

Basel AML Index 2019

A country ranking and review of money laundering and terrorist financing risks around the world

International Centre for Asset Recovery | August 2019

Table of contents

1 Introduction	1
2 What does the Basel AML Index measure?	1
3 Scores and ranking	4
4 Analysis of results	6
5 Comparison of countries across five domains	12
6 Special indicator focus - analysis of FATF data	19
7 Special regional focus – post-Soviet countries	22
8 Looking ahead	24
9 Subscription details	25
10 About and contact	26
11 Annex I: Methodology	27
12 Annex II: Indicators	32

Table of tables

Table 1: Basel AML Index 2019 - Public Edition	6
Table 2: Top 5 improving countries.....	11
Table 3: Top 5 deteriorating countries	12
Table 4: Top performing countries in Domain 1	13
Table 5: Top performing countries in Domain 1 with an FATF fourth-round evaluation.....	14
Table 6: Lowest performing countries in Domain 1	14
Table 7: Top performing countries in Domain 2.....	15
Table 8: Lowest performing countries in Domain 2	15
Table 9: Top performing countries in Domain 3.....	16
Table 10: Lowest performing countries in Domain 3	16
Table 11: Lowest performing countries in Domain 4	17
Table 12: Top performing countries in Domain 5.....	18
Table 13: Lowest performing countries in Domain 5	18
Table 14: Basel AML Index risk scores since 2012	23
Table 15: FATF evaluations according to the fourth-round methodology.....	23

Table of figures

Figure 1: Global distribution of ML/TF risks (Domain 1).....	15
Figure 2: Global distribution of corruption and bribery risks (Domain 2).....	16
Figure 3: Global distribution of financial transparency risks (Domain 3).....	17
Figure 4: Global distribution of public transparency risks (Domain 4).....	18
Figure 5: Global distribution of political and legal risks (Domain 5).....	19
Figure 6: Sample of FATF data available in the Expert Edition Plus package.....	20
Figