Australia) were invited to join the Task Force, in order to enlarge its expertise and also to reflect the views of other countries particularly concerned by, or having particular expertise in the fight against money laundering, at the national or international level” (FATF, 1990:3)

¹¹⁹ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

¹²⁰ With an exchange rate of 1 Euro = 6.55957 Francs, this would be around 609,796 Euros. <https://www.xe.com/currencyconverter/convert/?Amount=4000000&From=FRF&To=EUR>

members at the FATF Secretariat, we believe that we will now have the appropriate level of human resources to better support the work of this organisation” (FATF, 2006:7).¹²¹

This increased formality was prompted by the increased need for technical expertise that the evolution of the scope and the topics included within it generated, and the growing role of the organisation within the broader international community. In fact, in October 2007 the FATF expanded its secretariat once again, in order to “ensure sufficient personnel are in place to meet the demands” (FATF, 2008: 17). Thus, the expectation was that the increased complexity of the issue was being met, boosting the importance and relevance of the organisation more broadly (Zarate, 2013: 31). Again, as was the case with the scope and monitoring dimensions, this dimension was shifted to a higher place on the spectrum of formality without reaching a maximal level of formality, as many activities delegated to the FATF continued to be tightly controlled by state members. Further, although its structure became more formalised than it had been at the beginning, it continued to be far more informal than those of FIGOs, as the responsibilities delegated to it were not written in stone and could have been revoked at any time.

Thus, after 9/11 the FATF did increase the formality of its secretariat because it was necessary to adapt to the new mandate of the organisation and its expansion outside the membership. Members retained strong control over most of the daily activities, but some of these needed to be delegated which resulted in an increase of formality of the FATF Secretariat. This was in line with the theorised expectation that an increase in the complexity of the issue will increase the need for technical expertise and contribute to the increased formality of the coordination unit dimension.

This section has made three observations. The first is that in the aftermath of 9/11, the FATF’s members preferred informality over formality in all its activities. The second is that they compromised some informality in the dimensions of scope, monitoring, and the coordination unit, in order to show a credible commitment to the AML/CTF legislation, to create a network with sufficient legitimacy to achieve global jurisdiction, and to continue dealing with high technical topics for which they had not expertise. The FATF’s members chose to formalise the more technical dimensions, as doing so was not a direct threat to their control over the organisation. It allowed FATF members to gain technical information that would otherwise be costly, and granted some space to weaker states to put make their voice heard during the evaluations and drafting of standards. The third highlighted point is that the formality of the coordination unit increased because FATF members saw they had “no choice” but to formalise if they did not want the

¹²¹ In these years, the secretariat’s staff intensified their attendance and contacts with the FSRBs and increased the FATF’s representative roles, strengthening its links with other IOs (FATF, 2003). It also started to host visits from regional organisations and was in charge of liaising with the FATF’s partners on an ongoing basis and dealing with the public representation of the organisation to the media when required (FATF, 2007).

organisation to collapse in the short term. At that stage their priority was the expansion of the organisation, and its new mandate was overwhelming the people working at the FATF, hence the need to increase the formality of the coordination unit (contrary to the initial preferences of the FATF's founding members).

5.4 Dimensions that Remained Informal after 9/11: Membership and Decision-making

The formality of the membership, decision-making, and enforcement dimensions did not change during this period. In each of these cases I found evidence supporting the theoretical expectation that the membership and decision-making dimensions would be slower to reach a higher formality due to their higher distributional consequences (even in a time when the organisation made more reforms than usual). However, the expectation that the formality of dimensions suffering hard criticism would increase was not met in this period in the enforcement dimension. This does not mean that institutional learning did not play a role in the formality of this dimension, as it would do so at a later point in time, but the failure to meet the expectation was because the FATF was operating in an exceptional time after 9/11 in which the blacklist in ML was not a priority.

5.4.1 Membership rules

Since its beginnings, the FATF had made explicit that the best strategy to counter money laundering was to persuade as many countries as possible to endorse (and implement) the FATF's Recommendations (FATF, 1990, 2018). However, this did not mean that its members intended to pursue a universal membership. The strategy followed by the FATF members was instead to maintain a small membership, consequently limiting the number of countries that could participate in the overall decision-making, while seeking jurisdiction over non-state members through the creation of FATF-Style Regional Bodies (FSRBs).¹²² In practice, this meant that they had to comply with the FATF's policies and contribute (at least with human capital) to practices such as the mutual evaluations, but were not given a voice in the direct decision-making of the FATF in return.¹²³

¹²² This consisted of establishing regional bodies around the world to endorse the FATF policies and adhere to its activities, in a way which indirectly binds their member states to the FATF's decisions.

¹²³ Some delegates from the FSRBs countries received limited invitations to the plenary sessions (FATF, 2006: 5) in order to pursue the "increasing ownership of FATF strategies to fight money laundering and terrorist financing by these non-FATF member countries" (FATF, 2006: 5). However, "although the mechanism was put there their voice was only heard when opinions were in line with FATF members objectives". Interview 10. FSRBs Secretariat Staff. Autumn 2020.

When the FATF carried out its early expansion during its first year, non-written criteria were established to decide which countries could and could not join. Then, in 1992, the FATF members decided that they would not accept any new countries (FATF, 1992). This remained the case until 1998 when the FATF stated that it was “time to expand its membership to a limited number of strategically important countries which could play a major role in their regions in the process of combating money laundering” (FATF, 1999: 34).

The criteria to access the FATF were publicly spelled out for the first time in 1998, but were very general and open to interpretation. Even though criteria were there, the accession process was unchanged and continued to be very informal.¹²⁴ In the end, Mexico, Brazil, and Argentina joined the FATF. The entire process occurred through *ad hoc* meetings that were not recorded, and little information on the conditions attached to membership were made public. Moreover, as was explained by a national official involved in the FATF at the time, many meetings were held with only some members of the organisation present, usually those with the strongest diplomatic relations with the countries being brought on board.¹²⁵

After 9/11, the same public membership criteria as those published in 1998 were used, and the first two new members post-9/11 were invited to join the FATF: South Africa, and Russia (FATF, 2003). The admission of South Africa can be best understood with reference to the FATF’s need for direct representation on that continent (as previously there were no African states members), and to the fact that this country was considered “a regional financial centre with a modern financial system and banking infrastructure” (FATF, 2003: 15).¹²⁶

The process of Russian accession involved negotiations which touched upon different topics and took some time; they were again staged in *ad hoc* meetings, and did not involve the whole membership.¹²⁷ Russian membership was pursued by the US, and was also strongly supported by the German Presidency (Zarate, 2013: 162).¹²⁸ Most of the meetings were not official and were not held in the FATF’s headquarters; in fact, many of them were in Russia and directly involved Viktor Zubkov,¹²⁹ Ted Greenberg,¹³⁰ Danny

¹²⁴ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020. A full list of the criteria can be found in the FATF Annual Report 1997-1998 page 34.

¹²⁵ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹²⁶ At that same time the FATF made further moves related to expansion in this region; for instance, in the same year in which South Africa joined the FATF the African Development Bank was granted observer status (FATF, 2003).

¹²⁷ During the 1990s Russia had been a centre for money laundering (along with other organised crime, including those related to the arms trade), with a banking system which was still almost entirely unregulated following the collapse of the USSR in 1991.

¹²⁸ For a more detailed account of the US approach towards the inclusion of Russia in the FATF, see former senior Treasury and White House official Juan Zarate’s book “*Treasury’s War: The Unleashing of a New Era of Financial Warfare*” (2013).

¹²⁹ At the time, a future Russian prime minister. He assumed that position in 2007 after these negotiations, demonstrating a political closeness to Vladimir Putin.

¹³⁰ Former head of the US Department of Justice’s anti-money laundering section.

Glaser,¹³¹ and Juan Zarate¹³², all high level officials from Russia and the US who enjoyed the trust of their respective heads of government (Zarate, 2013: 160). As a result of these conversations, the negotiators first had to work out a way to get Russia delisted from the Non-Compliant Countries and Territories List (Zarate, 2013: 159-163). Secondly, the FATF members granted to Russia the role of leading and establishing a FATF-style regional body, the Euroasia Group (established in 2004), which would include Belarus, China, Kazakhstan, Kyrgyzstan, and Tajikistan.¹³³ In this way, some control over the FATF was shared by the FATF initial members with Russia, in exchange for its participation in the AML/CTF framework that the organisation was aiming to establish globally.

At the same time, the FATF started and intensified conversations with the government in Beijing in order to negotiate the entry of China into the FATF (FATF, 2003). The inclusion of China was presented as an “important step for the FATF which would like to include among its members the most important jurisdictions of the international financial community” (FATF, 2005: 4), but there are (once again) almost no records from those negotiations which, again, mostly happened in *ad hoc* meetings. There were high-level missions to China headed by the then-President of the FATF, Jean-Louis Fort of France, and further FATF delegations travelled to Beijing, proactively seeking China’s membership of the FATF, which also meant that China was expected to update its money laundering framework (FATF, 2006: 4).

Although new (and powerful) countries were added to the FATF membership at around this time, the rules of admission and the process through which entry was negotiated were maintained at the lower end of the spectrum of formality and did not change over the years. When the case for these countries to enter the FATF was presented to the plenary, bargaining had already taken place in informal *ad hoc* meetings and during high-level visits involving some FATF members more than others, and agreement was often achieved by high-ranking national officials from the most powerful members within the FATF.

The fact that the new members included Russia and China was not accidental, as the FATF had identified the necessity of bringing them “into the fold of the leading financial centres to give them a stake in the legitimacy, transparency, and defence of the international financial system. This meant that we needed to incorporate both countries into the Financial Action Task Force system deliberately - and make sure that they felt they had a leadership role in maintaining international standards” Zarate (2013: 159).

¹³¹ Former Assistant Secretary for anti-Terrorist Financing at the United States Department of the Treasury.

¹³² Former senior Treasury and White House official.

¹³³ This was an important way for Russia to demonstrate that, along with China, it was leading the anti-money-laundering reforms taking place in Central Asia (Zarate, 2013: 162).

By doing this, and sharing some of the power over the organisation, the FATF's members were anticipating that the membership of these countries (especially China, as its economic and international power was rapidly increasing) could provide more credibility to the FATF and incentivise their allies to join (Zarate, 2013; 159). Also, this would reduce the likelihood of a discontented state or group of states establishing a different organisation or increasing pressure to move the topics from the FATF into other forums. For example, Russia has already been very belligerent in the UN before becoming an FATF member in the issue of ML. In fact, they had tried to establish an AML UN Convention, that would compete with the FATF Recommendations.¹³⁴

Because the FATF's founding members had designed the membership dimension to be very informal at the start, and as it had since been led by the most powerful member states without undermining the function of the organisation, it was expected that this dimension would not be further formalised, as was in fact the case during these years. Moreover, from the beginning the FATF's membership dimension was designed to include high political officials. Although in the scope dimension law enforcement agents could contribute to the drafting of a given Recommendation, it was mostly high ranking officials which managed the accession of new member states, and negotiations were not only about AML/CTF but were carried out in a broader diplomatic context. With the entry of China and Russia and sharing some power with them, the FATF was not just opening the door to countries in regions that would have otherwise been very difficult to access, but was also minimising the risk that those countries pursued their own organisation or threatened the legitimacy of the FATF in a direct and serious way.

Even though the powerful founding FATF members (the G7, led by the US) had to share some power within the FATF in order to bring in new members, their own demands, interests, and design preferences were not visible until the next period of time, as they needed time to bed in. Then, as we will observe in next chapter, the financial crisis did indeed shift some power over the organisation to FATF newcomers such as China, balancing its interests with those of others such as the US or the UK. Nonetheless, the strategic decision to bring these countries and not others that were requesting full membership but were less important politically and economically, will help the FATF cushioning the broader power shift that occurred around the time of the financial crisis in the international community.

5.4.2 Overall decision-making

In order to assess why the FATF did not further formalise its decision-making, it is necessary to look at the three main channels through which decisions about the overall direction of the IIGO had been taken since

¹³⁴ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

1991. These are: a) the plenary – which is the official forum at which new decisions are passed or rejected; b) the presidency - which has the power to set the agenda for the year and to convene meetings; and c) the steering group - a small group of state members that informally advises the presidency both during periodic scheduled meetings and across the rest of the year.

In its early years, the FATF’s presidency rotated every year, and even though it was established with the claim that a geographic balance should exist in the rotation (FATF, 1991), during the early years most of the countries that held the presidency did so because they put themselves forward as volunteers.¹³⁵ Although this position brought some perks,¹³⁶ not all countries were in a position to afford the costs, or indeed were interested in doing so at the time.¹³⁷ After 9/11 the president was chosen in the same way, even though more countries started to express interest in holding the position.¹³⁸ The only change to the presidency in this time period in comparison to the early years of the FATF was that its representation duties increased (FATF, 2003). Nonetheless, this did not translate into more formalised working practices or processes to access the presidency, nor were the duties institutionalised (as they continued to depend on the country holding the presidency and the steering group’s preferences).

The plenary was established and framed in the early 1990s as the official forum in which deliberations would take place. In 1994 the FATF stated that the plenary should be strengthened (FATF, 1994: 7). However, while creating this “official” decision-making body which was more visible to those outside the FATF, the members left the door open to more informal meetings when members considered these necessary: “*ad hoc* groups might be created to carry out specific tasks in line with specific terms of reference approved by the plenary” (FATF 1994: 7). All the interviewees who participated in this research agreed that all decisions - even at the present time (2021) - are really taken beforehand, and that surprises in the plenary are “very strange”.¹³⁹

Less visible but more crucial in decision-making - both before 9/11 and after - was the FATF steering group, a smaller group than the plenary created to support the FATF president which in the early years included representatives of the presidency, the presidency for the previous and the following year, and the chairmen of the working groups (FATF, 1992). Those positions in the first year overlapped with the G7 (i.e., the founding members). Over the years, the steering group’s composition varied in order to

¹³⁵ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

¹³⁶ For example: establishing the agenda and priorities for the given year, controlling the conversation in the plenary, and starting certain initiatives. Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹³⁷ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹³⁸ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹³⁹ Interview 9. Member State Head of Delegation to the FATF, Autumn 2020; and Interview 18. Member State Head or part of their national Delegation to the FATF. Autumn 2020.

include new powerful members, but its function has always remained the same: “deciding the key important matters”.¹⁴⁰

The steering group is the clearest safeguard that the FATF founding members established when they designed the overall decision-making structure of the organisation. It ensured that most key decisions would be taken by a small number of countries in a group in which consensus would be easier to reach, and represented an internal structure allowing the most powerful members to always have a greater say.¹⁴¹

Thus, despite sharing some of this space with some of the new powers entering the membership, the decision-making dimension continued to be as informal as in the past. While the presidency and the plenary’s actions were more visible, most of the work of the presidency was not explicitly spelled out or publicised, and most events in the plenaries had previously been decided by the steering group, allowing those holding greater power within the FATF to continue exercising asymmetric control over it (as they were the ones with access to the steering group)¹⁴². Through this structure, the FATF’s founding members maintained tight control over the direction of the organisation both before and after 9/11, without that control being publicly criticised because they used the plenary to take the “official” decisions.

5.4.3 Enforcement

The expectation that any dimension perceived to be directly harming the legitimacy of the organisation due to the informality of its design would become more formal was not met in the case of the FATF enforcement dimension and its blacklist in the period of intense change which followed 9/11.

Since its founding, the FATF has taken the view that because of the nature of the issues it is addressing, any country that did not adhere to the Recommendations could become a weak link in the global financial chain, meaning that criminal activity and, hence, money laundering would be likely to be redirected there (FATF, 1991: 10-16). However, because of its design as a task force, the FATF has faced numerous difficulties in issuing formal sanctions in the way that other organisations such as the UNSC could do. Therefore, the FATF soon stated that it needed to put in place initiatives that would generate peer pressure in pursuit of a wider endorsement of its standards among non-member jurisdictions. One of the constituent parts of this peer pressure strategy is the monitoring described above, and another is the creation of a public “blacklist”.

¹⁴⁰ Interview 18. Delegate to the FATF (State Member). Autumn 2020

¹⁴¹ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹⁴² Interview 9. Member State Head of Delegation to the FATF, Autumn 2020; and Interview 18. Delegate to the FATF (State Member). Autumn 2020

The first public document resembling a blacklist (although the FATF did not use that term at the time) did not appear until February 2000, due to the lack of consensus among the membership until then (FATF, 1991: 16). The FATF first established an *ad hoc* group to discuss the steps that they would take (1998), and announced that they also planned to assess non-members: “the scope of the group’s work covers all significant financial centres, both inside and outside FATF membership” (FATF, 1999: 35). This *ad hoc* group, led by the US, then developed 25 criteria¹⁴³ with which to assess the selected countries, and soon after that, as was mentioned above, the FATF published its first list (FATF, 1999).¹⁴⁴ The FATF called this listing process the Non-Cooperative Countries and Territories (NCCTs) Initiative (FATF, 2000).

Despite their attempts to present this project as an initiative ensuring “openness, fairness and objectivity” (FATF, 2003: 25), it was neither formal nor transparent, and practically no opportunities were given to other actors to contribute. Looking at the list now, we can observe that the FATF’s main targets with this initiative were offshore centres.¹⁴⁵ In fact, interviewees who were present at the time agreed that there was a lack of transparency and that clear criteria underpinning the establishment of the list were absent. Furthermore, they soon realised it was not well received:

“It was a shock for everyone concerned, because it was completely non-transparent; it was the first time it had been done, countries were basically threatened and prevented from having relationships with the financial system, so the economic consequences of being listed had the potential to be dramatic.” Interview 14.¹⁴⁶

Another interviewee went further, explaining that this type of mechanism could never have appeared in other international organisations forming part of the regime, such as the UN (which in 2000 was the only other important IGO actually focusing on the issue):

¹⁴³ The list of the criteria can be found in Annex 1 of the initial FATF Report on Non-Cooperative Countries and Territories (14th February 2000). Available here: https://www.fatf-gafi.org/media/fatf/documents/reports/Initial%20Report%20on%20NCCTs%202002_2000.pdf

¹⁴⁴ Between 2000-2001 a total of 23 jurisdictions were included, but after 9/11 all the actions taken were to delist territories, until June 2006 when Nigeria, the last member under watch, was finally delisted (FATF, 2004, 2005, 2006).

¹⁴⁵ Antigua and Barbuda, Bahamas*, Belize, Bermuda, British Virgin Islands, Cayman Islands*, Cook Islands*, Cyprus, Dominica*, Gibraltar/Guernsey/the Isle of Man and Jersey, Israel*, Lebanon*, Liechtenstein*, Malta, Marshall Islands*, Mauritius, Monaco, Nauru*, Niue*, Panama*, Philippines*, Russia*, St. Kitts and Nevis*, St. Lucia, and St. Vincent and the Grenadines* all appeared in the first report. These were all the countries which were assessed, and those marked with an * above are the ones appearing on the first “FATF blacklist”.

¹⁴⁶ Interview 14. Member Delegate to the FATF at that time. Autumn 2020

“The NNCTC was outrageous - that could never happen at the UN”,¹⁴⁷ that cannot grade countries as “good and bad”. Interview 19.¹⁴⁸

Given the considerable criticism the first blacklist faced, I expected that FATF members would increase the formality of the enforcement dimension so that the blacklist did not continue to threaten the legitimacy of the FATF. The previous criticism had been notorious, and most of it related to the informality and lack of institutionalisation of the FATF’s enforcement activities. However, the FATF did not move to increase the formality of this dimension even when 9/11 happened and all the reforms began, even though it might have been seen as a great window of opportunity to execute “yet another reform”. Instead, the FATF stopped adding new members to this initiative and left it to lapse. All the listings happened before the shock, and afterwards the FATF limited its work in this area to improving the national frameworks of the listed territories with the aim of delisting them. In the end, instead of increasing its formality, after the last country was delisted in 2006 the initiative was regarded as finished.

It is important to look at the role of the blacklist in context. The first blacklist was issued before 9/11 and was only focused on money laundering. When 9/11 occurred, the FATF members’ priorities were redefined and energy, effort and resources were devoted to boosting the fight against TF. Thus, they did not necessarily need a blacklist of countries that were not cooperating in ML any longer, as TF was also part of the mandate (and at that time it was being prioritised). More importantly, before reaching the stage of assessing compliance in both AML and CTF, they needed CTF policies to be well integrated in the FATF standards and spread around the world.

Eventually the FATF’s members started to work on the design of a new blacklist soon after the NNCTC initiative was over, and it was officially relaunched in 2009. This process took several years, but it did incorporate some of the feedback from the previous experience.

This section has shown that the FATF’s members maintained the decision-making and membership dimensions at very low levels of formality. While the membership could have been formalised, as had been done with the FSRBs, they preferred to maintain the main FATF membership process on a very informal basis, so that negotiations with prospective new members could be micro-managed. The overall decision-making structure was also maintained at a very informal level, and while the plenary was presented as the official forum to take decisions, all such decisions had already been agreed in the steering group. These two dimensions included informal safeguards such as the steering group in the case of the decision-making,

¹⁴⁷ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

¹⁴⁸ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

and the practice of only including high ranking officials from only some member states in the membership negotiations, that were introduced by the FATF members in the initial design and preserved during this time. The lack of transformation of the enforcement dimension can be explained with reference to the broader institutional context and the redefinition of interests after 9/11, as institutional learning alone was not enough to increase the formality of this highly criticised dimension.

5.5 Summary of Findings and Conclusion

Even though the monitoring dimension was designed to be slightly more formal than the rest of the dimensions when the FATF was first built, they all had very low levels of formality at the time of design. However, as this chapter has shown, the formality of some dimensions increased over the years, having been precipitated or influenced by 9/11. This chapter has presented how the scope, monitoring, and coordination unit arrived at a medium level of formality, while membership, decision-making and enforcement were maintained with low formality. Table 5.3 summarises the exact process through which each of the FATF dimensions were either formalised or not between 2001 and 2008. After that, I recapitulate the main findings of this chapter and the implications for my theory.

Dimension	Process	Level of formality after 2001		
		Low	Medium	High
SCOPE <i>Formality was very low at the time of design</i>	1] Special Recommendations: 9/11 occurs > redefines priorities of the US and allies > low heterogeneity of preferences among FATF members > Special Recommendations are discussed with the lowest level of formality.	149 ✘		
	2] Revision of the FATF Recommendations (2002-2003): 9/11 occurs > reinforces need to bring in others > increased complexity of the issue + larger number of participants with a higher heterogeneity of preferences + need to preserve legitimacy > results in a more formal process.		✘	
MONITORING <i>Formality was low at the time of design (but slightly more formal than the rest)</i>	1] Self-Reporting Assessment: 9/11 occurs > redefines the priorities of the US and allies > low heterogeneity of preferences among FATF members > the questionnaire is designed with the lowest level of formality > its application is expanded to non-members.	✘ ¹⁵⁰		
	2] Mutual Evaluation Process Review: 9/11 occurs > prompts conversations with other IGOs > expansion to new jurisdictions > increases the monitoring costs > increases the need for further expertise > knowledge that greater formality helps with monitoring > a new monitoring process is established with a public and shared methodology and the involvement of a larger number of actors > the secretariat starts to deal with this more formal dimension.		✘	
COORDINATION UNIT <i>Formality was very low at the time of design</i>	9/11 > changes to the mandate of the FATF > expansion to more states and actors > need for further expertise on ML/TF > need for further expertise coordinating international cooperation with diverse actors > the FATF delegates more duties to the secretariat.		✘	
MEMBERSHIP <i>Formality was very low at the time of design</i>	9/11 intensifies FATF members' efforts to bring in South Africa, Russia and China > negotiations with prospective members handled very informally.	✘		
DECISION-MAKING <i>Formality was very low at the time of design</i>	The decision-making of the FATF has a more visible face (presidency and plenary) than other parts of the dimension that are more informal (steering group) > most (important) members had always used the steering group and after 9/11 continued to do so > the FATF founders established a system ensuring that they would always be present in this body > no change during this period.	✘		
ENFORCEMENT <i>Formality was very low at the time of design</i>	The enforcement mechanisms, a blacklist of non-compliant jurisdictions received numerous criticisms before 9/11, most related to the informality and lack of transparency of the process > when the FATF underwent a number of reforms after 9/11 this dimension's design was not changed or formalised to overcome criticism.	✘		

Table 5.3 Summary of results. Author's creation.

¹⁴⁹ Under the extraordinary circumstances created by 9/11.¹⁵⁰ Under the extraordinary circumstances created by 9/11.

All in all, by the end of 2007 the scope, monitoring and coordination unit dimensions of the FATF had all reached a medium level of formality. Meanwhile, the membership, decision-making, and enforcement dimensions were maintained at a low level of formality similar to when they were first established. The chapter has also shown that the FATF's design as an IIGO allowed those holding greater power over the organisation to put forward measures under extraordinary circumstances which were decided with great informality, and without considering the perspectives of the majority of actors involved.

While the FATF's members were able to maintain the informality of the dimensions with higher distributional costs after 9/11 (membership and decision making), the wish to expand beyond the membership and make the FATF the leading CTF organisation (on top of AML) compelled the FATF's members to make some concessions in the formality of the more technical dimensions for the long term (the scope, monitoring, and coordination unit). Nonetheless, the FATF reaction to 9/11 showed that its design as an IIGO was crucial to create global policies and survey countries very quickly. This, as we will in the next chapters, was considered by its members as a great ability to transpose the content of UNSC resolutions into more practical terms. These findings not only highlight the relevance of IIGOs in general but their potential suitability to adapt to strong shocks in particular.

The findings of this chapter also contribute to refine the relationship between power dynamics and the FATF design, as it could be said that during this period there was a dimensional interchange among countries with different capabilities. I mean, while powerful members made some concessions in more technical dimensions to provide some benefits to weaker countries (members and associated states), they retained tight control over dimensions with more distributional costs associated. For instance, weaker participants were allowed to participate in deliberations on the scope, and gained weight in the review of their domestic AML/CTF. However, the final decisions about what Recommendations were being accepted and the approach from which they were drafted, continued to be controlled by the FATF members (especially those with more power). Also, while they expanded the secretariat to deal with an unforeseen amount of technical expertise, they did so strategically so that the functions delegated were not across all the FATF functions but only in some. The chapter also shows that after 9/11, a point in time when preferences among members were aligned, the first choice was to take decisions informally.

The study of the FATF design after 9/11 also has shown that IIGOs can issue policy without being bound by international law can be endorsed by a high number of countries in a very short period of time. It has also illustrated that while the current conceptualisation of IIGOs (which proposes that these organisations do not have institutional agreements and secretariats) can be problematic, over time the

institutional context can leave state members no choice but increase the levels of formality of this dimension if they want their organisation to keep functioning.

It has also presented that even though prior studies have observed that IIGOs' membership tend to be smaller than those of FIGOs, which is also true in the case of the FATF, these organisations may have strategies in place to reach other members, such as that used by the FATF when it decided to create the FSRBs. The idea of organising countries by regions is not new, and can also be observed in formal organisations such as the UN and elsewhere, where it is a method used to ensure rotation and geographic representation in the position of Chair in Conferences and similar duties. However, in the case of IIGOs it has the particularity that apart from organising those countries and allowing them some representation, their space to act was still tightly controlled by the FATF's founding members. That said, weaker countries were still gaining something: they were being listening to, and access to technical assistance programmes was made easier for them. Moreover, they were boosting their reputations as countries that could receive development aid as they were taking the FATF regulations seriously. On their side, the FATF's members were able to expand their AML/CTF framework around the world, which was one of their key goals.

The findings of this chapter also show that while institutional learning forces where not enough to change the levels of formality of the enforcement in the aftermath of the FATF, the institutional feedback from the FATF was used when the organisation had to redesign of the monitoring dimension.

In the next chapter I move on to explain how the formality of the FATF continued to evolve from 2008, when the international financial crisis occurred, until 2014, the year in which ISIS rapidly expanded and attacked European targets.

CHAPTER 6. 2008 Financial Crisis: the FATF uses formality to sharpen its “teeth”

6.1 Introduction

The previous chapter analysed the movement of some of the FATF's dimensions along its *spectrum of formality* after the terrorist attacks of 9/11. It showed that the FATF's members resorted to informal practices in the immediate wake of 9/11, but in the following years they granted greater levels of formality to the dimensions of scope of rules covered, the monitoring, and the coordination unit.

These compromises in the formality in the years following 9/11 served two purposes. They sent a credible message about the firm commitment of the FATF's key members (leading economic and political powers) to addressing the threat posed by money laundering and terrorism financing (ML/TF). Moreover, they allowed the FATF to legitimately expand its reach around the world through FATF-Style Regional Bodies (FSRBs) without making its core membership universal. The formality of the coordination unit was also increased, resulting in the consolidation of a FATF Secretariat, which was needed as a result of the increased complexity of the FATF mandate and the high number of participants involved in the organisation.

In contrast, the membership and decision-making dimensions of the FATF maintained their informality after 9/11, allowing the FATF's powerful members to continue exercising asymmetric control over the organisation and the worldwide roll-out of its AML/CTF policies. These two dimensions are interlinked in the case of the FATF (i.e., the greater the number of members allowed to enter, the more countries that will be able to access the decision-making process); and they included a number of informal safeguards in its initial design. This is because increasing the formality of the decision-making or membership could translate into high distributional costs for the FATF's members. In other words, they could lose the ability to exercise asymmetric control and influence over the FATF and its direction. Lastly, the last chapter also showed how the FATF's enforcement activities, in particular its blacklist, had previously received significant criticism. However, FATF's members did not increase the formality of the dimension after 9/11. This showed that institutional learning in relation to the FATF dimension of enforcement during those years was not enough to overcome the redefinition of priorities that FATF members underwent after 9/11. Nonetheless, the institutional lessons learned over the years were used to design the new monitoring provisions that the FATF designed along with the IMF, WB and FSRBs after 9/11.

However, the evolution of the FATF's dimensions design did not end in the aftermath of 9/11. Instead, the decisions taken at that time created a path dependence for the evolution of the formality of the FATF's dimensions in the following years. This chapter will analyse how their formality progressed from 2008, when the financial crisis hit, through to 2013. During these years the heterogeneity of preferences had increased after admitting countries such as Russia, China, and South Africa into the organisation. Also, the mandate of the organisation notably increased in technical complexity by adding proliferation financing to the FATF Recommendations and intensifying efforts in linking ML and TF with corruption. Nonetheless, the 2008 crisis hit the FATF at a stage in its life cycle in which the organisation not only had experience with ML/TF but also with adapting to a shock and quickly translating UNSC language to a broad range of technical Recommendations.

The chapter traces how and why the FATF's members only increased the formality of the enforcement and monitoring dimensions during this period, and were not forced to act by the 2008 financial shock. Both reforms were driven by the institutional learning on how formality was helping the FATF to legitimately expand its reach. Consistent with my argument that states learn from their institutional experiences in the past, I found that the FATF's members considered the feedback received during earlier years when deciding about formality of new activities emerging after 2008 (i.e., the new blacklist) and when negotiating the revision of existing ones (i.e., the methodology and the relationship with associated members through FSRBs).

The theorised expectation that membership and decision-making will stay informal for as long as this is the preferred design for the organisation continued to be met, again illustrating the interlinkages between these two dimensions. The findings further showed how the informality of these two dimensions helped the FATF to adapt to the broader power shift occurring in the world without damaging its place within the international community by strengthening its relationship with the G20. The scope of rules covered was further diversified and the workload of the secretariat increased; however, neither the dimension of scope nor the coordination unit increased in formality.

This chapter makes three contributions that help to move the overall argument forward. First, it reinforces the claim that states are bound by institutional learning and temporal processes. This is done by illustrating that the changes in formality of the FATF's dimensions after 2008 were influenced by feedback from the past and were path dependent on the previous level of formality. For example, even though the formality of the scope did not increase, it did not revert to its previously informal state before 9/11 either. Secondly, this chapter shows that the increased formality of the coordination unit observed in the previous period may have been only a temporal redefinition of priorities regarding the design of the FATF. Further,

it shows how the FATF smoothly adapted to the power shift from the G7 to the G20, presenting evidence in line with the new arguments in the literature defending the ability of IIGOs to mediate power shifts (Vabulas and Snidal, 2020). Lastly, it shows in detail how and why the FATF blacklist and mutual evaluations were redesigned to look like they do today. The result was that they have become the “teeth” of the organisation - and thus of the global AML/CTF governance complex. This reinforces the need to pay greater attention to the monitoring and enforcement dimensions when conceptualising IIGOs.

The chapter proceeds as follows. I first summarise the FATF context between 2008 and 2013. Then, I explain how the formality of the enforcement and monitoring dimensions increased. The chapter moves on to examine how the scope of rules covered, overall decision-making, membership, and coordination unit dimensions did not gain greater formality between 2008 and 2013, and finishes by presenting a summary of the main findings and a brief conclusion.

6.2 The FATF Context Between 2008 and 2013

Between 2008 and 2013, the FATF continued to handle topics that also formed part of the remits of other formal IGOs (FIGOs), and its informal design continued to be highlighted as an added value to its members. On the one hand, the FATF’s members proceeded to add two new topics to the scope of its rules: proliferation financing, and corruption. These two topics had long been dealt with at the United Nations (UN) and worked on by the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the World Bank (WB), among others. On the other hand, the FATF continued to highlight that “the task force structure of the FATF has served it well. The FATF should therefore retain this flexibility as it continues to consolidate and build on what it has already achieved” (FATF, 2012: 43). The FATF further emphasised that its work adds value to the other organisations: “The FATF needs to maintain a flexible structure, which will enable it to address new and significant threats as identified by the international community, including the United Nations Security Council, the G20, other relevant bodies, and the FATF itself” (FATF, 2012: 12).

However, after 2008 the formality of some dimensions of the FATF did increase. In Table 6.1 I recap the levels of formality of each dimension at the beginning of this period (after the changes examined between 2001-2007), and introduce how the formality of the dimensions moved along the spectrum

between 2008 and 2013.¹⁵¹ This scenario leads me again to raise the question: *What explains the variation in the formality of the FATF dimensions after 2008?*

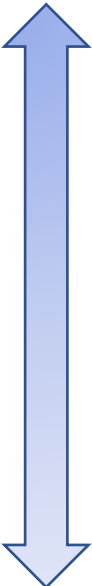
Level of formality in FATF dimensions		Before 2008	At the end of the period 2008-2013
High - Very High		Scope Monitoring Coordination Unit	Scope Monitoring Coordination Unit Enforcement
Medium			Membership Decision-Making
Very Low- Low		Enforcement Membership Decision-Making	Membership Decision-Making

Table 6.1. FATF spectrum of formality before and after 2008. Author's creation.

I theorised three explanatory variables that could be helpful in understanding this uneven increase in levels of formality: *the heterogeneity of preferences among powerful members, the demand for technical expertise from international bureaucrats, and institutional learning.*

(i) Heterogeneity of preferences among powerful FATF members after 2008

As we now understand, the preferences of the group of countries that originally designed the FATF were mostly aligned, and this homogeneity did not necessarily decrease in the first decade of functioning or even after the 9/11 terrorist attacks, which redefined the priorities of the US and its allies in the same direction.

Nonetheless, just before 9/11 the FATF admitted three new countries into its membership: Mexico, Argentina, and Brazil. This expansion was followed by intensified efforts from FATF members (led by the

¹⁵¹ The “types” of design considered to be more or less formal are stated in Chapter 2, Figure 2.2. There is also reference to how I measure the levels of formality in Chapter 3, Table 3. 2.

US) to bring South Africa, Russia, and China into the membership. The six had joined by 2006, when talks with India and South Korea were intensified (FATF, 2007). To achieve the goal of bringing these countries into the FATF because of their relevance within the international financial system, the FATF's designers had to share some power during the negotiations with the countries that were joining so that "they felt they had a leadership role in maintaining international standards" Zarate (2013: 159). This increased the variety of interests at play among the FATF's members.

In 2008 the FATF intensified its relationship with the G20, starting to directly answer their requests and even more explicitly highlighting the close links between the members of G-group with the FATF. An example is the following quote that acts as an illustration of many of the messages given at the time by the FATF: "The endorsement of these revised standards by the ministers of FATF member countries and the special statement issued by G20 Ministers, confirm the broad political support for the FATF and its international standards." (FATF, 2012: 8). Although some common G20 goals can be identified, especially regarding the stability of the international financial system, the heterogeneity of preferences among that larger group of countries was higher than it had been among the initial members of the FATF - particularly in relation to security issues. Thus, when the 2008 global financial crisis hit the FATF, the heterogeneity of preferences among its membership was higher than had been the case in the months and years after 9/11.

(ii) Demand for further expertise in form IOs bureaucracy after 2008

Between 2008 and 2013, the demand for technical expertise from international bureaucracies increased again after the FATF brought corruption and proliferation financing within its scope of rules covered. A battery of reports on good practices and guidance notes on these two topics were published during these years (FATF, 2008; 2009; 2010; 2011). Again, neither the FATF members nor the FATF secretariat's staff was sufficiently trained to implement the contents. For instance, when the FATF was discussing the drafting of the Recommendations on proliferation financing, its members sought out experts from the UN to assist them.¹⁵² Also, when the methodology was reviewed and a risk-based approach adopted, expertise from the private sector was actively sought by FATF members.¹⁵³

Moreover, at the same time that the FATF was adding new topics to its mandate, those it was already addressing were increasing in complexity. For instance, the increased complexity of the financial system went hand-in-hand with the new technologies and new sources being used by terrorists to fund themselves, such as crowdfunding. Also, the redefinition of some aspects of the financial system after the financial

¹⁵² Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

¹⁵³ Interview 14. Delegate to the FATF from the early 2000s until the present) Autumn 2020

crisis also increased the complexity with which the FATF had to interact in the broader institutional context. Thus, the complexity of the mandate increased again, the difficulty of the assessments raised, and the number of regulations in the broader financial system continued to spread. This required again an amount of technical expertise not available within the FATF in 2008.

(iii) Institutional learning after 2008

The role played by institutional learning in the redesign of the FATF's enforcement and monitoring dimensions was more prominent at this time than it had been in the prior period. By this period of time, the FATF had gained two decades of experience in working on money laundering and the ability to quickly respond to shocks such as 9/11. The FATF had also shown it could perform well in increasing the enforcement of UNSC decisions¹⁵⁴ (Zarate, 2013).

There was already evidence on which surveillance and enforcement designs were accepted by non-members and which had faced legitimacy challenges (Zarate, 2013). There was also feedback on the ability of FSRBs to obtain access to information on their members, which the FATF would not otherwise have been able to obtain. Thus, the FATF's members could count on a number of institutional lessons in planning the future of the organisation in the middle of a global shock, the 2008 financial crisis.

To sum up, in comparison with the previous period, between 2008 and 2013 we can observe that: (i) the heterogeneity of preferences among powerful members was higher; (ii) the demand for technical expertise from international bureaucrats also increased; and (iii) the amount of feedback about each of the dimension design was higher. In this context, only the monitoring and enforcement became more formal in this period. In the next sections I develop how and why this occurred, and how the rest of the dimensions evolved but retained the same level of formality they had after 9/11.

6.3 Dimensions Which Increased In Formality after 2008: Enforcement and Monitoring

Between 2008 and 2013, the FATF dimensions that experienced an increase in their formality were: (i) enforcement; and (ii) monitoring. Table 6.2 collects the specific changes to these two FATF dimensions together, which are then discussed in turn in this section.

¹⁵⁴ Notably the clauses of UNSC RES 1373 referring to terrorist financing.

Dimension	After 2001 ¹⁵⁵	Between 2008 and 2013
Enforcement	<p><u>Level of formality: Very Low</u></p> <p><i>Ad hoc</i> group (led by the US and only some members involved)</p> <p>Mostly offshore centres listed.</p> <p>Broad and vague criteria</p> <p>Lack of methodology for assessment</p> <p>Lack of appeal opportunities</p>	<p><u>Level of formality: Low / Medium</u></p> <p>Designed in an <i>ad hoc</i> group created and led by the US, but:</p> <p>Listing carried out by a new permanent working group: the International Cooperation Review Group</p> <p>Greater number of members can be involved</p> <p>Opportunity to appeal</p>
Monitoring	<p><u>Level of formality: Medium</u></p> <p>Periodic reviews (open to states, larger number of FSRBs, the IMF, and the WB)</p> <p>Evaluations carried out by state members, IMF, WB, and FSRBs members. Led by the FATF's secretariat</p> <p>Public common methodology Official version of full evaluations made publicly available</p>	<p><u>Level of formality: Medium to High</u></p> <p>Periodic reviews (open to states, larger number of FSRBs, the IMF, the WB) but:</p> <p>A more complex methodology in place</p> <p>Greater involvement of FATF IIGO staff</p> <p>The FATF further consolidated its global network through regional bodies (expanding evaluations to 180 countries)</p>

Table 6.2 Dimensions that increased in formality between 2008 and 2013 Author's creation.

6.3.1 Enforcement

Because the FATF is not ruled by an international treaty, and lacks the resources of more formal intergovernmental organisations (FIGOs), soon the idea of a blacklist that would generate peer pressure arose as an attractive option (FATF, 1991, 1992, 1993). In its early years, the FATF used private meetings to decide whether a country posed a risk, and asked members to apply due diligence (e.g., in relation to the

¹⁵⁵ N.B.: In this chapter, a comparison is made between how the dimension looked after the reforms in the previous period (time +1) instead of at the time of design.

Seychelles).¹⁵⁶ A little later, in 2000, the FATF published its first blacklist of Non-Cooperative Countries and Territories (NCCT) (FATF, 2001).

Nevertheless, the enforcement dimension remained very informal even when this blacklist was first presented. This informality was clear from the time when the NNCT was being designed by the US and its allies in *ad hoc* meetings. Nonetheless it was decided that it would affect non-members, and instead of publishing a methodology or a clear process through which a country would be included on the list, a very broad set of criteria which lacked clarity was instead set out. This informal design of the listing process generated substantial criticism when the FATF published the first blacklist under the NNCT framework. However, instead of instantly raising the level of formality of the dimension, the FATF members stopped adding new countries to it after 2001, and by 2006 they had officially terminated it.

At around the same time that the NCCT was concluding its activities some FATF members, led again by the US, were already arguing¹⁵⁷ in private that a new blacklist was necessary. The resulting process, which was to be officially carried out by a new International Cooperation Review Group (ICRG) established within the FATF in 2007, was designed to be more formal than its predecessor.

In this way, the formality of the FATF's enforcement dimension increased between 2008 and 2013, after almost twenty years of trial and error. This process began with the establishment of a permanent working group, the ICRG, instead of dealing with the issue in *ad hoc* groups as had been done to decide on the previous list (FATF, 2008). Moreover, this time around the FATF included some steps in the process where countries accused of a lack of compliance could defend themselves and engage in a working plan to avoid being blacklisted. The FATF also decided to establish two types of lists: a "grey list" which the FATF called "Improving Global AML/CFT Compliance: Ongoing process" and a "blacklist"¹⁵⁸ under the title of "Public Statement"¹⁵⁹. It also included channels of participation for representatives of the FATF Regional Style Bodies to grant them a greater role in the process (FATF, 2011: 20).¹⁶⁰ The result of these reforms was that the enforcement dimension of the FATF had a medium level of formality rather than a low one (as had been the case with the first blacklist).

¹⁵⁶ Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

¹⁵⁷ We learn this thanks to the FATF's later Annual Reports. In 2006 the FATF decided to launch a new surveillance mechanism to detect high-risk or non-cooperative jurisdictions, regardless of whether they were members or not (FATF, 2010). This did not appear in the corresponding Annual Reports because it was treated as a confidential matter, and at that point was only shared among some members (Zarate, 2013).

¹⁵⁸ The FATF itself does not use the terms of "blacklist" and "grey list" as such, but people working inside the FATF and outside it often use this nomenclature.

¹⁵⁹ These lists are issued three times a year.

¹⁶⁰ Many of the steps taken to formalise the dimension were in line with other dimensions whose design was already broadly accepted as more formal (i.e., monitoring).

The designers of the new FATF blacklist were aware of a need to increase the formality of the dimension because one issue that had generated significant discontent among non-members was that “the rationale to include some states and not others was not clear at all”.¹⁶¹ Another interviewee added that “it wasn’t based on a broadly discussed review or assessment and clearly focused on the Recommendations”.¹⁶² At the end the list was regarded as a tool of “club of big countries ganging up on small countries or countries with underdeveloped financial systems”.¹⁶³ Moreover, as the FATF later recognised, the NNCT List was counterproductive in relation to the main goal of expanding its jurisdiction outside its membership, which was one of the reasons for the NCCT in the first place (FATF, 1998). In the words of the FATF, it had “the unintentional effect of straining the relationship between the FATF and the FATF-style regional bodies” (FATF, 2001: 14).

Despite all the criticisms that this first blacklist attracted, it also acted as a global demonstration that it was a quick method of highlighting non-compliant countries, so there was actually an increase in respect and fear towards the FATF based on the belief that “anyone could be listed”.¹⁶⁴ All these lessons were taken into account when the US again headed up the configuration of a new blacklisting process, as the following quote shows:

“Danny Glaser and Chip Poncy, who had become two of the most well-respected financial diplomats and money-laundering experts in the world, took charge of the effort for the United States to restart the old FATF process to blacklist non-compliant countries—which had proven effective in the past to spotlight money-laundering havens around the world. Even so, that process had raised criticisms of an unfair process targeting easily identifiable and politically vulnerable states” (Zarate, 2013: 310).

Interviewees present at that stage in the FATF’s activities and negotiations confirmed that it was indeed an initiative driven by the US, and that there was a strong sense that it needed to be more “rule-based” than the previous one.¹⁶⁵ At that stage, the heterogeneity of preferences among members was higher than when the previous blacklist was negotiated, and as explained by Zarate (2013), “efforts would take time, as it required building consensus among thirty-three jurisdictions that now included Russia and China”. Nonetheless, by the end of negotiations a consensus was reached, as reaffirmed by those present at

¹⁶¹ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

¹⁶² Interview 14. Delegate to the FATF (from the early 2000s until the present). Autumn 2020.

¹⁶³ There were some exceptions, like the inclusion of Russia, but it was not the rule. Interview 14. Member Delegate to the FATF at that time. Autumn 2020.

¹⁶⁴ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

¹⁶⁵ Interview 18. Delegate to the FATF (State Member). Autumn 2020. Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

the time: “There may be other occasions in which the US proposals are not very successful, but on this one most countries agreed because there was that need for redirecting countries that were not cooperating”.¹⁶⁶

In fact, the new blacklist really took off when the G20 called for it. If a lack of consensus between the founding members of the FATF and its new members had existed regarding this dimension, we could have expected to see a call for action from the G7 as on previous occasions, rather than from the G20, which includes China and Russia, as actually happened. The first new blacklist, issued in 2008 under the fresh second initiative started by the ICRG, was very short, including only six countries. After the G20 called for a new one at the Pittsburgh summit (2009), stating that the FATF should “issue a public list of high-risk jurisdictions by February 2010”, the new blacklist was officially launched and by 2013, the FATF had reviewed 70 jurisdictions and publicly identified 50 non-compliant states on its blacklist (FATF, 2013).

Thus, the institutional learning acquired based on the previous experiences of FATF members with a blacklist initiative played a decisive role in the redefinition of this mechanism. The heterogeneity of preferences among the FATF’s most powerful members was higher, but this was neither an issue nor a driver to increase the levels of formality of the dimensions, as there was a strong consensus on the need to issue the blacklist as designed between 2007 and 2008.

Nonetheless, it is necessary to explore how the increased formality of the dimension was designed not only in terms of its public façade, but also internally. This will show that the formality of the enforcement dimension, which usually carries sovereignty costs, was increased so that its legitimacy could not be challenged again. However, the FATF’s members made sure that they introduced three informal internal safeguards to allow them to exercise asymmetric control over the listing process: (i) ensuring that states could tightly control the listing exercise by limiting the presence of the IIGO bureaucracy in the ICRG; (ii) establishing that the chair and co-chair should always be states members or associated [in practice mostly members]; and (iii) granting countries space in the discussion process to hold *ad hoc* private conversations before arriving at the plenary.¹⁶⁷

Information about the internal functioning of the ICRG is not explicitly stated in the FATF’s public documents, and in fact at first glance it looks like other dimensions, such as the monitoring, a more formal process. However, as was explained by one of the interviewees who had participated in numerous FATF meetings: “the ICRG is completely run by states and has pretty much any of the controls present in other

¹⁶⁶ Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020.

¹⁶⁷ Information about these informal safeguards was made privately and has not been included in the FATF public documents. However, I obtained it through on the record interviews (referenced). The data was further confirmed by other interviewees (off the record) who were not comfortable with sharing information on the record about this particular issue because of its sensitivity and the relevance that the FATF blacklist still has today.

areas of work of the FATF”.¹⁶⁸ The participation of the IIGO bureaucracy in it is, in fact, much lower than in other working groups: “for instance, you can count on ten or more people from the secretariat in the working group that manages the global network, but the ICRG counts on way fewer staff. Moreover, when somebody from the FATF Secretariat is present, it is usually somebody previously endorsed by a state member”.¹⁶⁹

Also, even though the ICRG decisions have to be accepted by the FATF Plenary, “all fish are sold before”,¹⁷⁰ because countries know that it is more difficult to “muscle something in the plenary than in the ICRG”.¹⁷¹ The informal technique in the participation of representatives from FSRBs is that the country acting as such usually holds double-membership (both of the FATF and the FSRBs). This is possible because FATF members are often also members of the FSRBs of their region. For instance, if GAFILAT (the FSRB for Latin America) wants to be represented in the ICRG, the likely candidates to fill that seat will be national officials from Mexico or Argentina, which are FATF members.¹⁷² In fact, one interviewee clarified that even for member countries with less relative power, “why the FATF put someone in the ICRG group continues to be an eternal mystery”.¹⁷³

Also, even though the draft ICRG reports are distributed among members and associated members to allow everyone to check them and comment, the decisions taken by the chair and the co-chair of the group and the extent to which they want to hear these comments are key.¹⁷⁴ This gives the chair and co-chair of the ICRG considerable power within the FATF (and influence over the application of its measures outside), as evidenced by the interest of powerful states such as the US in maintaining such a position. One of the interviewees explained: “the US has had numerous chair and co-chairs, so when one person leaves another enters, and around this period the secretariat team that was involved in the ICRG was endorsed by the US”.¹⁷⁵

Nonetheless, the countries with sufficient power to influence the FATF’s decision have always found ways to skew the ICRG’s decisions.¹⁷⁶ In doing so, it helps that: “the ICRG says it focuses on what are considered key recommendations, which brings more subjectivity to how the recommended actions are

¹⁶⁸ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹⁶⁹ Interview 18. Delegate to the FATF (State Member). Autumn 2020

¹⁷⁰ Interview 1. Delegate to the FATF (State Member). Summer 2020.

¹⁷¹ Interview 18. Delegate to the FATF (State Member). Autumn 2020; this idea was reiterated in different wording by Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹⁷² Interview 5. Delegate to the FATF (State Member) in this period. Autumn 2000.

¹⁷³ Interview 18. Delegate to the FATF (State Member). Autumn 2020

¹⁷⁴ Interview 5. Delegate to the FATF (State Member) in this period. Autumn 2000. Interview 18. Delegate to the FATF (State Member). Autumn 2020. Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹⁷⁵ Interview 18. Delegate to the FATF (State Member). Autumn 2020

¹⁷⁶ Interview 18. Delegate to the FATF (State Member). Autumn 2020

interpreted. As a result, it can be quite subjective depending on the country that is under assessment”¹⁷⁷. For instance, “it is unusual to find a European country making it to the blacklist or grey list; they may be called out, but they usually reach an agreement before being pointed out.”¹⁷⁸

The redesign of the enforcement dimension during in this period with these safeguards allowed countries with higher bargaining power to control the listing process. This is important not only due to the economic consequences faced by listed countries but also because since the beginning this list was used as a double-edged sword. For instance, Zarate (2013) claims that it was designed to allow information to be collected on Iran’s domestic financial, enforcement, and security system at a time when there were global fears that Iran was building nuclear armaments.

Thus, in examining the FATF’s enforcement in this period of time, I found evidence consistent with the theoretical expectation that negative feedback from previous experiences will affect choices when reforming a dimension. However, I also found that in the case of the FATF enforcement dimension, which went from being very informal to reaching a medium level of formality, the increase in formality was more theoretical than practical. This was the case as the number of formal mechanisms allowing the further participation of actors in the enforcement dimension and granting improved transparency to the process and greater benefits for less powerful countries were directly undermined by the informal safeguards included in the design (for exploitation by those with higher bargaining power). This approach is similar to that in other dimensions with high distributional costs, such as the membership and decision-making.

Also, similar to the findings of the previous chapter, the expected increase in formality linked to an increase in heterogeneity of preferences between powerful members was not met. In fact, instead of introducing safeguards to protect founding members’ comparative advantages from being eroded by new powers in the membership such as China and Russia, a decision was made to share the asymmetric control over the FATF’s dimensions with these new powerful members. Evidence of this is that the call to relaunch a blacklist was made by the G20 rather than the G7, and that the scope of rules covered was significantly expanded to include topics of high importance to the members of these G-Groups.

¹⁷⁷ Interview 18. Delegate to the FATF (State Member). Autumn 2020

¹⁷⁸ Interview 16. WB officer since the early 2000s. Autumn 2020. Online.

6.3.2 Monitoring

Despite the external shock of the financial crisis of 2008, the FATF did not use any quick self-reporting evaluations again, like those it had deployed after 9/11. The reforms built on the changes introduced in the previous years, and the increased formality of this dimension were arrived at mostly through two sources: (i) the consolidation of the mutual evaluation process to cover all members associated to the FATF through FSRBs;¹⁷⁹ and (ii) the introduction of a more detailed and complex monitoring methodology which increased the workload linked with this dimension, consequently raising the need for further technical expertise and assistance from international bureaucrats (FATF 2012, 2013).

Between 2008 and 2011, I found evidence that among the reasons to keep increasing the level of formality of the monitoring dimension was the institutional learning accrued in previous years. Mutual evaluations had allowed the FATF to reach two of its main goals: the endorsement of its standards by a large number of countries outside its membership, and access to information about their financial systems. As was explained by the 2012-2013 FATF President, Bjørn S. Aamo:

“It is the mutual evaluation process that gives the FATF Recommendations their force. We must continue to strengthen our AML/CFT systems through this process, and I expect therefore that all countries in the global network will now be assessed for compliance with the revised Recommendations” (Aamo, 2012: 1).

In other words, the FATF monitoring dimension which had increased in formality was generating positive returns to its members.

Between 2007 and 2013, after years of work in this direction, the FATF finally consolidated a global network that allowed its members to assess non-member states. In order to do so, the FATF’s relationship with the regional bodies was formalised and clear expectations were marked out (FATF, 2012; FATF, 2013). Although the dimension was still not as formal as it would have been if the FATF had decided to attach legal obligations to the process, in comparison with the rest of the dimensions, the monitoring dimension was more formal.

The FATF stated in 2012 that the FSRBs were “free standing organisations” (FATF, 2012: 3), despite endorsing the policies decided by the FATF, being subject to the mutual evaluations established by the FATF, and using the same methodology. Nonetheless, weaker states understood that it would be better

¹⁷⁹ Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020.

for them to be inside the FATF global network than outside.¹⁸⁰ This was because the FATF had obtained a huge amount of power through the endorsement of its activities by the countries with the greatest political and economic power (the G7 and G20), indicating to the less powerful that being outside it and risking being listed could seriously damage their international reputations and economies.¹⁸¹

In the words of a state member delegate to the FATF during those years:

“I remember when they (the FATF leading members) actually got Cuba to join. First, the Cuban government claimed that the FATF was another tool of capitalism oppression. Then, they realised that if they did not adhere to the methods they would be exposed, and it didn’t matter whether the system was communist or capitalist, as there was a new criterion through which states could be put on the blacklist, which was refusal to join their corresponding FSRBs (in the case of Cuba, GAFILAT)”.¹⁸²

In this period, the methodology also became notably more complex, as the FATF decided to start assessing the effectiveness of implementation of some of its most relevant Recommendations (instead of focusing only on whether legislation on the issue had been passed). Also, the FATF had already carried out three rounds of mutual evaluations, and was in a more mature stage of its life cycle and was starting the fourth round of evaluations in 2014. All this resulted in a more complex methodology for mutual evaluations, for which, the FATF continued to revert to the assistance of their partner IOs such as the IMF and the WB, its FSRBs, and private sector actors who were aware of the main issues with the implementation of the FATF’s policies on the ground.

This increased complexity and the greater number of countries that needed to be evaluated required further assistance from the FATF Secretariat.¹⁸³ In the words of the FATF (2013): “The new assessment process is likely to be more resource intensive than earlier mutual evaluation rounds, given the added emphasis on assessing effectiveness” (FATF 2013:9).¹⁸⁴ Although this step contributed to the increased level of formality of the monitoring dimension, it did not have the same effect in the secretariat, as will be explained below.

¹⁸⁰ Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020.

¹⁸¹ Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020.

¹⁸² Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020.

¹⁸³ The FATF’s bureaucracy had led the mutual evaluation teams since the past reform, an approach towards which the FATF Executive Secretary at that time, Rick McDonnell, expressed pride, claiming that the FATF’s monitoring dimension was one of the reasons why the G20 took interest in the FATF (FATF, 2011: 9).

¹⁸⁴ In this review the FATF members decided that they will not only assess “technical compliance”, which meant having the regulations in place, but also the “effectiveness” of how they were being implemented (FATF, 2012, 2013)

Thus, the slight increase in the formality of the FATF's monitoring function, which was already at a medium level, was not due to an increase in the heterogeneity of member states' preferences as theorised in chapter 3. However, it was because the strategy developed by the FATF over the years to monitor non-member countries through FATF-style Regional Bodies (FSRBs) had been reporting positive feedback and it was further consolidated in this period. The extension again to new territories and the fact that the methodology increased its complexity one more time demanded further expertise, which was drawn from its partner organisations and its own secretariat. In this way, as we will observe by the end of this chapter, the monitoring was the dimension in which bureaucratic staff from the FATF received a great amount of its workload.

This section has shown that the formality of both the enforcement dimension and the monitoring dimension increased after 2008, but none of these reforms were directly linked to the shock of the financial crisis or to the increase in member countries with conflicting preferences. The main explanation can instead be found in the institutional knowledge acquired by the FATF's members about the design of these dimensions in the past. In terms of monitoring, the continually increasing complexity of the topics and activities forming part of the FATF and the integration of more IIGO staff in the dimension also contributed to the consolidation of the dimension with greater levels of formality.

At the end of this period, 2013, the level of formality of the FATF's monitoring dimension was medium to high, while the enforcement was left at a medium level of formality. This shows that even though the FATF's members were willing to compromise by allowing higher formality in monitoring in order to fully expand its reach around the world, they did not want to risk its blacklist falling into the hands of countries that they could not control, and expose themselves to being listed or having their friends listed without the means to stop this from happening. Nevertheless, with this hybrid design to exercise peer pressure, the FATF's monitoring and blacklisting processes came to differentiate it from other IIGOs whose enforcement mechanisms were often less institutionalised (e.g., the G7 or G20), and from formal organisations such as the United Nations, which rarely overrides members' (and non-members') sovereignty¹⁸⁵ in the same way that the FATF does.¹⁸⁶ Indeed, the FATF's mutual evaluations and blacklists are currently used by numerous actors in the broader AML/CTF regime such as IGOs, private sector bodies and NPOs, among others, because they feel "*toothless*" on their own, as an official from the UN Office on Drugs and Crime (UNODC) working on ML/TF technical assistance programmes commented.¹⁸⁷

¹⁸⁵ Interview 4. Delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

¹⁸⁶ "Contrary to what happens at the FATF, the work under the United Nations Convention Against Corruption (UNCAC) cannot create rankings of 'good and bad' countries, reporting processes must be inclusive and national sovereignty must be respected at all times" - Interview 4. Delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020.

¹⁸⁷ Interview 8. UN Official working on AML/CTF technical assistance programmes. Autumn 2020

6.4 Dimensions Unchanged in Formality: Membership, Decision-making, the Coordination Unit, and Scope

In this section I explain how the FATF's membership and decision-making dimensions continued to have more or less the same low levels of formality as at the time of design, and trace how the coordination unit's formalisation slowed down compared to the previous period despite the FATF continuing to demand further technical expertise from IOs bureaucracies.

6.4.1 Membership

The expansion of the FATF membership in this period was in line with the transition of power in the organisation from the G7 to the G20, as an interviewee explained: "While the initial membership of the FATF mirrors the states with the main financial centres of that time (the early 1990s), the FATF membership in 2010 tried to do the same".¹⁸⁸ This quote tells us why the FATF expanded its membership to include South Korea in June 2009, and India in 2010 (FATF, 2009, 2010). By then, all the G20 countries except Indonesia and Saudi Arabia were FATF members.

The FATF stated that South Korea was a good incorporation because it had been very active in AML/CTF enforcement in the Asia-Pacific region (FATF, 2010). Furthermore, the FATF explained the addition of India with reference to its goal of better integration of key players from all the regions of the world (FATF, 2009, 2010) and countries that could contribute their experience and expertise. Other than these two new members, nothing else changed in the membership between 2008 and 2013, and even the criteria that the two countries had to meet were the same as in 1998.

In 2012, Bjørn S. Aamo, president of the FATF at the time, explained why the FATF was not expanding its membership any further (or designing the membership accession process more formally): "The question of FATF membership is not easy, as a significant expansion may influence the working methods and decision-making procedures" (Aamo, 2012). Thus, the linkage between the membership of the FATF and its overall decision-making bodies was clearly stated. Although the FATF does not explicitly discuss why some of its dimensions have become more formalised than others, this declaration is in line with the expectation that the membership dimension's formality will increase more slowly due to its direct connection with the control that powerful countries exercise over the organisation. This was confirmed by participants in this research who clarified that established member countries do not want to share power with more states, while those outside want the added benefits of full membership of the FATF in terms of

¹⁸⁸ Interview 2. Head of Delegation to the FATF (Member State). Autumn 2020.

influencing the overall decision-making of the organisation, its functions, and its direction.¹⁸⁹ Other interviewees further explained that those with less capabilities have always wished to have more friends within the FATF membership to form alliances, but that those demands have never been addressed.¹⁹⁰

6.4.2 Decision-making

Between 2008 and 2013, the FATF kept the decision-making dimension relatively unchanged, as none of the small changes which were made notably affected its formality. The FATF continued to claim that decision-making was done by consensus among the FATF members in the plenary meetings, assisted by the secretariat and chaired by the FATF president (FATF, 2012). The FATF president, accompanied by a vice-president, continued to have representative duties and the advantage of introducing the topics most relevant to their country onto the agenda. As had been the case in the past, associated members and observers were also still allowed to attend the open plenary sessions, and when the FATF extended its mandate in 2012 it explained that in cases where the FATF members deemed it necessary, observers could also be invited to private sessions (FATF, 2012b).

Nonetheless, most of the decisions continued to be taken informally by the FATF's steering group, which still comprised a small body of countries from the FATF membership "advising" the presidency. During these years the FATF clarified some of the main responsibilities of this group, and that it meets at least three times a year (FATF, 2012). However, towards the end of this period in 2013, a joint communique between Norway and Russia, the states holding the presidency and the vice presidency at the time, advanced that one of the Russian priorities for the following year was that:

"the steering group should be concerned with and develop proposals to the plenary is a more equal distribution of participation in the FATF work and discussion among members (to avoid the situation when not all delegations participate in formulation of policy matters and all other efforts)" (FATF, 2014b).

In other words, differences in participation across the different members persisted. One of this study's interviewees added that ultimately, only a couple of seats rotate and certain key countries are always present in one capacity or another: "The US and the UK have been in the steering group forever, Russia since it got the seat has stayed, and I doubt that China - which got a place on this group slightly later - will give it up either".¹⁹¹ Moreover, the presidency still held the privilege of setting the agenda priorities and controlling the discussion in the plenaries, and in these years the vice-president gained more prominence.

¹⁸⁹ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹⁹⁰ Interview 5. State Delegate to the FATF. Autumn 2020.

¹⁹¹ Interview 18. Delegate to the FATF (State Member). Autumn 2020

This did not bring any further formalisation of the dimension, but it does illustrate that the demand for more representation from a higher number of countries was increasing.

The FATF's members continued to maintain the informality of the decision-making dimension. While granting part of it a more public status to the plenary, the steering group continued to be the main decision-making body, as confirmed by the interviewees of this research.

6.4.3 Coordination unit

While the workload for the staff involved in the secretariat increased in relation to some activities between 2008 and 2013 due to a higher demand for expertise to support the FATF's work, specially in the monitoring and scope, the formality of the dimension did not increase during this period.

I found evidence than between 2008 and 2013, contrary to what was observed in the previous chapter, the theorised expectation that a higher demand for technical expertise from the IO's bureaucracy will lead to a higher formality of the coordination unit was not met. For instance, in 2012, after publishing its edited Recommendations, the FATF pointed out that the year had been "an exceptionally busy one for the Secretariat in supporting the FATF's work" (FATF, 2012: 11). A year later, the FATF bureaucracy continued to make claims about its increased participation in some FATF dimensions by stating that "the workload of the FATF and the FATF Secretariat has continued to grow in recent years" (FATF, 2013: 9). However, in the same declaration it also highlighted that "at the same time, the resources available to the FATF Secretariat to carry out its tasks have become increasingly stretched" (FATF, 2013: 9).

The number of staff hired did increase during these years slowly, but the duties delegated to them and how the secretariat was organised did not undergo major changes. Moreover, apart from the budget limitations, as the quote above denotes, the FATF's members did not distribute its IIGO bureaucracy equally across its working groups. For instance, as shown above, while they gave the secretariat a more prominent role within the monitoring dimension, its involvement in enforcement was limited by the designers of the new blacklisting process.

Although the FATF does not make this differentiation in its documents, national officials working at and with the FATF clarified that when a dimension of interest needs to use the IIGO bureaucracy for functional reasons in a dimension where sovereignty and distributional costs are high, the staff member selected is often someone who has been previously endorsed by one of the FATF's members.¹⁹² In other

¹⁹² Interview 18. Delegate to the FATF (State Member). Autumn 2020.

words, the FATF secretariat includes two types of staff: those with more technical profiles who are hired as permanent staff for the organisation, and those who, although they may have particular expertise (e.g., legal or financial), are temporary staff who are directly endorsed by a government from among the FATF's state members. However, according to participants in this research, most importantly, the distribution of these two types of staff across dimensions is not random.

The lack of increased formality in this dimension despite the increased demand for technical expertise is in line with the initial preferences of the FATF designers. This shows that in the aftermath of 9/11 there was a redefinition of preferences that was not sustained over the years. Consequently, by 2008 the preferences shaken up by 9/11 had settled down again, and the evolution of the dimension since can be seen as a natural return to the initial choice of the FATF members. In other words, it was bound by the particular context at that time. Nonetheless, because the dimensions of the FATF are path dependent from the previous design, the secretariat was not suddenly removed; instead, its increased formality was frozen.

Moreover, the FATF had already established the necessary links and relationships with other actors, including other IIGOs and the private sector, to draw on their technical expertise and resources. Investing further in the secretariat of the FATF, increasing its formality, and making it more like those of FIGOs would have increased the cost of maintaining the FATF and the potential of bureaucracy slippage more prominent.¹⁹³ As its leading members had learned from previous experience that they did not necessarily need to build a large secretariat, it makes sense that they slowed the growth and formalisation of this dimension after the 9/11 shock had faded.

6.4.4 FATF's Scope

Between 2008 and 2013, the FATF renewed its mandate for another seven years and reviewed the FATF Recommendations again. However, during this time period, and in spite of a new expansion of its rules and scope to include corruption and proliferation financing, the scope dimension did not see important changes in its levels of formalisation. Reforms to the scope process were practically non-existent and the outcome, although wider, continued to be the same: The FATF Recommendations. In fact, in 2012 the FATF reiterated that its mandate (and hence its standards) was not “intended to create any legal rights or obligations” (FATF, 2012b: 8).

In 2012, after publishing its newly-edited Recommendations, the FATF pointed out that “adoption of the revised FATF Recommendations in February 2012 was a major achievement involving several

¹⁹³ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

working groups, analysis of over 140 detailed responses from government and private sectors” (FATF, 2012: 11). This shows that the dimension continued to involve the engagement of a great number of actors, and that its design lay in the medium range of the spectrum of formality, but all of these provisions had been introduced in previous years. A point worth noting regarding the scope is that it became the dimension in which political/national interests were most explicitly expressed, revealing the variety of preferences among members. The expansion of the scope in these years to cover proliferation financing and corruption shows how the FATF’s most powerful members sought to lock in topics of special interest to them.

The institutional learning of the FATF’s members allowed them to know that the topics incorporated in the Recommendations would be enforced by the work done in other FATF’s dimensions (i.e., the mutual evaluations and the blacklists). The FATF had already shown its ability to quickly enforce issues that were not being successfully addressed in other forums; for instance, one of my interviewees clarified that: “because the UN really does not have the same sort of machinery that the FATF monitoring process has, states added topics of the UNSC mandate to the FATF Recommendations”.¹⁹⁴ Thus, there was not an imminent reason to increase the levels of formality further as the current design was reporting positive feedback.

On the one hand, the topic of corruption was added because it was a priority for the G20 in the post-financial crisis climate, as the following quote shows: “The G20 leaders have asked the FATF to help detect the proceeds of corruption and deter corruption offences by strengthening the FATF Recommendations, taking corruption issues into account in the process” (FATF, 2011:9). On the other hand, the inclusion of proliferation financing in the FATF’s mandate was the result of years of work by the US, because 9/11 had shown that one way to deal with transnational security threats was the direct targeting of market actors (a different approach to the previous sanctions regimes) (Zarate, 2013). In fact, an official present during discussions on this topic shared that the feeling in the room was that “this decision was more political than technical”, and that it was “detached from the rest of the regime”.¹⁹⁵ The heterogeneity of states’ approaches to the inclusion of this topic was also observable when European countries “were pressuring very hard to have the IO bureaucracy from the UNSC for the drafting of the recommendations on proliferation financing”.¹⁹⁶ Nonetheless, the formality of the dimension did not increase and instead of not reaching any consensus both topics were added to the scope of rules covered.

This section has shown that the lack of any notable increase in formality of the membership and decision-making dimensions continues to align with the theorised expectation that these dimensions will

¹⁹⁴ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

¹⁹⁵ Interview 5. State Delegate to the FATF. Autumn 2020.

¹⁹⁶ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

remain informal for as long as they are reporting benefits and enabling the exercise of asymmetric control by those holding greater relative power within the membership. By including new members strategically and sharing power with other powerful members that were not in the initial membership, the FATF accommodate the broader power shift that was occurring in the world without necessarily granting greater control to countries with lesser capabilities.

The coordination unit, whose formalisation had notably increased in the previous period in comparison with the early years of the FATF (when the organisation explicitly stated that it did not want a large bureaucratic body), did not experience any move towards further formalisation during this period. This lack of any sign of increased formalisation of the coordination unit did not meet the expectation that an increased demand for technical expertise from the IIGO's bureaucracy will lead to an increase in the formality of the dimension. It does, however, show that after a temporal redefinition of their preferences, the FATF's members returned to the preferences of its founders.

According to my theory, the increased heterogeneity of preferences among powerful members (e.g., the US and China) could be expected to lead to an increase in the formality of the scope if countries fear cheating or enforcement issues. However, the scope dimension was not further formalised, and neither the process to arrive at it (i.e., how it was decided), or its manifestation (i.e., level of bindingness) changed. This was mainly because the current design was already returning positive feedback and the topics in which different powerful members were all included within the Recommendations.

6.5 Summary of Findings

After 9/11 in 2001, the FATF's dimensions of monitoring, scope, and coordination unit were reformed and granted a higher level of formality than when they were first established, situating them midway along the spectrum of formality. The decision-making, membership, and enforcement dimensions, however, remained very informal.

In this chapter I have shown how the enforcement and monitoring dimensions slightly increased in formality after the financial crises of 2008, even though these changes were not triggered by that shock as had been the case with some of the reforms in the aftermath of 9/11. I discussed how the decision-making and membership dimensions remained as informal as before, and how the FATF's scope of rules covered was left at a medium level of formality (still allowing its members to introduce new topics in line with their interests). Finally, in this period signs emerged that the increased formality of the secretariat in previous

years may have only been due to a temporary redefinition of priorities among the FATF's members rather than a thought-out decision for the long run.

Table 6.3 summarises the processes through which each of the FATF's dimensions was formalised (or not) between 2008 and 2013. After that, I recapitulate the main findings of this chapter and the implications for my theory.

Dimension	Process	Level of formality of dimension 2008-2013 [design time+2]		
		Low	Medium	High
SCOPE <i>After 9/11 the level of formality was: medium</i>	2008 financial crisis > no special recommendations issued > new topics introduced into the scope of rules covered in line with FATF's most powerful members > institutional knowledge that at the current level of formality (medium) the Recommendations were being widely endorsed		✘	
MONITORING <i>After 9/11 the level of formality was: medium</i>	2008 financial crisis > no special monitoring needed > the FATF consolidated its regional expansion > review of methodology > increase in complexity > greater technical expertise needed > greater involvement of FATF secretariat			✘
COORDINATION UNIT <i>After 9/11 the level of formality was: medium</i>	2008 financial crisis and expansion mandate > more technical expertise needed > bureaucrats from other IGOs invited > secretariat workload only high in some dimensions > FATF secretariat budget stretched		✘	
MEMBERSHIP <i>After 9/11 the level of formality was: very low</i>	Continued to be informal > only targeted expansion > South Korea and India were included > the FATF seeks to include all G20 members in its membership	✘		
DECISION-MAKING <i>After 9/11 the level of formality was: very low</i>	The decision-making of the FATF continued to have a more visible face (presidency, vice-president and plenary) > the steering group continued to have power over the decision-making and continued to be very informal > founding members shared control of the decision-making with China and Russia	✘		
ENFORCEMENT <i>After 9/11 the level of formality was: very low</i>	2008 financial shock > the G20 takes the reins > the G20 asks for a blacklist > the FATF relaunches blacklist in 2009 with slightly more formality than in the past > the objective was to avoid the criticism of its predecessor		✘	

Table 6.3 Summary of findings. Author's creation.

This chapter has highlighted that the increase in formality across the FATF's dimensions in this period was lower than in the previous period. Also, the 2008 financial crisis did not result in exceptional actions in which the FATF members had to make use of specific informal processes, as had happened after 9/11. Nonetheless, during the period 2008-2013, two relevant take aways for my theory arose. First, the FATF showed its capability to adapt to power shifts and started to engage directly with the G20. Second, during these years the FATF sharpened its "teeth" by increasing the formality of its monitoring through its partner FSRBs, and by issuing its new blacklist. Since then, both the FATF's mutual evaluations and its blacklists have been used by the organisation, its members, and other organisations as the "stick" in the global AML/ CTF governance complex.

Both the increased formality in the enforcement and monitoring dimensions and the lack of reforms in others, such as the scope of rules covered, highlight the important role played by accumulated institutional learning. This chapter has shown that the divergence in preferences between powerful members was not relevant, as they found a way to share control over the blacklisting and the agenda in deciding the scope. Last but not least, the chapter also introduced a caveat to the theorised path of evolution for the coordination unit, by clearly tracing that when the FATF needed further technical expertise from international bureaucrats it did not resort to its own staff, but instead pursued it from other organisations.

This chapter also provides rich detail on how the ICRG was designed and its blacklists were implemented, based on data which is not publicly available, and which has not been included in any previous scholarship. By doing this, it has shown that even though the FATF did increase the formality of its enforcement and attempted to make it look like the rest of its activities, its leading members were careful to introduce safeguards that would allow them to tightly control the blacklisting process. This sheds light into the type of initiatives that countries may design to solve enforcement issues in IIGOs. Considering the power that the FATF blacklist built in the future, it also shows how a balance was struck between gaining legitimacy and maintaining tight control of this dimension. The same happened with the monitoring, which increased in formality, strengthening understanding of the importance gained by the FATF's monitoring dimension over these years, and once again highlighting the need for further study of these functions in IIGOs.

This period also showed that the FATF's members could slow down the formality of the coordination unit but not reverse it, with consequences for the conceptualisation of IIGOs. Such organisations' design differ when they are observed in different points of their life cycle; they can continue to be IIGOs over time, but may show characteristics that cast doubt on whether they still fit within the current IIGO conceptualisation that does not consider this changes in design over time.

I now move on to Chapter 7, which explains how the formality of the FATF's dimensions evolved from 2014, when the threat of ISIL towards the FATF's members emerged, through to 2019, when the organisation turned 30 years old. The chapter will trace which of the trends observed during these two previous time periods endured and which did not, allowing the observation of an IIGO after 30 years of activities which had survived several different shocks. At the end I present how, after important debates about the formality of its dimensions, the FATF's members chose to continue to maintain a hybrid design.

CHAPTER 7. The rise of ISIL from 2014: back to basics and a consolidation of the FATF hybrid design

7.1 Introduction

The focus of this chapter is the evolution of the FATF's design between 2014 and 2019, a period of time when this informal intergovernmental organisation (IIGO) consolidated itself as one of the most important global players in the global anti-money laundering and counter-terrorism financing (AML/CTF) field.

The two previous chapters showed how the FATF's leading members maintained their overall preference for an informality over formality. In fact, the membership and decision-making dimension did not notably increase its formality since its design. However, FATF powerful members also compromised over the years and increased the formality of some of its dimensions. The increased formality served several purposes: (i) it showed that the FATF members were serious about AML/CTF regulations; (ii) it helped to establish a network with which to draw upon the expertise of different sets of actors while maintaining a restricted membership; and (iii) it granted legitimacy to the expansion of the FATF's policies and jurisdiction over non-members.

The period of time under review in this chapter, the FATF's members held numerous substantive discussions on how best to deal with the rapidly emerging threat posed by terrorists from the Islamic State of Iraq and Levant (ISIL) and the number of money laundering schemes being discovered around the world, such as those uncovered in the Panama Papers.¹⁹⁷ Most importantly, the FATF also embarked upon a journey of introspection via a number of debates about its future as an organisation and its design, many of which focused on its level of formality.¹⁹⁸

Within this external and internal context between 2014 and 2019, the *heterogeneity of preferences* among powerful members was already high and kept increasing,¹⁹⁹ and the need for *technical expertise* continued to grow due to the new trends of financing posed by ISIL and other contemporary financial issues, such as virtual assets (FATF, 2017; 2018). In this time, the FATF's members continued to use the *institutional learning* which they had accrued over the years, by repeating the post-9/11 formula in which a special meeting was convened to publish an action plan (FATF, 2015, 2016).

¹⁹⁷ The International Consortium of Investigative Journalists leaked more than 11.5m financial and legal records evidencing that offshore companies were the favoured option for criminals engaged in laundering money, tax evasion, and corruption (ICIJ, 2016).

¹⁹⁸ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

¹⁹⁹ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

By the end of 2019, the FATF had further increased the formality of two of its dimensions; its *scope*, moving it to the higher end of the spectrum of formality by binding under international law the need to criminalise terrorism financing (a core part of its Recommendations)²⁰⁰; and its *decision-making*, which was slightly formalised when the G20 granted the FATF an open-ended mandate, ending a 30-year time-bound mission. At the same time, the *monitoring* dimension did not become more formal. The *membership* continued a strategic and limited expansion through a very informal process, and the *enforcement* and *coordination unit* dimensions were left alone and continued to show a medium level of formality.

In this chapter I explain how the increased level of formality of the FATF's scope of rules covered and decision-making was, again, a mechanism which the members used to reinforce the message that the most important financial and political powers support the international AML/CTF action, and recognise the importance of the FATF in the broader international system. I also present evidence supporting the theoretical expectation that a greater heterogeneity of preferences among powerful members can increase the formality of the scope dimension when important interests are at stake. In this case occurred due to the fact that two different and strong positions were defended by different powerful countries within the membership of the FATF regarding the criminalisation of TF. In this particular case it was exemplified by the interest of countries such as Russia and the US in toughening the criminalisation of terrorism financing acts and the strong position of European members on the need to respect human and humanitarian law while doing so. These issues were important to their domestic audiences, and the changes had little impact in the control that the leading countries on both sides of the debate had over the FATF because they resorted to the UNSC to solve this issue. At the same time, the decision-making did slightly increase its formality during these years in order to calm the voices weaker members, who were asking for greater representation. As it happened in the case of the enforcement, the changes towards greater formality were balanced with important informal safeguards. This made that the increased representation demanded by weaker countries did not happen on practice.

The lack of changes to the design of the other dimensions reinforces my argument that when IIGOs are designed, powerful members will prefer informality over formality so that they can use the organisation to fill gaps left in more formal organisations, and to exercise asymmetric control at lower cost. This was particularly evident in the paradigmatic case of monitoring, which until that point had been the most formal dimension within the FATF since the design of the organisation. However, at this stage, the most powerful member countries resisted changes demanded by weaker countries that would have increased the FATF's

²⁰⁰ Using UN Resolution 2462 passed by the United Nations Security Council in 2019.

overall formality, as they believed that making those changes might reduce their capacity to maintain overall control without incurring greater reputational and material costs.²⁰¹

The contribution of this chapter is fourfold. First, it explores how the FATF responded in times of crisis once it had reached “maturity”, after having undergone several reforms over the years. Again, the evidence demonstrates that when shocks occur, the FATF members revert to informality, and that the FATF was more susceptible to security shocks than to financial shocks. Secondly, it adds a new condition to refine the expectation about the heterogeneity of powerful member’s preferences. The chapter shows that when dealing with topics that are particularly relevant to domestic audiences in powerful countries with different approaches, this situation can indeed increase the formality of the scope dimension. Thirdly, the chapter shows the importance of institutional learning and how states use it to guide processes such as the review of the internal governance of the FATF. Lastly, it makes a new contribution to the research on IOs’ bureaucracy by confirming that the FATF’s members only increased the formality of the secretariat in the extraordinary circumstances of 9/11.

In order to explain how these changes took place (or did not), the chapter is structured as follows. First, it introduces the reader to the period under analysis, 2014-2019. Then, it discusses how the FATF increased the formality of its scope of rules covered, and was granted a renewed open-ended mandate for the first time by the G20. After that, the chapter shows that the membership, enforcement, coordination unit and monitoring dimensions were not formalised. I analyse how the monitoring dimension was not formalised further, breaking a pattern of gradual formalisation that had been followed since its design, and I trace how the decision to maintain levels of formality in the rest of dimensions helped powerful countries to continue to exercise their influence over the organisation without losing legitimacy and with lesser accountability costs. The chapter concludes with a brief summary.

7.2 The FATF Context from 2014 to 2019

Just when the international community’s strong prioritisation of countering terrorist financing after 9/11 seemed to be fading, the Islamic State of Iraq and the Levant (ISIL) began its sharp rise, reawakening demons from the past. ISIL quickly showed an impressive ability to fund itself, and demonstrated that a new type of “low cost” terrorist attack was possible. In addition, it made it clear that Europe (home to several leading FATF countries) was among its targets. These events brought terrorism financing back to the top of the FATF’s agenda. In fact, for the second time in its history (9/11 being the first), the FATF convened a special meeting in order to “respond specifically to a direct threat to the safety and security of citizens

²⁰¹ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

worldwide” (FATF, 2016: 9), and to put in place a new CTF strategy. In the words of the organisation: “In light of the unprecedented threats posed by ISIL, FATF members decided to focus and accelerate our efforts” (FATF, 2015: 1).

At the same time, many global money laundering schemes began to be uncovered, highlighting numerous loopholes in the world’s financial systems, including those of the FATF’s most developed members. This lack of compliance around the world with the FATF recommendations was highlighted by the organisation on different occasions, for example: “The large-scale misuse of companies, trusts and corporate vehicles in the Panama Papers in April 2016 underscored the extent to which many countries had failed to effectively implement these standards” (FATF, 2017: 24).

In this context, the FATF was approaching its 30th year of activity in 2019, and in 2016 it started a review of its internal functioning, along with what the organisation should look like and how it should act in the future (FATF, 2016). This revision included important debates about whether to make the FATF a treaty-based organisation,²⁰² the possibility of including more independent staff to carry out particular functions such as the mutual evaluations,²⁰³ and possible membership expansion.²⁰⁴ All these debates were closely linked to the question of whether the FATF’s dimensions should increase their levels of formality or not.

In this period, the case of the FATF continued to support the assumptions that most of the issues handled by IIGOs could have been alternatively internationalised through formal intergovernmental organisations (FIGOs), but that IIGOs’ informal design offers some comparative advantages to powerful members in terms of influence and control. When the ISIL threat placed the international community on alert, the United Nations Security Council addressed the issue, which fell within its mandate. However, the FATF’s members reiterated support for this informal organisation in the belief that it could achieve results more quickly (FATF, 2015; 2016; 2017).

Nonetheless, the FATF’s members increased the levels of formality of two of its dimensions: the scope and the decision-making, albeit to a lesser extent than in the past. In Table 7.1 I recap each dimension’s level of formality at the start of this period (after the changes examined between 2008-2013) and I introduce how the formality of dimensions moved along the spectrum between 2014 and 2019.²⁰⁵

²⁰² Interview 18. Delegate to the FATF (State Member). Autumn 2020.

²⁰³ Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020.

²⁰⁴ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

²⁰⁵ The “types” of design considered more or less formal are stated in Chapter 2, Figure 2.2. There is also reference to how I measure the levels of formality in Chapter 3 Table 3. 2.

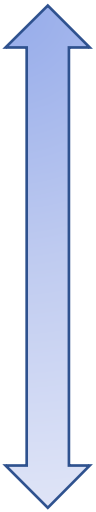
Level of formality in FATF dimensions		Before 2014	At the end of the period 2014-2019
High - Very High		Scope Monitoring Coordination Unit Enforcement Decision- Making Membership	Scope
Medium			Monitoring Coordination Unit Enforcement Decision-Making
Very Low- Low			Membership

Table 7.1 FATF spectrum of formality before and after 2014. Author's creation.

Turning to the explanatory variables of interest for this thesis: *the heterogeneity of preferences among powerful members, the need for further technical expertise from the IIGO bureaucracy, and the institutional learning* acquired over the years, all three continued to increase between 2014 and 2019.

(i) Heterogeneity of preferences between 2014- 2019

In its early years, the FATF's members were very selective about the countries allowed to join the organisation. Nonetheless, over the years the FATF membership more than doubled from the 16 initial members to 37 in 2019. Since 2001, the membership had expanded to include both emerging economies such as China and India, and states with which the US and its allies have not always seen eye-to-eye on security matters, such as Russia. Between 2014 and 2019 the variety of members further increased with the admission of Malaysia, Israel, and Saudi Arabia, while Indonesia (the only G20 member remaining outside the FATF membership) was granted observer status.

The resulting expanded membership continued to have some aligned preferences (such as control over the international financial system), but there were also numerous issue areas in which interests were palpably divergent. For instance, countries such as India made decisions on how to address the rapid rise of ISIL more difficult. This was the case because India, as a new member, continually argued that a sole focus on ISIL was insufficient, and that the FATF also needed to address the activities of other terrorist

insurgent groups which were more threatening to other members, such as Al Qaeda.²⁰⁶ Although this is not publicly recorded and was explained by a participant in one of the interviews I carried out, it can be observed that even in the wake of the ISIL attacks in Paris, the communication from the FATF also referred to Al Qaeda, stating that the FATF sought: “to cut off the financing of terrorism, particularly for serious terrorist threats such as ISIL and Al-Qaeda, to reinforce safeguards that will deny terrorists access to the financial system and prevent them from exploiting vulnerable countries as safe havens, and to ensure that financial intelligence is effectively used” (FATF, 2016b:1).

(ii) FATF’s demand for further expertise from IOs’ bureaucracy

The rapid rise of ISIL brought a number of issues requiring new technical expertise, from particular regional knowledge to understanding of new forms of funding, and how to combat issues such as foreign fighters (FATF, 2016). Moreover, the seemingly continuous series of scandals caused by journalistic exposures of vast money laundering schemes involving numerous private sector firms (from banks to state agents and hire vehicle companies) and the emergence of new forms of currency also demanded greater technical expertise than the FATF members had at their disposal.²⁰⁷ A further issue requiring expert knowledge was raised by the fast advances in virtual assets such as cryptocurrencies (Salami, 2017; FATF, 2014c). All this was in addition to the fact that the new methodology approved in 2013 was already more complex than previously (FATF, 2013).

Moreover, in the aftermath of ISIL’s attacks in Paris in 2015 the FATF also sought information about the CTF frameworks in place around the world (which meant coordinating 194 country responses in a very short period of time) (FATF, 2016). This global expansion also required regional expertise that the FATF did not have, as was evident when they tried to deal with the threats of terrorist cells in Southeast Asia.²⁰⁸ Lastly, during this period the FATF finally took more seriously the integration of human rights and humanitarian law and its interlink with AML/CTF issues, which had long remained unaddressed by the FATF’s members and for which specific data and expertise from outside the FATF was again needed.²⁰⁹

All these issues demanded far greater technical expertise and resources than had been foreseen by the FATF’s members not only at the initial design stage, but also during the last review.

²⁰⁶ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

²⁰⁷ Interview 8. UN Official working on AML/CTF technical assistance programmes. Autumn 2020.

²⁰⁸ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

²⁰⁹ Interview 6. NPO representative to the FATF. Autumn 2020.

(iii) Institutional learning

Most of the changes in this period were again path dependent on the past development of the FATF and incorporated the lessons which had been learned. The only case in which path dependence was not followed was in the creation of the FATF TREIN, a training institute via which the FATF aimed to offer technical expertise to struggling countries. This function was already handled by the IMF and the World Bank and was unsuccessful in achieving its goals, rendering FATF TREIN practically defunct today.

Moreover, when ISIL attacked Paris the FATF members resorted in the lessons learnt during the response to 9/11 and replicated them. It was the second time in its history that convened a Special Plenary Meeting and that issued a global CTF survey.

Also, in this period, the FATF members knew the comparative advantages and weaknesses of different levels of formality. For instance, the powerful members knew that they needed to take quick decisions in the wake of the ISIL attacks in Paris and they did so informally, while weaker members were asking for clearer procedures governing the rotation of the steering group in order to boost their chances of inclusion in ordinary times during the internal revision of the FATF design.²¹⁰

Thus, in comparison with the previous period, I observed that between 2014 and 2019: (i) the heterogeneity of preferences among powerful members was higher; (ii) the demand for technical expertise from international bureaucrats also increased; and (iii) the feedback about each of the design dimensions was higher. However, only the scope and decision-making dimensions underwent reforms that increased their levels of formality, while the rest were maintained with the same design as before. These reforms were less notable than in previous years as the FATF had already reached “adulthood” and had put in place most of the mechanisms it needed to face new shocks.

7.3 Dimensions that Increased in Formality Between 2014-2019: Scope and Decision-making

Between 2014 and 2019, two of the FATF’s dimensions were formalised: scope and decision-making. The greater formalisation was to be found in the scope dimension, which reached the higher end of the formality spectrum. The increase in levels of formality in the decision-making dimension was more theoretical than

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in practice (as had happened with enforcement in the last period), and it remained at a low to medium level of formality (i.e. still quite informal). Table 7.2 shows how these dimensions changed, and they are then discussed in turn in the main body of the section.

Dimension	Before 2014	Between 2014 and 2019
Scope	<p><u>Level of formality: Medium</u></p> <p>Periodic reviews (open to members, associate members, observers, and non-state actors)</p> <p>Outcomes publicly available (although deliberations and input were not)</p> <p>IIGO's bureaucracy is involved</p> <p>Non-state actors and non-member states can participate through institutionalised mechanisms</p>	<p><u>Level of formality: High</u></p> <p>Legal obligations attached: (The Recommendation on criminalising all types of terrorism financing is bound under international law due to UNSC Resolution 2462 (2019))</p> <p>Periodic reviews (open to members, associate members, observers, and non-state actors)</p> <p>Outcomes publicly available (although deliberations and input were not)</p> <p>IIGO's bureaucracy is involved</p> <p>Non-state actors and non-member states can participate through institutionalised mechanisms</p>
Decision-Making	<p><u>Level of formality: Low</u></p> <p>The plenary is the visible face (members, associate members and observers can attend public deliberations)</p> <p>Important issues are decided behind closed doors only among members (and usually before the plenary meets, in secret and <i>ad hoc</i> meetings or in the steering group).</p> <p>The internal functioning is unclear and gets even fuzzier when looking at the steering group.</p> <p>The presidency rotates every year</p> <p>Lack of institutionalised participation of non-state members or non-state actors</p> <p>Very low transparency</p> <p>The mandate of the organisation is revised periodically (every seven years since 2011)</p>	<p><u>Level of formality: Low to Medium</u></p> <p>The plenary is the visible face (members, associate members and observers can attend public deliberations)</p> <p>Important issues are decided behind closed doors only among members (and usually before the plenary meets, in secret and <i>ad hoc</i> meetings or in the steering group).</p> <p>Greater transparency given to the steering group, which revised its rotation system (but in practice continues to work mostly as it did in the past)</p> <p>The presidency is extended from a 1-year mandate to a 2-year mandate (its decision-making remains mostly private).</p> <p>Low transparency</p> <p>The mandate is now open-ended so no more revisions are needed to the temporality of the FATF</p>

Table 6.2 Dimensions that increased in formality between 2014 and 2018. Author's creation.

7.3.1 Scope of rules covered

After some years in which money laundering and new topics such as proliferation financing and the detection of the proceeds of corruption²¹¹ took a more prominent place on the FATF's agenda, the rapid rise of ISIL from 2013-2014, and especially its attacks on European countries between 2015-2017, resulted in the reprioritisation of terrorist financing. According to the FATF, the rise of ISIL "caused global concern" and "represented the beginning of a new phase of work for the FATF" (FATF, 2015: 2). This led the FATF to convene a special meeting of its members for only the second time in its history,²¹² at which they decided on a "renewed and consolidated FATF strategy on combating terrorist financing" (FATF, 2016: 5).

In this case, contrary to what happened after 9/11, the FATF's members saw no need to issue special standards on the matter or to undertake a full review of the Recommendations. The FATF had already introduced the nine Special Recommendations on terrorism financing after 9/11 that were fully integrated within the standards of the FATF by that time, and the last review of the Recommendations had only just happened, in 2013. This meant they could rely on the work previously done in this area, as the countries most concerned about the rapid increase of ISIL (especially France and the rest of Europe, after ISIL's attacks on European soil) had participated in the negotiations on the Special Recommendations on CTF.

The FATF's members did edit some of the Recommendations²¹³ in order to better capture the new issues characteristic of ISIL's *modus operandi*, such as those posed by foreign terrorist fighters²¹⁴ (FATF, 2016, 2017). All these Recommendations continued to take the form of standards, and were not collected in any formal treaty or agreement - until the FATF later decided to directly link its policies to UNSC Resolution 2462 (2019). This move was precipitated because, despite the global harmonisation of CTF rules which had to some extent been achieved, the number of convictions was very small.²¹⁵ These doubts

²¹¹ And targeting corruption more broadly in an effort to deter corruption offences (which, although they happen around the world, are especially observable in some developing countries). For instance, when partner organisations such as the UN or the IMF work on the ground to develop technical assistance programmes they often face issues with local government corruption and/or enforcement which make the implementation of effective AML/CTF impossible. Interview 8. UN Official working on AML/CTF technical assistance programmes. Autumn 2020.

²¹² The first was held in the aftermath of 9/11.

²¹³ The most relevant edits in this area included the introduction of the threat posed by foreign terrorist fighters in Interpretative Note to Recommendation 5 in 2015, Recommendation 8 and its Interpretative Note on the potential abuses of NPOs by terrorist in 2016, and edits to standards linked to information sharing, which up to that point had been insufficient, Interpretative Note on Recommendation 18, and Recommendation 21 (FATF, 2018).

²¹⁴ According to UNSC Resolution 2178 (2014) Preambular Paragraph 8, foreign fighters are "individuals who travel to a State other than their States of residence or nationality for the purpose of the perpetration, planning, or preparation of, or participation in, terrorist acts or the providing or receiving of terrorist training, including in connection with armed conflict".

²¹⁵ Interview 11. UNSC Official working on AML/CTF topics. Autumn 2020. Online; Interview 12. UN Official working on AML/CTF topics. Autumn 2020. Online.

about the implementation of the FATF's CTF frameworks were exacerbated by the abrupt rise of ISIL and the economic support it managed to attract.

Considering that one of the clearer criteria for assessing formality is the presence (or otherwise) of a legal treaty, this dimension took an important step towards a more formal design.²¹⁶ The FATF had worked very closely with the UN since the rise of ISIL, resulting in the first UNSC resolution in March 2019 focusing solely on terrorism financing (UNSC Resolution 2462).²¹⁷ This was considered a turning point by the FATF because, as the organisation explained, "this resolution has embedded an FATF Standard in international law" (FATF, 2019: 15).²¹⁸ This meant that from that time onwards, the FATF policy on criminalising terrorism financing was binding under international law. UN Resolution 2462 (2019) served a triple purpose: it reiterated the commitment to fighting terrorism financing of the most powerful countries in the world, it consolidated the role of the FATF in the international community, and it focused attention on the problematic link between counter-terrorism financing legislation and the non-profit sector which was increasingly important to the domestic audiences of some FATF members.

One of the most hotly-debated parts of the negotiations on Resolution 2462²¹⁹ were the paragraphs referring to the need to respect human rights and humanitarian law when implementing regulations on money laundering and terrorist financing in the field. This resulted from a decade of lobbying by non-profit organisations (NPOs). In the words of one NPO representative: "it took a lot of effort and years of lobbying states (mostly European ones and Canada) that are friendly to us as well as some UN agencies and bodies, until we got a say in some of the FATF public forums in which before just the private sector was invited".²²⁰

In this case, the heterogeneity of preferences among powerful members can indeed explain the further formalisation of the scope dimension, as it was one area in which they were not aligned. On the one hand, the need to criminalise terrorist funds was made explicit to all UN members, as although many of them had regulations in place, convictions were almost non-existent (FATF, 2016). On the other hand, the need to respect Human Rights when implementing FATF polices (and CTF measures more generally) was included in the UNSC Resolution because some (mostly European) countries wanted it to be reflected in a

²¹⁶ Although this was an important step, it solely affected this dimension, not the rest of the FATF – as the FATF decided not to bind the whole organisation under international law.

²¹⁷ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020; Interview 12. UN Official working closely on sanctions. Autumn 2020; Interview 6. NPO representative to the FATF. Autumn 2020.

²¹⁸ Although on previous occasions the UNSC had already called on its members to comply with the FATF standards, it had never given them direct enforcement as happened with the Standard referring to the criminalisation of terrorism financing.

²¹⁹ Interview 12. UN Official working on AML/CTF topics. Autumn 2020

²²⁰ Interview 6. NPO representative to the FATF. Autumn 2020

legal agreement. In relation to the FATF's work, the issue of how far Human Rights should be prioritised depends on the respect of the country holding the presidency towards these issues.²²¹

The different positions of FATF powerful members with regards to this issue can be observed in the press release collecting some of the interventions in the UNSC debates on the day that Resolution 2462 (2019) was passed. For instance, Russia and the US wanted a harder criminalisation of those funding terrorists:

“Noting that it has become fashionable within the United Nations to talk about preventing terrorism through ‘soft power’, he [Vassily A. Nebenzia (Russian Federation)] emphasized that it cannot replace the role of criminal justice, explaining that not every criminal can be rehabilitated. Anyone involved in terrorism, including its financiers, must be brought to justice, he stressed, adding that ignoring that commitment contravenes several Council resolutions, including the one adopted today” (UNSC, 2019:1).

“Jonathan R. Cohen of the United States noted that today’s resolution obliges Member States to criminalize terrorist financing even in the absence of a terrorist act, adding that Member States must implement it in a manner consistent with their obligations under international law” (UNSC, 2019: 1).

Meanwhile, European countries highlighted and reiterated the need to include respect for human rights and humanitarian law in the approach towards the criminalisation of TF:

“Responding to concerns expressed by humanitarian organizations, he [Juergen Schulz (Germany)] stressed that today’s resolution does not erect barriers against humanitarian assistance by restricting aid workers’ access to funds in conflict regions.” (UNSC, 2019: 1).

Jean-Yves Le Drian (France) “...concluded by welcoming the resolution’s balance between the objectives of the fight against terrorism financing and the need for humanitarian actors to carry out their missions without impediment” (UNSC, 2019: 1).

This was the first time in thirty years that the FATF actually increased the formality of its scope due to a heterogeneity of preferences among its powerful members. It did so because two more conditions were present: the need to show the credible commitment of the international community to prioritising the fight

²²¹ Interview 6. NPO representative to the FATF. Autumn 2020.

against terrorism financing (especially to those countries which were not yet well integrated in the international community, in which ISIL could be setting up its cells), and the need to make clear commitments on issues important to the respective domestic audiences of some powerful FATF members.

By tying the FATF to a UNSC Resolution, the most powerful countries in the world directly supported its mandate without turning it into a treaty-based organisation.²²² The FATF's members knew that doing this would not have a direct effect on their control over the FATF as ultimately, the enforcement of their policies depended on other dimensions and they retained the ability to continue shaping the FATF's Recommendations and issue policies decided informally and quickly, if needed. Nonetheless, this movement shows that IIGOs can indeed attach legal obligations to their policies without necessarily binding themselves under a treaty.

7.3.2 Decision-making

The FATF was born in 1989 as a task force with a limited period of operation in which to discuss measures on how to fight global money laundering, a task which would be directly handled by its members, and it was to be chaired by one state representative on an annual rotational basis (FATF, 1990). Over the years, the FATF's decision-making continued to function with a design very close to that decided in its early years.

In 2016, after 25 years of activity, the FATF decided to undertake a broad revision of its internal governance in order to decide the future of the organisation (FATF, 2016). This period of negotiations lasted until 2019 and was finally endorsed by the G20 in 2020. During these years numerous issues were discussed, including many related to the formality of the decision-making dimension, as the interviewees present at the negotiations explained off the record, and as the following official quote indicates: "FATF members continue to explore ways to improve FATF's institutional basis, including through further consideration of legal personality in the host country of the Secretariat or under international public law." (FATF, 2018c: 2).

Whether or not to turn the FATF into a treaty-based organisation was indeed a hot topic during this time, and in the interviews for this study, national delegates from member countries to the FATF confirmed that it "was discussed in different meetings and during a couple of years, there was no consensus",²²³ and that: "no one wanted to state clearly why they did not want the organisation to be more formal, but most of the countries that were part of the FATF since the beginning did not want it to happen".²²⁴ As is usual there

²²² Interview 2. Member State Head of Delegation to the FATF. Autumn 2020.

²²³ Interview 1. Delegate to the FATF (State Member). Summer 2020.

²²⁴ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

are no records of these negotiations, but interviewees for this study who were present in the room indicated that there was higher interest in such formalisation among member countries whose voices were weaker.²²⁵

Ultimately, the FATF's decision-making underwent some reforms that increased its formality on paper while preserving the overall informality of decision-making procedures in practice. To start with, the mandate of the FATF became open-ended after thirty years, ending three decades of time-bound mission (FATF, 2019). Numerous observations such as those presented below from these years reinforce how the extension of the mandate served, *inter alia*, as a clear statement of commitment to the FATF and its Recommendations from its members:

“We should recognize that the FATF has evolved from a temporary forum to a *continuing public and political commitment*. Therefore, it makes sense for the FATF mandate to become open-ended rather than for a fixed term.” (Billingslea, 2019:1 - emphasis added by the researcher);

“FATF members *reaffirm* their intention to strengthen FATF *international status* as the *intergovernmental body in charge of setting standards globally* for anti-money laundering, counter terrorist financing and counter proliferation financing.” (FATF 2018c:2 - emphasis added by the researcher); and

“They [members] agreed to make the FATF's mandate open-ended. This reflects the fact that money laundering, terrorist financing, and the financing of proliferation are enduring challenges for the integrity of the financial system, and that a *sustained political commitment* to fight money laundering, terrorist financing, and proliferation financing is required.” (FATF 2019: 83 - emphasis added by the researcher).

In this revision, the FATF members also agreed in 2017 to extend the roles of president and vice-president by extending the terms from one year to two (FATF, 2019). This move was also thought to consolidate the role played by the organisation in the broad international system, as the following quote explains: “The FATF members took key initiatives to raise the FATF's profile and visibility with global governance bodies and relevant stakeholders. These included strengthening and extending the roles and terms of the FATF Presidency and Vice-Presidency to two-year period from 2017. These enhancements aim to recognize and build on FATF's increased participation in international fora” (FATF, 2018d: 1-2).²²⁶

²²⁵ Interview 1. Delegate to the FATF (State Member). Summer 2020.

²²⁶ In line with this goal, the G20 not only continued to call on the FATF to take the actions they considered to be urgent, but they also invited the organisation to take a seat at some G20 summits. The first invitation came under the German presidency, and since then the FATF has attended these meetings and reported to the G20 ministers (FATF, 2018).

This reform was also supported by the G20 because it would “raise the FATF’s profile and visibility on the global stage in order to promote effective implementation of the FATF Standards throughout the world” (FATF, 2019d:3). Also at that time, the FATF highlighted the need to continue engaging with the FATF-style regional bodies and to strengthen the global network (FATF, 2018d:3).

Although the full revisions made to the FATF’s Internal Governance Principles were not made public, a summary highlighted that the edits were made with the intention to increase “the transparency of its decision-making and enhance the role of the FATF Steering Group as an advisory body” (FATF, 2018b: 2). This is in line with the argument that they referred to institutional learning when designing it, but also highlights that they had indeed reinforced the clearest informal safeguard they had with regards to the FATF decision-making: the steering group. In other words, while the FATF claimed that it would be more transparent in its decision-making, at the same time it granted more power to the steering group, one of the most informal and least transparent parts of the dimension.

The steering group was not formalised, and even though a clearer rotation system was established internally after being requested by weaker members, this was not made public, nor did it end up meaning much in practice.²²⁷ Moreover, even though the plenaries continued to allow numerous participants to attend open sessions, the ultimate decision-making and most private sessions remained reserved to stronger members.²²⁸

Thus, no major changes were introduced to the core decision-making of the organisation, and both the FATF’s members and the G20 (which are broadly the same leading states anyway) continued to highlight that this organisation was state member led (FATF, 2019). FATF members took into account the institutional learning they had acquired over the years in other dimensions and increased the level of formality of the organisation’s decision-making in order to grant this dimension greater legitimacy and continue with its global expansion. The FATF members knew that changes such as this would be enough to placate those countries which had started to question the status quo, without giving up much of their actual power with the inclusion of informal safeguards similar to those of the enforcement.

The increased formality of the decision-making was more theoretical than practical, as had been the case in the enforcement dimension. Some quotes highlighting the pivotal (and arguably even reinforced) role that the FATF continues to give to states/members are as follows: “The FATF members also agreed to greater ministerial engagement and support for the FATF through regular and more frequent ministerial-

²²⁷ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020

²²⁸ Interview 18. Delegate to the FATF (Member State). Autumn, 2020. Interview 5. State Delegate to the FATF. Autumn 2020. Online.

level meetings” (FATF, 2019: 84); and “FATF Members agreed to strengthen FATF governance and accountability through increasing the engagement of ministers and senior officials of FATF members” (FATF 2019b: 3).

Furthermore, decisions continued to be made before arriving at the plenary at informal meetings. For instance, the G7 continued to meet informally on the margins of the plenary to try to reach common positions.²²⁹ Usually, these meetings happen in one of the G7 states’ embassies, and depending on the topic at hand they serve at times to advance positions together. This type of gathering is less likely among G20 members as the number of participants and interests of each varies too much.²³⁰

The FATF delegates present at these negotiations explained that powerful countries within the FATF membership resisted the formalisation of the FATF and the option of giving it the legal nature that the FATF members claimed had been considered in its 2016 internal revision.²³¹ There were different reasons for this: a higher level of formality would mean that they would lose some of the “extra power” they had within the organisation;²³² it would sharply increase the cost of maintaining the FATF;²³³ and it would risk the FATF becoming too similar to other, more formal organisations already dealing with the same issues (among others), such as the UN.²³⁴ Thus, decision-making was slightly formalised to boost its image and was starting to be questioned, without actually changing its power dynamics or getting rid of the informal safeguards that allow leading countries to exercise asymmetric control over the organisation. Most important, not real changes to the accountability of members occurred as the FATF claimed that such accountability was granted by their own country-members ministries.

This section has shown that while the dimension of scope reached a high level of formality, the reforms made to the decision-making meant that this dimension remained quite informal. The evidence for these two dimensions in this period of time reinforces the importance granted by FATF members to the perceived legitimacy of the organisation and its activities, and how mixing formality with informality had helped them to keep up appearances while continuing to exercise asymmetric control over the organisation. The increased formality of the scope dimension is also substantially relevant to the conceptualisation of

²²⁹ Interview 15. Delegate to the FATF (State Member). Autumn 2020.

²³⁰ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020; Interview 15. Delegate to the FATF (State Member). Autumn 2020.

²³¹ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.; Interview 18. Delegate to the FATF (Member State). Autumn 2020; and Interview 15. Delegate to the FATF (State Member). Autumn 2020

²³² Interview 18. Delegate to the FATF (Member State). Autumn 2020,

²³³ Interview 1. Delegate to the FATF (State Member). Summer 2020.

²³⁴ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020; Interview 1. Delegate to the FATF (State Member). Summer 2020.

IIGOs because it shows the capacity of these organisations to attach legal obligations to their policies, without bounding the whole organisation with a legal agreement such as a treaty.

7.4 Dimensions Maintained at the Same Level of Formality Between 2014-2019

Between 2014 and 2019, the formality of four FATF dimensions did not change: (i) the monitoring; (ii) the membership; (iii) the enforcement; and (iv) the coordination unit. The case of the monitoring is particularly paradigmatic because this dimension had previously been granted greater formality over the years. However, not only did the formality of the dimension not continue to increase between 2014 and 2019 as it had in the two previous periods, but the powerful members were directly opposed to that. The membership dimension was maintained at the very low level of formality assigned in its initial design, while the enforcement and coordination unit dimensions maintained the medium level of formality they had acquired over the years. The lack of increased formality in these three dimensions was in line with the initial priorities of the leading states regarding the design of the FATF.

7.4.1 Monitoring

The FATF's monitoring dimension had been one of the dimensions within the organisation with a higher level of formality, alongside the scope. As was explained in the previous chapter, a fourth round of mutual evaluations started in 2014, which continued as scheduled until 2019 without changes to the process for any exogenous reason.

However, the rapid rise of ISIL and its attacks in Paris in 2015 compelled the FATF members to reactivate a previously effective informal practice, the dissemination of a special self-assessment questionnaire on national anti-terrorism financing frameworks. The underlying methodology was quickly and informally decided by the members, once again demonstrating the FATF's ability to access information about states' compliance with AML/CTF legislation without formally establishing a review mechanism. Thus, once again in the imminent wake of a security shock experienced directly by one of the main members of the FATF, this time France, a number of informal actions were activated.

The formula of surveying countries around the world with questionnaires quickly and informally drafted by the FATF members had not been repeated since it was used in the aftermath of 9/11 with a similar call to countries to answer. However, there was institutional knowledge that it was a resource which could be deployed to get a general idea of the state of CTF national frameworks globally. These questionnaires had proved useful after 9/11 to gather information from a high number of jurisdictions

around the world at a manageable workload and cost. Even though the FATF itself coordinated and put together the results, its staff did not have to travel to or survey the countries themselves, because that work was to be carried out by the states in question.

Thus, using the knowledge that this type of survey had allowed the FATF to obtain financial information very quickly before, and reinforced on this occasion by the G20, the FATF carried out a survey on the status of global compliance with its counter-terrorist financing measures (FATF, 2016). The FATF highlighted that the regional network it had established to exercise mutual evaluations during ordinary times was also key to performing this task in a more exceptional context (FATF, 2016).²³⁵ In fact, the FATF made use of the regional structure, explaining that it was crucial to carrying out and collecting the assessments of 194 jurisdictions in a very short time, which “could not have happened without the work of the FSRBs” (FATF, 2016: 9). They thus repeated all the methods that had worked well for them in the past, and it again proved to be a fruitful strategy that allowed the FATF to quickly gather current data on the status of CTF legislation around the world.

Neither the rise of ISIL and its attacks nor other events that raised questions about compliance with the FATF’s recommendations, such as the scandal generated by the Panama Papers, affected the level of formalisation of the FATF’s monitoring dimension.²³⁶ In fact, despite the lack of public records, this was another issue under discussion when the FATF reviewed itself from 2016, as was explained in the interviews for the present study by the FATF delegates present during the internal review.²³⁷

Some members with less weight in the organisation and those associated with the FATF thought that its FSRBs were inclined to increase the formality of the dimension by delegating the function of mutual evaluations to a group of hired independent and professional staff.²³⁸ This would have meant that the teams evaluating countries would not be configured by state officials and FATF staff from the secretariat, but by professional teams independent from FATF state member countries. However, the more powerful members preferred to maintain the composition of evaluation teams with national officials.²³⁹

²³⁵ The FATF found that most countries had laws that criminalised terrorist financing and applied targeted financial sanctions. However, the number of countries which were actually securing convictions and implementing sanctions was low, and the process was generally happening too slowly (FATF, 2016).

²³⁶ In 2014, the FATF started its fourth round of evaluations, which included a new assessment on how effectively countries around the world were implementing its Recommendations (FATF, 2015). Apart from those reforms, discussed between 2012 and 2013, the main aspects of its design decided after 9/11 remained constant, and Mutual Evaluations continued regardless of the rise of ISIL and its attacks.

²³⁷ Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020.

²³⁸ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020. Interview 1. Delegate to the FATF (State Member).

²³⁹ Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020.

The resistance of powerful states against the possibility of losing control over the mutual evaluations can be explained with reference to the opportunities that the current design grants them to exercise informal influence within a process that is just formal enough to generate global leverage and legitimacy. For instance, state members are able to make special requests to the FATF for the assessors that they want (e.g., they may know them from previous rounds), or at least on the nationality of the assessors who will be involved.²⁴⁰ Moreover, another interviewee added that while the FATF has established a common methodology that lays out the steps to be followed in undertaking the mutual evaluations and writing up the reports to ensure some consistency, there is still an important “qualitative” component to them.²⁴¹ This means a country can negotiate and renegotiate its ratings several times in more informal meetings before they are brought to the FATF plenary.

The choice of assessors from a given country and the renegotiation of ratings would have become trickier if an independent panel of staff was hired to carry out the evaluations.²⁴² This shows, once again, that one of the main reasons why powerful members have a notable preference for informality is because it allows them to exercise asymmetric control over the FATF and, as these empirical chapters are uncovering, lesser accountability constrains. Although they had to compromise a little by giving up some informality in the monitoring dimension to legitimately expand the FATF’s jurisdiction outside the membership and to share the material costs of evaluating so many countries, they continued to use a number of informal safeguards which allowed them to exercise influence²⁴³ with low reputational costs for themselves and low legitimacy costs for the organisation.

Thus, the mutual evaluations continued to be as formal as before, that is, medium to high on the spectrum of formality of an IIGO, but not as high as they would have been in the context of a FIGO, for instance when compared with the monitoring teams working on the same issues in the UN, which comprise independent staff.²⁴⁴

Lastly in this time period, the FATF created a technical assistance and capacity building programme for associated members, FATF TREIN, an activity handled already by the IMF, the WB, and the UNODC. Although this institute hired staff and organised some workshops, to date it has never fully functioned or

²⁴⁰ Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020.

²⁴¹ Interview 3. Member to the FSRBs MONEYVAL. Accredited assessor for mutual evaluations. Summer 2020. Further confirmed off the record by two FSRBs representatives from different regions.

²⁴² Interview 1. Delegate to the FATF (State Member).

²⁴³ At times perversely, such as when they changed the ratings of evaluations after negotiations involving issues going beyond purely AML/CTF effectiveness. Interview 1. Delegate to the FATF (State Member). Summer 2020; Interview 3. Member of the FSRBs MONEYVAL. Accredited assessor for mutual evaluations. Summer 2020.

²⁴⁴ Interview 11. UNSC Official working on AML/CTF topics. Autumn 2020.

achieved the goals for which it was designed. According to some FATF members it was a “*disaster*”²⁴⁵ that evidenced the difficulties attached to creating a new institution from scratch that would need to compete with other, better-established organisations in the system.²⁴⁶ In creating it the FATF was entering new territory and was stepping into the shoes of partner organisations such as the IMF, the WB, and the UNODC. The body was created because it was a priority for the South Korean government, and it was set up in South Korea’s presidency year (FATF, 2016). However, the FATF failed to design a body that could succeed. FATF TREIN has since been unable to put together effective technical assistance and capacity building programmes, a field of activity already covered in the broad AML/CTF regime by other IOs in which the FATF’s powerful members also have important bargain power.²⁴⁷

In the end, the formality of the monitoring dimension did not increase. I found that powerful members were once again aligned in their preference for informality over formality, and that they resisted the changes proposed by weaker members that would have further increased the formality of the organisation. The decision to leave the formality unchanged meant that the most powerful countries still had greater power to mould evaluations, which would not have been the case any longer if mutual evaluation assessor teams were made up of fully independent professional staff. The voices asking for these changes were not strong enough to damage the FATF’s legitimacy at that stage or to overrule the priorities and preferences of the more powerful members.

Moreover, the response to the ISIL attacks in Paris not only showed that the FATF members resorted to informality over formality in “exceptional times”, but also reinforced that states had learned from previous experiences in using the same type of questionnaire as after 9/11. The FATF members understood that because of the shock that the growing expansion of ISIL was generating in the international community, the informality with which the questionnaire on CTF was being drafted would not raise issues with the legitimacy of the action or the FATF’s authority more broadly. Moreover, the FATF knew that the best approach to reach as many countries as possible was to make use of its global network (which is used in normal circumstances for the monitoring and discussion of polices).

²⁴⁵ Interview 18. Delegate to the FATF (Member State). Autumn 2020. Also confirmed off the record by three more interviewees.

²⁴⁶ Interview 18. Delegate to the FATF (Member State). Autumn 2020.

²⁴⁷ Off the record interview.

7.4.2 Membership

The formality of the membership dimension did not increase between 2014 and 2019, as neither the entry process (i.e., subject to a clear schedule, criteria, and involving all members in the discussions) nor the outcome (i.e., the rights and obligations among members) were formalised.

Nonetheless, during these years and under the leadership of Russia, the FATF reviewed its membership policy and discussed the extent to which an expansion was desirable (FATF, 2014). In this way, in 2014, when the FATF carried out a review of its internal structure, its members also decided that it needed to carry out a further “limited expansion”. It revised the membership application criteria, specifying that new candidates must be “strategically important and enhance the FATF’s geographic balance” (FATF, 2014: 30).

Although the criteria to become a member received further clarification with regard to the previous rules (dating back to 1998) and a decision to include some new members was taken, the overall dimension of membership continued to be quite informal. It did not undergo changes that would have brought it to the middle of the FATF spectrum of formality. The membership policy continued to be very broad, and applications remained in the hands of the leading members of the FATF (usually those with a great power globally, or those who had the strongest diplomatic ties).²⁴⁸

In 2014, Malaysia was chosen as a membership candidate that would “enhance the representation of the Asian region in the FATF membership” (FATF, 2015: 23). In practice, the rise of ISIL showed the existing FATF membership that the organisation lacked reach and/or specialised regional information on some parts of the world where ISIL had cells.²⁴⁹ This, added to the continued demands from less powerful countries within the FATF to expand the membership to more regions (so that they could have “more friends”²⁵⁰ within the FATF membership) resulted in the inclusion of Malaysia and in the publication of a “membership policy”. With the entry of Malaysia, the FATF’s members ensured that they were including a new country from an unrepresented geographic zone which lacked many options to create strong coalitions within the FATF membership that might threaten the status quo.

Although more detailed than the previous “criteria for entry”, this membership policy illustrates that the FATF’s members realised that they had to present some “rules” if they were to avoid uncomfortable

²⁴⁸ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020

²⁴⁹ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020

²⁵⁰ Interview 5. State Delegate to the FATF. Autumn 2020.

questions about the membership process.²⁵¹ They again used the institutional learning gained from previous years in other dimensions and tried to managed the issue without losing too much control, while addressing increasing legitimacy questions. In the end, the reforms to the membership design were minimal and changed very little in practice.

In 2015 the Kingdom of Saudi Arabia was also accepted as an observer with the observation that if it secured full membership, it would be the “first country from the Middle East and north African region to become a direct member of the FATF” (FATF, 2015: 24). Finally, the FATF identified Israel as another potential member in 2016 because it would: “expand the FATF membership into the Middle East region, which, given the current terrorist financing threats is particularly relevant” (FATF, 2016: 50).

The conversations to bring these countries to the table remained very informal, as had been the case in the past. Although the criteria that countries supposedly needed to meet in order to join the FATF were published, the negotiations did not follow a formal process (apart from the need for candidates to be evaluated before becoming full members). Again, the extent to which (and reasons why) those countries met the criteria, and others that were applying at the same time did not, was unclear.²⁵² In fact, Saudi Arabia’s entry into the FATF provides clear evidence of the continued informality of the process, as there is almost no information on it, and the present study’s interviewees mentioned private *ad hoc* meetings without broad consultation. A head of one delegation to the FATF from a member state remembered that:

“the entry of Saudi Arabia was negotiated by a very limited number of members. It was a bit like being in a market, haggling more than following established policy. Then, one day all of a sudden Saudi Arabia was presented to the plenary as already having fulfilled all the requirements needed to become a member”.²⁵³

Indeed, Saudi Arabia did undertake the mutual evaluation that is a requirement to enter the organisation, but was granted membership before resolving the issues identified in its national anti-money laundering and counter-terrorism financing measures, based upon a commitment to do so in the future (FATF, 2019).

This informal membership accession process was possible because the FATF had been designed in this way when it was set up, and the legitimacy of the process had not been threatened. As soon as dissatisfied countries increased their power (either political or economic) to a level sufficient to present the

²⁵¹ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020

²⁵² Interview 5. Delegate to the FATF (State Member) in this period. Autumn 2000.

²⁵³ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020

international community with alternative options, they were included into the FATF membership and granted some degree of control or influence over the organisation (i.e., Saudi Arabia).

7.4.3 Enforcement

The FATF continued to use its grey list and blacklist to “name and shame” non-compliant countries and to call on its members to apply countermeasures against those states if they failed to implement the requested reforms. As was highlighted by the 2014-2015 Australian FATF President, Roger Wilking, because of its design the FATF lacks: “real sanctions as such for non-compliance. The key incentive is peer pressure. There may well be practical implications for countries that fail to meet standards egregiously. They might find themselves excluded from the international payments system, with implications for their banks, business and citizens” (FATF 2014b: 1).

By February 2019, the FATF had reviewed a total of 81 countries and publicly identified that 69 of them were non-compliant with the Recommendations (FATF, 2019). Since its relaunch, the FATF blacklist had been accepted by the international community and has not suffered important criticism similar to that experienced in the past, so the blacklisting process continued even in the wake of the ISIL attacks (unlike after 9/11, when it ceased). The dimension continued to show the same medium level of formality, as the process continued to be mostly informal, and the safeguards that states introduced at the time of design (discussed in the previous chapter) were preserved.²⁵⁴

A member of a delegation to the FATF from a state member recognised a “desire to turn the ICRG into a more formal procedure, from those countries holding less power within the organisation in order to increase their control over the process. However, there was a pushback from powerful countries because this would translate into giving up their uneven power over it”. This is similar to what I observed in the monitoring dimension. The same interviewee went further and explained that the process as it stands today is “actually lacking any real framework to work around it”.²⁵⁵ In fact, an examination of the blacklist shows that even though the listed countries did indeed have shortcomings in their national AML/CTF frameworks, other countries which also had similar issues were not listed (FATF Public Outcomes from 2008 to 2019).

In this dimension, the FATF members found a suitable balance between the formality they granted when designing this process and the number of informal safeguards they retained. Because it was reporting

²⁵⁴ For instance, limiting access to the FATF bureaucracy, control of the chair and co-chair positions, *ad hoc* meetings with countries facing listing, and space for informal negotiations.

²⁵⁵ Interview 18. Delegate to the FATF (Member State). Autumn 2020.

positive returns for more powerful states and the past criticism had by this time been overcome, there was no need to increase the formality of the enforcement dimension. The FATF admitted that it was aware that its blacklists were “a powerful tool to make important and necessary reforms happen”, and that they had the power to affect countries’ economies (FATF, 2016: 38). For this reason, the FATF’s enforcement continued as it was designed a decade before. Moreover, because it was endorsed by major economic and political powers, countries around the world knew that the reputational and economic costs of defying the FATF’s stated policies could be devastating.

7.4.4 Coordination Unit

The FATF started out without an institutionalised coordination unit, then in its early years established a small secretariat with three staff members (FATF, 2019: 33). However, when 9/11 happened, the FATF’s members were overwhelmed by the expansion of its reach, scope, and activities, and the secretariat grew and quickly gained greater independence. But, after that, both in the period studied in the last chapter, 2008-2013, and in this one, 2014-2019, the FATF members limited the further formalisation of this dimension. Most of the substantial technical expertise on the topics handled by the FATF has been drawn from other actors, such as non-member states’ officials, the staff of other international organisations such as the UN and the IMF, and representatives from private sector associations.

By 2019 the FATF had 50 staff (FATF, 2019), most of whom worked on coordination and assistance tasks.²⁵⁶ This means that, apart from the mutual evaluations in which the FATF secretariat leads the teams of assessors, and activities relating to the framework of the global network where the FATF secretariat manages the relationship with the regional-style bodies, the FATF’s staff are generally tasked with administrative duties.²⁵⁷ Meanwhile, the FATF’s members use IGO staff from other organisations such as the UN to participate in the process of drafting new recommendations when they need technical assistance.²⁵⁸

As a state delegate to the FATF explained, between 2014 and 2019 the FATF continued to have two types of staff: those hired independently, and those seconded by their countries (usually high-ranking officials).²⁵⁹ The number of staff from the secretariat varies from one area to another; for instance, those parts of the FATF which maintain a more informal design, such as the ICRG and its blacklisting, only have a very limited number of people from the secretariat, and usually some of those are seconded from

²⁵⁶ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020

²⁵⁷ Interview 18. Delegate to the FATF (Member State). Autumn 2020.

²⁵⁸ Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020.

²⁵⁹ Interview 18. Delegate to the FATF (Member State). Autumn 2020.

governments. Other groups such as those handling the relationship with the regional branches have more staff from the secretariat.²⁶⁰

The FATF did claim during its 2016 internal review that it would consider the possibility of acquiring a legal nature in France, where it is based, and this study's interviewees confirmed that the question of whether the FATF should establish its own headquarters rather than being hosted by the OECD was also discussed.²⁶¹ Both options were rejected after lengthy negotiations. Ultimately, these options were rejected because FATF members did not want to increase the costs incurred by the organisation and risk turning it into an organisation in which most of the participants are diplomats instead of technical state delegates to the FATF.²⁶² Also, as it had been working well over the years, there was not a strong argument for change.²⁶³ The members decided that the movements to further reinforce the role of the FATF within the broader international community would happen in other dimensions (e.g., the scope, and the blacklist).

Thus, during these years, neither the increased demand for technical expertise in some dimensions such as the monitoring and the scope nor the increased workload translated prompted an increase in the formality of the FATF's secretariat. While the lack of formalisation of the coordination unit in a period of rising demand for further and new technical expertise did not meet this study's theoretical expectation, this decision from the FATF members can be said to have been in line with their initial priorities in the design of the FATF. It is worth remembering that they explicitly stated that they do not wish to deal with large bureaucratic bodies (FATF, 1991). Again, this stance highlights that the initial design was deliberately chosen to fill a gap that was not being properly dealt with by formal IGOs with large bureaucracies. The decision to maintain the coordination unit at this level of formality between 2014 and 2019, when both exogenous factors and endogenous discussions took place, reaffirms the argument in the last chapter that what occurred in the aftermath of 2001 should be regarded as a temporary redefinition of priorities in this dimension's design. The lack of changes in the levels of formality of the membership reinforce the preference of powerful countries for informality in those dimensions where distributional costs are higher. Due to the interlink between the membership and decision-making in the FATF, increasing the levels of formality of the membership could raise questions about the selection of new members and lead to either the inclusion of new members less powerful (that could then form alliances within the membership) or face higher reputational cost for discriminating countries that meet the formal criteria. Lastly, the enforcement

²⁶⁰ Interview 18. Delegate to the FATF (Member State). Autumn 2020.

²⁶¹ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020. Interview 1. Member State delegate to the FATF (State member). Summer 2020.

²⁶² Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

²⁶³ Interview 9. Member State Head of Delegation to the FATF. Autumn 2020.

dimension continued to work smoothly with the balanced design and medium level of formality granted in the previous period.

7.5 Summary of Findings

At the beginning of the 2014-2019 period, decision-making and membership were the most informal FATF dimensions, while the formality of the enforcement, the coordination unit and the scope dimensions had increased over the years and reached the middle of the formality spectrum. At that point, the monitoring was closest to the higher end of the spectrum. By the end of 2019, the FATF had preserved the same level of formality in all dimensions except for scope and decision-making. While the scope of rules covered reached the highest part of the spectrum, decision-making continued at a medium (with important informal safeguards). Table 7.3 summarises the main process through which these decisions about the FATF's design took place.

Dimension	Process	Level of formality of dimension 2008-2013 [design time+3]		
		Low	Medium	High
SCOPE <i>At the time of design +2, the level of formality was: medium</i>	ISIL expansion and attacks on European soil > terrorism financing back as a priority on the agenda > FATF members want to reinforce their commitment with CTF regulations > a heterogeneity of preferences among powerful countries in the FATF > discrepancies between harsh criminalisation and the respect of Human Right > members want to make the criminalisation of terrorism financing compulsory > The FATF resorts to the UNSC and embeds its Recommendations in international law.			✗
MONITORING <i>At the time of design +2, the level of formality was: medium</i>	ISIL attacks Paris > the FATF launches a self-reporting questionnaire that emulates the one used after 9/11 informally decided > When the mid-term review of the FATF mandate arrives in 2016 some members suggest further formalising the dimensions > opposition to increase monitoring more from powerful members		✗	
COORDINATION UNIT <i>At the time of design +2, the level of formality was: medium</i>	The FATF continues to split the Secretariat staff unevenly among dimensions > the staff continues to be a mix of staff hired independently or seconded by state members > functions delegated are not those of most substance		✗	
MEMBERSHIP <i>At the time of design+2, formality was very low</i>	During 2014-2019 it continues to be informal, and the FATF also continues with a targeted expansion > Malaysia, Israel and Saudi Arabia join > a review of the membership policy takes place > neither the process nor the outcome in configuring the membership change in level of formality.	✗		
DECISION-MAKING <i>At the time of design+2, formality was very low</i>	2016 periodic revision > the mandate of the organisation becomes open-ended > the public profile of the president and vice-president made more visible > the plenary continues to be open to associated members and observers at some meetings > the steering group continues to have greater power over the decision-making and to operate very informally > most decisions taken informally before the plenary sits.		✗	
ENFORCEMENT <i>At the time of design+2, formality was very low</i>	The dimension does not change > countries with greater power continue to have a privileged position within the dimension > informal safeguards still present		✗	

Table 7.3 Summary of findings. Author's creation.

In summary, between 2014 and 2019 the FATF's most powerful members pushed back on a number of important proposed reforms which would have notably changed the formality of the organisation. First, they rejected the option of turning the FATF into a treaty-based organisation and the option to hire independent staff into the assessor teams to undertake the mutual evaluations. This reinforces my argument

that powerful states will aim to maintain the informality of the organisation because of the benefits that this brings to them that cannot find in more formal organisations. Also, the leading members decided that there was no need to leave the OECD headquarters and establish their own.

Secondly, FATF members continued to prefer an organisation which was (and remains) more informal than traditional, highly legalised IOs such as the IMF or the UN, because experience has demonstrated the IIGO's ability to quickly react to shocks when they happen thanks to the informality of its design. While agreeing a UNSC resolution can take some time if the shock is not strong enough in the eyes of all P5 members, and may end up being a vague text full of "UN language", the FATF has the ability to respond immediately with more precise policies. Furthermore, the findings in this chapter revealed that FATF members can more closely control the results of surveillance and monitoring of their own AML/CTF with the current design than they would if the dimension was more formal. The way in which countries exercise such informal influence had never been explained or published before in the academic literature or in other types of institutional documents.

Nonetheless the FATF increased the formality of the scope dimension and the decision-making between 2014 and 2019. The increase formalisation in the scope dimension was driven for the first time for the heterogeneity of preferences among powerful members (instead of participants more generally) because interest of high importance for their domestic audiences were at stake. This added a caveat that help to redefine the expectation introduced in chapter three: heterogeneity of preferences matters to explain the increase of formality in some technical dimensions when key interests for them are at stake. On the other hand, the increased formality of the decision-making was -as has happened in the case of the enforcement- more in theory than in practice. The informal safeguards included in its redesign meant that little change in practice, which is in line with the preference of powerful members for informality in those dimensions where distributional costs are higher.

All in all, the chapter reinforces the argument that the choice of informality can be explained through the power dynamics that have been clearly present throughout the 30 years of the organisation, and particularly visible in dimensions with higher distributional costs (i.e., membership and decision-making) and reputational costs (i.e., enforcement). At the same time, the formality of some dimensions within the FATF can be seen as a compromise by powerful members to increase the legitimacy of the FATF's expansion and ensure the assessment of countries outside its membership (i.e., monitoring), and to show a credible commitment to the issues covered and reduce the material costs of dealing with such highly technical issues (i.e., scope). Lastly, it illustrates that states also care about delegation issues in the context

of IIGOs, and it confirms that the decision to increase the formality of the secretariat was the product of the institutional context created by the events of 9/11 and the FATF's response to it.

The thesis now moves on to the concluding chapter where, among other final remarks, I will summarise the main findings of these three findings chapters and set out their joint implications for my overall argument and for knowledge in the field.

CHAPTER 8. CONCLUSION: The prevalence of power dynamics over time and how they shaped the Financial Action Task Force's hybrid design over the years

8.1 Introduction



Image 8.1. Source: Time magazine cover, 1989.

Thirty-two years have passed since Time magazine dedicated its cover page to the global issue of money laundering, highlighting the huge amount of money involved. That same year, in July 1989, the Group of 7 (G7) and the European Commission created the Financial Action Task Force (FATF) during their summit at the Arche de la Défense in France.

Since that time, money laundering, along with the often-associated crimes of terrorism and proliferation financing, has received considerable international attention, and the FATF has expanded its power and influence within the international system. Moreover, the FATF now sits at G20 summits, monitors over 200 countries and jurisdictions around the world, and maintains a blacklist enforced by market forces.

The FATF was first established with a very informal design. This informal design chosen to avoid some of the issues that its members had encountered at the UN, as it was considered that quicker progress

and more practical measures on money laundering were necessary (FATF, 1990: 15-16). However, the FATF has not achieved the status and power it now enjoys simply by preserving its initial design. Returning to the research question at the beginning of *what explains this variation in levels of formality across the FATF dimensions and over time*, the short answer is: *power dynamics*. However, as this thesis has shown, the real story is much more complicated than simply stating that the FATF's design is the result of its powerful members' preferences.

In this thesis I argue that to develop theories of IIGO design it is better to approach these organisations from a multidimensional perspective. By doing this in the case of the FATF I show how levels of formality vary across design dimensions and over time. I also demonstrate that the current hybrid design of the FATF has not occurred by accident. However, powerful states have strategically granted higher levels of formality over time to some of its most technical dimensions (scope, monitoring) while maintaining the rest at medium or low levels of formality, where distributional costs are higher (i.e., the coordination unit, enforcement, decision-making, and membership).

I argue that powerful states prefer informality over formality in order to exercise control over the organisation as they see fit while minimising reputational costs and risks to accountability. Nonetheless, the FATF case shows that there are still some instances in which powerful members have to compromise. The empirical findings of this research show *where*, *how*, and *when* they have done so in the case of the FATF.

First, a greater level of formality has been granted to those dimensions *where* powerful members have the least to lose. Specifically, in the FATF case these are the monitoring and the scope, in which the distributional costs are lower than in the other dimensions. Secondly, the thesis has shown *how* the design of each dimension varies when its level of formality it is increased (e.g., the characteristics of the more formal monitoring vs monitoring when the FATF was created). Thirdly, I uncovered three scenarios in which powerful members may be willing to compromise by increasing the level of formality of some dimensions. My findings show that increased levels of formality can result when the *heterogeneity of preferences* changes (in relation to monitoring and scope); there is an *unforeseen demand for technical expertise* (in relation to the coordination unit, scope, and monitoring); and lastly, when *institutional learning* indicates that a greater level of formality would boost the legitimacy of the organisation (in relation to enforcement, decision-making, and monitoring).

These findings speak to three research agendas in the IR literature. First, they contribute to the research agenda on informality and IOs, which is still expanding to consider the unique nuances of informal institutions (Martin, 2021). The FATF case reinforces arguments by authors defending the view that informal governance benefits those with greater power (Stone, 2011; 2013). However, it also shows how

weaker countries can prioritise their interests in certain circumstances (Schneider, 2011). The results of this research also lead to questioning the key traditional foundations of informational models about international institutions (Keohane, 1984), as they show that the transparency of the FATF in general and its informal dimensions in particular is highly limited. It also provides new data on IIGOs that offer a detailed account of how design choices are made within these organisations that will be of help to researchers exploring current institutional complexity (Eilstrup-Sangiovanni and Westerwinter, 2021).

Secondly, the FATF case raises questions about the role of institutional arrangement such as secretariats within IIGOs. As IIGOs are now becoming more mature, they also offer cases which can be used to test when bureaucracies may start to “go rogue” in this particular context (Chwieroth, 2013; Clark, 2021).

Lastly, the fine-grained detail with which the blacklisting process of the FATF design is explained here contributes to the literature on enforcement (Hafner-Burton, 2008). Specially, it provides an input to the literature arguing that enforcement does not have to be based on legally binding agreements (Koremenos, 2013), and to research that develops how peer pressure and techniques such as “naming and shaming” are used with success in today’s world politics (Kelley, 2004; 2019).

In this final chapter, I summarise the main findings of the thesis, highlighting that in the case of the FATF a multidimensional approach has been especially useful, as otherwise, many nuances of its design and the choices taken in its development would have been overlooked. It then sets out the areas in the literature to which this study contributes. The chapter finishes with a discussion of the main limitations of this research and ends on a positive note by highlighting how the results can shape future avenues of research.

8.2 Summary Of Findings

The FATF’s dimensions have shown different levels of formality over the years, from very low to high (including various medium stages along the spectrum), from which new nuanced understandings can be gained which expand our knowledge of IIGOs and their life cycle. In the next sections I first summarise the most important insights relating to the changes of formality for each dimension with regard to the conceptualisation of IIGOs, and then move on to explain how I refined my theoretical argument presented in Chapter 3 based on the findings obtained from the FATF.

8.2.1 Evolution of the formality of each FATF dimension over 30 years (1989-2019)

The scope of rules covered by the FATF went from being very informal at the time of its creation, when the G7 discussed the FATF's Recommendations for the first time, to quite formal by 2019, when the FATF attached legal obligations to its standards criminalising terrorism financing, and its review process included a large set of actors. There are two important points to make on what we have learnt regarding the FATF's scope and how IIGOs can be conceptualised. The first is that the FATF shows that IIGOs can manage highly technical topics, which are also sensitive political issues, that require the involvement of multiple stakeholders, while its powerful members preserve their control. The second is that IIGOs can attach legal obligations to some policies and not to others if their members prefer.

The FATF's monitoring was the dimension that seemed slightly more formal at the time of its creation, albeit still at the low end of the formality spectrum. Over the years the formality of this dimension has increased to a medium-high level through the expansion of the FATF's mutual evaluations around the world and co-operation with the IMF, WB, and FSRBs to carry out those assessments. At the same time my findings show that, regardless of its effectiveness in increasing practical compliance, the design of the FATF's monitoring provisions has been able to achieve high levels of technical compliance and to harmonise AML/CTF frameworks around the world. Thus, the present findings about how the FATF's monitoring dimension was designed and how it evolved over time reinforce the need to acknowledge the capabilities of IIGOs to put in place large monitoring programmes.

Nonetheless, the FATF's members can choose to resort to more informal practices within the scope and the monitoring dimensions in exceptional times. This option was demonstrated not only in the questionnaire used to survey CTF frameworks around the world in the aftermath of 9/11, but also after the ISIL attacks in Paris in 2015.

The levels of formality of the FATF's coordination unit, enforcement, and decision-making dimensions increased, leaving them somewhere in the middle of the spectrum of formality. These three dimensions were all very informal at the time of design, and when their levels of formality were increased, the informal safeguards (that allowed leading members to override the more formal provisions) included in them were greater than those in the scope or the monitoring dimensions.

The evolution of FATF's secretariat, which is the coordination unit of this IIGO, is important because it shows that the idea of having a large bureaucracy was not favoured among the FATF's leading members (as has been theorised by prior scholars such as Vabulas and Snidal (2013, 2021)). Yet, the present research shows that when a shock strong enough to change the preferences of an IIGO's most powerful members occurs, it can lead to the redesign of a dimension to give it a level of formality that moves away

from the preferred option at the time of design. In the case of the FATF, powerful members prioritised the expansion of counter terrorism financing legislation around the world and the positioning of the FATF as a leading organisation on this issue after 9/11. To do so they needed to secure a previously unforeseen amount of technical expertise that its own officials could not deliver.

Nonetheless, through those years the FATF members constrained the expansion of the secretariat and its formality has not risen again. Moreover, a delegation of duties occurs when technical expertise is necessary, and the secretariat is not asked to participate in more politicised issues (i.e., the blacklisting process). This research has uncovered that the FATF's secretariat is configured by independent staff and staff directly endorsed by countries and these two types of staff are strategically distributed across the FATF's dimensions. While the independent staff are larger in number and are primarily tasked with working in the dimensions of scope and monitoring (and handling other "assistance duties"), they generally have no role in dimensions such as enforcement. In the latter dimensions, the preferred option is to use endorsed staff. These findings are relevant because in an increasingly complex world, any IIGO that aims to expand (which may not be among the goals of all IIGOs) is likely to need some sort of coordination unit. Ultimately, the presence or absence of a coordination unit is less important than how much power and responsibility is delegated to its staff, and the proportion of independent staff and staff with close ties to member governments within it.

The paradigmatic case of the FATF blacklist shows the potential that Global Performance Indicators (GPIs) can have when they are designed in the context of IIGOs (Kelley and Simmons, 2019; Morse, 2019). In highlighting which countries are "high risk" and have to change their behaviours, the blacklist helps to enforce the policies of the FATF. The explicit distinction drawn by the FATF between "good" and "bad" countries with which to do financial business (a classification endorsed by the world's leading political and economic powers) demonstrates the extent to which these indicators can be used in IIGOs to exercise pressure towards non-compliant countries. Although GPIs have been used by formal organisations (e.g., the World Bank's Ease of Doing Business ranking), it is interesting to examine the extent to which they may work under a different dynamic when they are executed by IIGOs. The present examination of the FATF blacklist's design demonstrates that part of its power resides in the tight control and endorsement of this list by the most powerful countries in the world, thus activating other enforcement mechanisms, such as market-based pressure or geopolitical strategies more broadly.

The decision-making structure in the FATF is also relevant because over thirty years, the steering group (which is where the most relevant decisions are taken) has been reserved to those FATF members wielding greatest power within the membership. This brings questions about the importance of relative power within IIGOs and how it can be exploited through the coexistence of formal and informal governance practices to balance asymmetric influence and legitimacy.

Lastly, the FATF's membership, which was initially designed to be very informal, has maintained a low level of formality throughout the thirty years. This again links back to how powerful members have managed to retain control over the organisation by not increasing the formality of this dimension, as doing so could raise the distributional costs. The membership accession process was presented in the initial design of the FATF as a trade-off between what states candidates could offer in terms of regional reach and legitimacy, and the piece of the FATF's decision-making pie that they were offered in return. Thus, any new country that is granted full membership has an opportunity to secure more control of the FATF for itself to the detriment of the founding and longer-term members and to make further demands in line with their interests that may not be as aligned as the interests of the initial membership.

The findings show that the more informal a dimension is, the less transparent it is; the less institutionalised its processes, the smaller the number of countries or actors allowed to participate in it (as often, weaker countries are left out), the smaller the number of bureaucratic staff involved, and the lower the legitimacy with which it may be perceived. Also, the more informal a dimension is, the more quickly it can act, the more aligned with powerful interests it is, and the greater the challenges to its overall legitimacy are likely to be.

The lack of transparency in some FATF dimensions shows that powerful states may be able to get around the information-cooperation link via the strategic design of IIGOs. Thus, the FATF not only shows lower levels of informality benefit powerful members because they can exercise control more easily than in more bounded agreements; it also shows how (non-)transparency matters as it renders the powerful less accountable to other states and their domestic audiences as the information to do is lacking.

8.2.2. Explanatory findings and refine argument

In this thesis I develop a theory of how states strategically design institutional dimensions *within* IIGOs. I argue that powerful states will prefer informal IIGOs dimensions over formal ones in order to preserve the benefits of the initial design of the organisation. However, over time, IIGOs' member states may need to allow greater formality in some dimensions in order to maintain the legitimacy of the organisation and ensure that it continues to function (Gray, 2018; Borzyskowski and Vabulas, 2019; Eilstrup-Sangiovanni, 2020).

I initially theorised that the factors leading to increased levels of formality could be: a greater heterogeneity of preferences among powerful member states who seek to protect themselves from the non-compliance of other member states; a widened scope of issue areas handled by the IIGO that would make some kind of support from IOs' bureaucrats essential due to an increased need for technical expertise; and

the institutional lessons learnt over the years. The FATF case has helped in refining these theoretical expectation.

(i) Heterogeneity of preferences

With my research, I uncovered that the heterogeneity of preferences among powerful members was not necessarily a driver of greater formality for the scope and monitoring dimensions in the case of the FATF, unless a topic with a high domestic audience cost is at stake (e.g., respect for human rights). However, the heterogeneity of preferences is always relevant between the FATF's most powerful countries and other states (both weaker countries within the membership and associated countries through FSRBs).

The FATF has been very successful in adapting to power shifts in the broader international system (as the smooth transition from the G7 to the G20 within its membership has shown). Its founding members have shared some of their control over the organisation in exchange for increasing its legitimacy and gaining access to more regional financial information. Once new states such as China were included into the FATF's membership, the organisation was able to accommodate their demands without necessarily ceasing to act in its founding members' interests.

However, the FATF membership has always been limited, and it has been considered a "club" for rich countries whose AML/CTF interests (and in financial regulation more broadly) do often differ from those of developing countries. While for developed countries AML/CTF is a priority, in countries which are struggling to feed their citizens or in which corruption is part of the political culture, it is not a priority and would never have been regulated if it were not for the action of the FATF.

While the default preference of powerful members has always been lower levels of formality, weaker countries have always pushed towards more formalised dimensions. By increasing the level of formality of the monitoring and scope dimensions, the FATF boosted the perceived legitimacy of its worldwide expansion and was able to count on additional technical expertise without incurring excessive distributive and material costs.

The FATF members carefully and strategically chose which dimensions would be formalised the most. I first theorised that the scope, monitoring, and enforcement dimensions would increase in formality when powerful members feared a lack of compliance from other powerful members. I assumed that the three dimensions would follow the same logic. However, my examination of the FATF case showed that its leading members did not increase the formality of the enforcement to the same extent. While they did increase the formality on paper to a medium level, the number of informal safeguards in this dimension are notably higher than similar where the distributional costs are higher (e.g., decision-making). This is in line

with arguments in the literature that claim that powerful members preferred to maintain informality over greater formality when heterogeneity of preferences is high in the context of informal institutions (Eilstrup-Sangiovanni, 2015).

Thus, the heterogeneity of preferences among powerful FATF members and the rest of states were important and translated in increased levels of formality in the FATF's scope and monitoring dimensions. In other words, when the preferences of powerful states started to diverge from the weaker the FATF members made concessions regarding the formality of the monitoring and scope. These compromises helped to show a strong commitment on the part of the FATF's members to the organisation and AML/CTF issues and to legitimise its actions (including the evaluation of non-members).

(ii) Complexity of the issue and demand for technical expertise from international bureaucrats

I also refined my initial expectation about how a greater demand for further technical expertise from the FATF affects the formality of the dimensions. Contrary to what I expected, which was that a higher need for technical expertise will bring a higher formality to the coordination unit, the FATF has instead shown over the years that such expertise can be acquired without the need to increase the formality of its own coordination unit. However, the present research also adds another finding. The dimensions in which technical staff (either from the FATF, other IOs, or other actors) are involved are indeed more formal; these are the scope, the monitoring, and to some extent the own coordination unit. My findings also show that when there is a redefinition of priorities, initial preferences about the design of a dimension may be deprioritised. This was what happened in the FATF after the shock of 9/11 with the coordination unit.

The topics with which the FATF deals have always been technical in nature. Nonetheless, a secretariat was not deemed absolutely necessary until some years had passed and the shock provoked by 9/11 had precipitated an abrupt expansion of the FATF's mandate and reach. Even though the coordination unit was further formalised at that time, all more recent efforts for further formalisation were slowed down and impeded by the implementation of more informal safeguards.

When the world settled back down after the terrorist attacks, the FATF's members moved to draw technical expertise from other actors. This decision was in line with the wish of FATF members to preserve their control over the organisation and avoid agency slippage (Tierney and Nelson, 2003). Path dependence, however, helps us to explain why even though this dimension was not formalised further, neither did it revert to the original design choice. Indeed, all the FATF's dimensions have shown that they are path dependent from past events (Fioretos, 2011).

Thus, the case of the FATF shows that while the coordination unit dimension increased in formality to address functionalist issues, its members' wished (i) to avoid agency slippage, and (ii) to minimise human and material costs. This contributed to a design in which delegation to the secretariat has been quite limited.

(iii) Institutional learning and path dependence

Lastly, the theorised expectations about the role that institutional learning has in institutional design over time were met, highlighting the importance of temporal processes which are not always well integrated in theories about institutional design. The relevance of the temporal process is clear in the case of the FATF in three main ways: a) path dependence from previous decisions; b) susceptibility to institutional feedback; and c) the importance of critical junctures in the FATF's life cycle. Each of these play a key role in understanding why changes occurred or did not.

Any change to the levels of formality of a dimension later influences the level of formality with which it continues for the rest of its operational life. Even though a pushback was evident towards the further formalisation of the coordination unit in the FATF, the additional levels of formality granted in previous design reforms have never been undone later. For instance, while after 9/11 the FATF's leading members could have chosen a less formalised monitoring dimension, at present it would be extremely difficult to suddenly revert back to an informal process in the mutual evaluations.

The importance of past lessons was also evident across the whole life cycle of the FATF. The FATF's leading members were especially sensitive to negative feedback and criticism, which was taken into account to avoid a decrease in perceived legitimacy. For instance, when the FATF members decided to relaunch the blacklist, they made an explicit effort to publicly demonstrate that they were establishing a process that followed a clear methodology (Zarate, 2013). They also made sure that the inclusion of regional representatives was part of the new design. These changes were made because in its first iteration the list received severe criticism for the apparent lack of rules and clear criteria involved, which annoyed the FSRBs (the FATF knew that without their collaboration it would be very difficult to proceed).

The FATF has also responded to very positive feedback about higher levels of formality. For instance, when 9/11 occurred and the FATF informally built a questionnaire to survey CTF framework worldwide, its global network was still very limited. However, the still developing FSRBs were of great help in gathering answers from a number of jurisdictions that otherwise would have been impossible to reach. That, added to the fact that the mutual evaluations with a clear methodology were serving the FATF members well in assessing their peers, incoming members, and associates, meant that the powerful members decided to further consolidate its monitoring with higher levels of formality than other dimensions. They also recognised the need to do so through the regional network.

Feedback also served as a thermostat to gauge when it was necessary to formalise a dimension (contrary to the FATF's powerful member's initial preferences). This was evident, for instance, when the FATF members integrated some changes that slightly raised the level of formality of the decision-making process after receiving demands from weaker members for greater representation. With this decision that in practice meant little, the FATF avoided further challenges by underrepresented members.

The tracing of temporal processes was also important to show that the capacity of critical junctures to generate change in the FATF was not only linked to the nature of the shocks it faced, but also to the stage of the life cycle in which the organisation found itself. For instance, the FATF responded strongly to the two security shocks but the action was lesser when it came to the financial crisis (or even the money laundering scandals). Also, it shows how the FATF did not need to issue special Recommendations after the attacks by ISIL because it had already introduced those after 9/11. If 9/11 would have never happened, FATF members may have needed to do so.

8.3 Contributions to the literature

Throughout this thesis, I have presented a number of theoretical and empirical findings that relate to the following three research agendas within the IR literature: a) the literature on informality and IOs (Stone, 2013; Vabulas and Snidal, 2013, 2020, 2021; Westerwinter et al., 2021; Martin, 2021); b) the research on IO bureaucracy (Nielson and Tierney, 2003; Chwiero; 2013; Bayer et al., 2014); and c) work exploring enforcement without resorting to legally binding agreements (Hafner-Burton, 2008; Kelley, 2017; Kelley and Simmons, 2019; Morse, 2019). Each of these contributions will be discussed in the following subsections.

8.3.1 Informality and IOs

In the past decade there has been a resurgence of interest in the links between informal governance and International Organisations (Eilstrup-Sangiovanni, 2009; Stone, 2011, 2013; Koremenos, 2013; Kleine, 2013; Avant and Westerwinter, 2016; Fioretos, 2019; Abbott and Faude, 2020; Westerwinter et al., 2021). Even though this link started to spread most prominently in the context of FIGOs, it has recently also turned to more informal organisations and institutions.

I contribute to this research by focusing on IIGOs as actors with their own particularities. Using the FATF and its evolution over time as my case study, I have shown how, despite their informality at the time of design, over the years these organisations can come to combine formal and informal governance mechanisms *within the same* organisation. I found that IIGOs such as the FATF, in which the membership mostly comprises great economic or political powers, are likely to work for the benefit of powerful countries, which benefit from the FATF's informality. Nonetheless, less powerful countries may also find adherence to IIGOs useful in normal circumstances if they are able to form alliances with other, similar states. My findings reinforce Stone's contention (2013: 125), that "inter-temporal" exchange can happen. He explains that in the case of the IMF powerful states are allowed temporary control over the organisation when their interests are strongly altered. In return, weaker states receive a larger share of formal controls during normal times than what they would receive based on their capabilities.

Stone (2013) applies this theory to FIGOs, but the FATF case has also shown that those with greater power have their actions backed up by weaker countries in extraordinary times such as shocks. During those extraordinary times, organisational decisions (from issuing new policy to implementing a new assessment) are taken on an informal basis by powerful members with even less opposition than during ordinary times, and without damaging the legitimacy of the organisation. In return, weaker states obtain some formal control rights in normal times (i.e., during "business as usual"). For instance, they are allowed to suggest the addition of topics that are important to them to the agenda that would otherwise not appear (for example, references to financial inclusion increased after the financial crisis due to the insistence of weaker members led by Mexico).

As well as this inter-temporal exchange, I also show that in the FATF there has been an inter-dimensional exchange. By this, I mean that while powerful countries have maintained tight control of those dimensions in which distributional costs are higher (membership, decision-making, and enforcement), they have allowed weaker countries to take a more prominent lead in others (scope, monitoring). This helps to answer the question that quickly comes to mind when seeking to understand the expansion of the FATF: Why if it is a "club of rich friends", have weaker countries accepted assessment by them, and allowed them to establish the policies that they now endorse? The answer is that because by doing so, weaker members and regional bodies are granted the opportunity to contribute to the drafting of the standards and to introduce nuanced topics which are important to their respective legal and economic systems. Also, they can gain greater influence over their own evaluations and in the discussions of their assessment, which helps them to strengthen their international image.

Moreover, the FATF shows that IOs are indeed not static agreements and that they evolve over time (Colgan et al., 2012). The rational design literature (Koremenos et al., 2001) argues that once IOs stop

being effective in fulfilling the function for which they were created, they will be renegotiated accordingly. However, the literature has shown that this is not always the case. For instance, Gray (2018: 3) illustrates the possibility that IOs may die off altogether or become “zombies” (i.e., continue to operate with no real effect or progress). With my findings I reinforce the argument that IIGOs, which life cycle continues to be understudied, can be durable over time (Vabulas and Snidal, 2021). By tracing how temporal processes have affected the evolution of the FATF’s informal design, my study contributes to this area of the literature. In doing so, it shows how the FATF has been able to accommodate the new and rising powers in its membership.

Thus, the data presented on the FATF can help to ask the extent to which traditional assumptions in the rational design literature continue to hold in today’s institutional context.

Also, the FATF findings can contribute to the development of theories on IOs’ collaboration, cooperation or competition (Clark, 2021), in a more varied set of organisations with different designs. I have shown how the FATF has been able to establish and lead a global network. This network allows the FATF to assess countries outside its membership and have its standards globally endorsed. It encompasses numerous other organisations, among which are found large FIGOs such as the IMF and UN, IIGOs such as the G7 and the Egmont Group, and also other types of organisations from the private sector such as the Wolfsberg group. The case of the FATF therefore shows that when the membership of an IIGO overlaps in some way with that of other organisations, partnerships are possible. To achieve them, it is key that each organisation respects the place of the other partner in the international sphere, via a clear definition of the functions of each organisation from the outset, without getting in each other’s way over the years. Indeed, when the FATF tried to create its own institute to provide technical assistance alone (even though this was already being done by other organisations), it was a notorious failure. However, when the FATF closely collaborated with the CTED, both bodies contributed to the passing of the first resolution solely focusing on terrorism financing in history, UNSC/RES/2462 (2019). Thus, it has uncovered a number of practices and benefits/shortcomings of IIGOs with respect to other international institutions that can support the building of broader theories on actor choices and institutional design in Global Governance Complexes (Eilstrup-Sangiovanni and Westerwinter, 2021).

8.3.2 IIGO bureaucracy

The research presented in this thesis also contributes to the study of IO bureaucracy, which until now has also broadly focused on the bureaucracy of FIGOs (Nielson and Tierney, 2003; Clark and Dolan, 2021; Chwioroth, 2013; Bayer et al., 2014).

The more restrictive definitions of IIGOs states that informal organisations tend not to have institutional arrangements such as secretariats (Vabulas and Snidal, 2013), while other authors state that they can exist, but only on a small scale and without delegated tasks (Roger, 2020). In this study of the FATF case, I show that the reason for this lack of a large bureaucracy in informal organisations may be that states seek to avoid this option at the design stage so that they can control the organisation more freely and take full advantage of IIGOs' informal design.

The case of the FATF shows that IIGOs may need to incorporate secretariats to continue functioning and achieve goals reaching beyond the initial design preferences of their members. It also shows that powerful members worry about agency slippage and use strategies to limit the independence of the secretariat even after establishing (a usually small) one. These dynamics have yet to be explored in the current IO bureaucracy. Moreover, a growing body of literature has explored how bureaucrats within FIGOs use informal governance techniques to benefit their countries (even subconsciously). For instance, Chwieroth (2015) and Nelson (2017) have shown how the conditionality at the IMF is shaped by the autonomous bureaucracy, and benefits countries with similar economic beliefs. Clark et al. (2021) also recently argued that the conditionality at the World Bank strongly reflects the interests of the US. They argue that this does not occur because borrowers convince the US to intervene on their behalf, but because the WB's bureaucracy either seeks to demonstrate its support to the larger financial power or unconsciously shares the US worldview and aligns with it. However, at the time of writing this thesis, there is no systematic literature on how this happens in the context of IIGOs, or on how states use informal governance to micro-manage bureaucrats' actions and independence. I agree with Clark et al. (2021) that even though institutional autonomy and power politics have traditionally been presented as competing, not only can they be compatible but must also mutually reinforce one another.

For instance, now that I have shown that the FATF's members restricted the access of its own secretariat staff to the International Cooperation Review Group, a broader study may be designed in which principal-agent theories are applied to different IIGOs in a systematic way. Indeed, the recent letter of resignation by David Lewis, the Executive Secretary of the FATF at the end of 2021 (the first ever resignation from this role) has raised doubts about the independence of this body that could harm the FATF if they are not addressed. In his letter, he said: "I urge you to protect the secretariat and its professional status... so that they can continue to protect and serve you, the FATF, without fear or favor" (Couvée, 2021: 1).

8.3.3 Enforcement through peer pressure

Lastly, this thesis adds to studies which have shown that formal treaties are not the only way to achieve compliance and facilitate intergovernmental cooperation. The study of the FATF how a small group of countries has been able to harmonise national AML/CTF frameworks worldwide using mechanisms based on peer pressure: the FATF's mutual evaluations and blacklists.

This is in line with literature on informal governance which has claimed that hard law does not necessarily translate into greater enforcement (Marcoux and Urpelainen, 2013) and that punishment provisions that are not included in a binding agreement can indeed be exercised more informally (Koremenos, 2013). Some studies have argued that punishment provisions are not needed when agreements are successfully negotiated (Chayes and Chayers, 1993). However, as argued by Koremenos (2013), punishment provisions can also be key elements of a well-designed agreement. In the case of the FATF, the blacklist does appear to be a cornerstone of the design of the organisation and to represent a significant part of its success.

The use of more informal enforcement in the case of the FATF indicates both efficiency concerns and a power influence in the design of the dimensions of the organisation. The FATF's members aimed to expand compliance to a high number of jurisdictions in a legitimate way, while tightly controlling the harmonisation of AML/CTF policies around the world. This becomes clear through a quick glance at the actual blacklist of the FATF where FATF members such as the UK, China, and the US do not appear despite being well-known that huge amounts of money are laundered everyday under their jurisdiction.

I also make an important contribution to the body of literature that focuses on how enforcement and compliance can be achieved through peer pressure mechanisms such as Global Performance Indicators, which "name and shame" non-compliers (Lebovic and Voeten, 2006; Hafner-Burton, 2008; Kelley and Simmons, 2015; Kelley and Simmons, 2019; Morse, 2019). In this case, the FATF blacklist shows that the naming and shaming of non-compliant countries when backed up by powerful members can activate market or geopolitical enforcement. Thus, it highlights the importance of the design of these lists but also that a number of conditions are necessary for them to be effective. Even if the blacklist of the FATF has not achieve an increased effectiveness against ML and TF (a question yet to be fully researched), it has achieved an effective harmonisation of AML/CTF measures around the world.

8.4 Conclusion

This thesis offers a rich account on how the FATF was designed and how it evolved over the years, by providing a broad picture of how and why each decisive change to the level of formality across its took place. Furthermore, this thesis provides data that has never been made available before, and that can open up new routes of research in the future.

My clear descriptive framework enabled me to track variations in levels of formality across IIGOs dimensions, and can also be applied by scholars aiming to propose alternative explanations for states' choices of institutional design within IIGOs, including scholars from different ontological positions. It can also be helpful in addressing other analytically different questions (e.g., the effectiveness of implementation of the FATF's Recommendations).

My explanatory framework examines the times and ways in which powerful members of IIGOs would be willing to compromise and increase the levels of formality of the design of some dimensions (even if doing so goes against their default preference for informality). I show that powerful members are willing to increase formality in those dimensions that carry fewer distributional costs when there is a change in the heterogeneity of preferences, more technical expertise is needed and/or there is institutional learning indicating that greater formality will be beneficial. Future research can use this framework as a departure point and test the extent to which the same causal mechanisms apply in other IIGOs.

Lastly, it can serve to redefine institutionalist arguments that have previously only been tested in FIGOs in order to adapt them to new institutional realities, such as the extent to which the depth of agreements is sacrificed in favour of acquiring broader participation (Gilligan, 2004; Bernauer et al., 2013). The present examination of the FATF case shows that this IIGO has maintained the necessary flexibility to adapt to the uncertainty of today's world politics and to address AML/CTF challenges. At the same time, the FATF continues to uphold the most technical and specific standards currently in place in the international system to deal with ML and TF, which are applied to over 200 jurisdictions.

More importantly, the FATF case has shown that informal governance lacks many of the controls that ensure transparency in more formal forms of governance. This is particularly concerning in the AML/CTF context as since 2001, the FATF has included a Recommendation on Non-profit Organisations and Terrorism Financing, which was drafted without sufficient input from the relevant actors. This increased the difficulty to gather funds in conflict zones, an issue which can put lives at risk. Moreover, other issues are also emerging, such as the fact that countries including Uganda are using the FATF as an

excuse to implement regulations that go further than the FATF's requirements in order to control the population and commit human rights violations (Berwick, 2021). Also, my own difficulties in carrying out this research in some ways reflect the lack of transparency of IIGOs with regard to FIGOs.

All in all, this research shows how the FATF and the other institutions with which it is embedded have been able to harmonise AML/CTF regulations globally. It also demonstrates that this was possible because it was aligned to the interests of the most powerful countries in the world, which have maintained asymmetric control over the FATF throughout its existence. Nonetheless, it also illustrates that legitimacy does matter to states, and that temporal and contextual processes are key to understanding the institutional design choices made within IIGOs. Thus, this research has uncovered the shades of (in)formality of the FATF and established the grounds to continue learning about these two faces of IIGOs in the future. This reinforces the importance of more systematically considering IIGOs in theory-building on international organisations in a world in which multilateralism is more needed, but also more questioned, than ever.

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Annex 1. Types of institutional documents provided by the FATF, and Common Themes treated during the interviews.

FATF Documents (as classified by the FATF)

- Guidance (including guidelines and best practices reports)
- Meetings (including summary outcomes of plenary meetings)
- Ministerial Declarations
- News
- Reports
- Recommendations (standards and summaries of reviews)
- Risk-based approach related documents
- Speeches
- Public consultations

Some recurring themes which emerged during the interviews were as follows²⁶⁴:

- Explanation of design dimensions
- Information about participants
- Contextual information
- “Out of the ordinary” activities at times of crisis
- Priorities of the organisation at different points in time
- Distribution of work
- Expansion of membership
- Types of meetings
- Development blacklist
- Changes in their jobs over the years
- Distribution of staff across the FATF
- Distribution of countries across the FATF
- Participants across the FATF

²⁶⁴ This list is not exhaustive as it then varied depending on the interviewee's experience.

Annex 2. Interviewees - occupations

Interview 1. Member State delegate to the FATF (State member). Summer 2020. In person.

Interview 2. Head of Delegation to the FATF (Member State). Autumn 2020. Online.

Interview 3. Member to the FSRBs MONEYVAL. Accredited assessor for mutual evaluations. Summer 2020. Online.

Interview 4. State delegate to the FATF and to the UN during the 1990s/2000s. Autumn 2020. Online.

Interview 5. State Delegate to the FATF. Autumn 2020. Online.

Interview 6. NPO representative to the FATF. Autumn 2020. Online.

Interview 7. FSRB Secretariat officer. Autumn 2020. Online.

Interview 8. UN Official working on AML/CTF technical assistance programmes. Autumn 2020.

Interview 9. Member State Head of Delegation to the FATF. Autumn 2020. Online.

Interview 10. FSRBs Secretariat staff. Autumn 2020.

Interview 11. UNSC Official working on AML/CTF topics. Autumn 2020. Online.

Interview 12. UN Official working on AML/CTF topics. Autumn 2020. Online.

Interview 13. Officer at the EBRD in the 1990s. Autumn 2020. Online

Interview 14. Delegate to the FATF from the early 2000s until the present. Autumn 2020. Online.

Interview 15. Delegate to the FATF (State Member). Autumn 2020. Online

Interview 16. WB officer since the early 2000s. Autumn 2020. Online.

Interview 17. Law enforcement and State Delegate to the FATF. October 2020.

Interview 18. Delegate to the FATF (State Member). Autumn 2020

Interview 19. UN Official working on AML/CTF since the late 1990s. Winter 2020. Online

Interviews 20 and 21 September and November 2020. Online. (Off the record, as explaining the ranks of these interviewees would put their anonymity at risk because they are easy to identify).

Annex 3. Summary of the evolution of formality over the years in each FATF dimension

Dimensions	Time of design & early years (1989-2000)	Time of design +1 (2001- 2007)	Time of design (2008-2003)	Time of design +3 (2014-2019)
Scope	Very low level of formality	Medium level of formality	Medium level of formality	High level of formality
	<p>Type of deliberation: <i>ad hoc</i> meetings and Plenary</p> <p>Bindingness: none</p> <p>Participants: only FATF members</p> <p>Transparency: very low. Only an executive summary included in annual reports</p>	<p>[new]Type of deliberation: Steering Group, Presidency, <i>ad hoc</i> meetings, Plenary + specific working groups</p> <p>Bindingness: none</p> <p>Participants: FATF members and [new]Regional members, private sector representatives, observer and partner IOs. Staff from the FATF secretariat</p> <p>[new]Transparency: Public consultation documents available, summary information about meetings and actors involved. Greater clarity on time frames and discussion dates.</p>	<p>Type of deliberation: Steering Group, Presidency, <i>ad hoc</i> meetings, Plenary + specific working groups</p> <p>Bindingness: none</p> <p>Participants: FATF and Regional members, private sector representatives, observer and partner IOs. Staff from the FATF secretariat</p> <p>Transparency: Public consultation documents available, summary information about meetings and actors involved. Greater clarity on time frames and discussion dates.</p>	<p>Type of deliberation: Steering Group, Presidency, <i>ad hoc</i> meetings, Plenary + specific working groups</p> <p>[new]Bindingness: Standards on criminalisation of terrorism financing bound through UNSCR 2462 (2019)</p> <p>Participants: FATF and Regional members, private sector representatives, observer and partner IOs + increased participation of non-profit sector representatives. Staff from the FATF secretariat</p> <p>Transparency: Public consultation documents available, summary information about meetings and actors involved</p>

Dimensions	Time of design & early years (1989-2000)	Time of design +1 (2001- 2007)	Time of design +2 (2008-2003)	Time of design +3 (2014-2019)
Monitoring	Low-medium level of formality	Medium level of formality	Medium to high level of formality	Medium to high level of formality
	<p>Type of deliberation: <i>Ad hoc</i> groups, Plenary</p> <p>Bindingness: none</p> <p>Participants: Only FATF members</p> <p>Transparency: None. There was a methodology, but it was not published. Only an executive summary with the results of the evaluation was available</p>	<p>[New] Type of deliberation: <i>Ad hoc</i> groups, permanent working groups, Plenary</p> <p>Bindingness: None</p> <p>Participants: FATF members and [New]Regional Members, FSRBs, IMF, WB, other observer IOs, FATF staff from its secretariat</p> <p>[New]Transparency: Common public methodology Public version of mutual evaluations available</p>	<p>Type of deliberation: <i>Ad hoc</i> groups, permanent working groups, Plenary</p> <p>Bindingness: None</p> <p>[New]Participants: FATF members, Relationship with Regional Members and FSRBs is further institutionalised. Higher number of FATF staff from its secretariat are required IMF, WB reinforced partnership, other observer IOs</p> <p>Transparency: Common public methodology Public version of mutual evaluations available</p>	<p>Type of deliberation: <i>Ad hoc</i> groups, permanent working groups, Plenary</p> <p>Bindingness: None</p> <p>Participants: FATF members, Regional Members and FSRBs, high number of FATF staff from its secretariat, IMF, WB partnership continues, other observer IOs</p> <p>[Backlash] Transparency: The FATF reinforces that “on the side” meetings can occur to discuss evaluation scores Common public methodology Public version of mutual evaluations available</p>

Dimensions	Time of design & early years (1989-2000)	Time of design +1 (2001- 2007)	Time of design +2 (2008-2003)	Time of design +3 (2014-2019)
Enforcement	Very low level of formality	Very low level of formality	Medium level of formality	Medium level of formality
	<p>Type of deliberation: Ad Hoc meetings</p> <p>Bindingness: none</p> <p>Participants: only some FATF members (especially powerful ones)</p> <p>Transparency: Very low. Only some general guidelines published</p>	<p>Type of deliberation: Ad Hoc meetings</p> <p>Bindingness: none</p> <p>Participants: only some FATF members (especially powerful ones)</p> <p>Transparency: Very low. Only some general guidelines published</p>	<p>Type of deliberation: <i>Ad Hoc</i> meetings and [new]Permanent Working Group and Plenary</p> <p>Bindingness: None</p> <p>Participants: FATF members and [new] Regional Members Limited secretariat presence</p> <p>[New]Transparency: Low, even though more clarity is published in how the listing process will be decided</p>	<p>Type of deliberation: Ad Hoc meetings + Permanent Working Group and Plenary</p> <p>Bindingness: None</p> <p>Participants: FATF members and Regional Members Limited secretariat presence</p> <p>Transparency: Low, even though more clarity is published in how the listing process will be decided</p>

Dimension	Time of design & early years (1989-2000)	Time of design +1 (2001- 2007)	Time of design +2 (2008-2003)	Time of design +3 (2014-2019)
Coordination Unit	Inexistent or very low level of formality	Medium level of formality	Medium level of formality	Medium level of formality
	<p>Type of deliberation: less than 5 members Only assistance functions Bindingness: none Participants: endorsed staff Transparency: none. Only information made public is that a secretariat exists and it's within the OECD headquarters</p>	<p>[New]Type of deliberation: Notable increase in staff reporting to the Executive Secretariat. Clear Organigram and functions Number of functions delegated increases Bindingness: None [New]Participants: Independent bureaucratic staff and endorsed staff [New]Transparenc y: General (increased) budget and organigram is made public. Continues to be located at the OECD headquarters</p>	<p>Type of deliberation: Notable increase in staff reporting to the Executive Secretariat. Clear Organigram and functions Number of functions delegated increases Bindingness: None Participants: Independent bureaucratic staff and endorsed staff Transparency: General budget and organigram is made public Continues to be located at the OECD headquarters</p>	<p>Type of deliberation: Notable increase in staff reporting to the Executive Secretariat. Clear Organigram and functions Number of functions delegated increases Bindingness: None Participants: Independent bureaucratic staff and endorsed staff Transparency: General budget and organigram is made public. Continues to be located at the OECD headquarters</p>

Dimension	Time of design & early years (1989-2000)	Time of design +1 (2001- 2007)	Time of design +2 (2008-2003)	Time of design +3 (2014-2019)
Decision-making	Very low level of formality	Very low level of formality	Very low level of formality	Low to Medium level of formality
	<p>Type of deliberation: <i>Ad hoc</i> informal meetings, Steering Group+ Presidency, Plenary</p> <p>Bindingness: None</p> <p>Participants: Only some members or in the case of the plenary all FATF members</p> <p>Transparency: Very low. The only information is a very short summary of the outcome of the Plenary meetings</p>	<p>Type of deliberation: <i>Ad hoc</i> informal meetings, Steering Group+ Presidency, Plenary</p> <p>Bindingness: None</p> <p>Participants: Only some members or in the case of the plenary all FATF members [New]FSRBs members are granted status of “associated members” and included in Plenary deliberations</p> <p>Transparency: Very low. The only information is a very short summary of the outcome of the Plenary meetings</p>	<p>Type of deliberation: <i>Ad hoc</i> informal meetings, Steering Group+ Presidency, Plenary</p> <p>Bindingness: None</p> <p>Participants: Only some members or in the case of the plenary all FATF members FSRBs members included in Plenary deliberations</p> <p>Transparency: Very low. The only information is a very short summary of the outcome of the Plenary meetings</p>	<p>Type of deliberation: <i>Ad hoc</i> informal meetings, Steering Group+ Presidency, Plenary</p> <p>Bindingness: None</p> <p>Participants: Only some members or in the case of the plenary all FATF members. FSRBs members included in Plenary deliberations [New]Internal practices to increase greater rotation and participation of all countries in the decision making. [New]The role of the Presidency and Vice Presidency are reinforced</p> <p>Transparency: Very low. The only information is a very short summary of the outcome of the Plenary meetings</p>

Dimension	Time of design & early years (1989-2000)	Time of design +1 (2001- 2007)	Time of design +2 (2008-2003)	Time of design +3 (2014-2019)
Membership	Very low level of formality	Low level of formality	Low level of formality	Low level of formality
	<p>Type of deliberation: Ad hoc meetings</p> <p>Bindingness: None</p> <p>Participants: Only some FATF members</p> <p>Transparency: None – only indication that new members had joined</p>	<p>Type of deliberation: <i>Ad hoc</i> meetings, approved in the Plenary (all FATF members – decision has been taken beforehand).</p> <p>Bindingness: None</p> <p>Participants: Only some FATF members</p> <p>Transparency: [New]Low – publication of a general guideline of prerequisites to join and public announcement when negotiations are being fruitfully and when full membership is granted.</p>	<p>Type of deliberation: <i>Ad hoc</i> meetings, approved in the Plenary (all FATF members – decision has been taken beforehand).</p> <p>Bindingness: None</p> <p>Participants: Only some FATF members</p> <p>Transparency: Low – a general guidelines of prerequisites to join and public announcement when negotiations are being fruitfully and when full membership is granted.</p>	<p>Type of deliberation: <i>Ad hoc</i> meetings, approved in the Plenary (all FATF members – decision has been taken beforehand).</p> <p>Bindingness: None</p> <p>Participants: Only some FATF members</p> <p>Transparency: Low – [New]publication of a more updated membership policy that continues to be very general guideline of prerequisites to join and indication that new members have joined. FATF continues to indicate when negotiations are being fruitfully and when full membership is granted.</p>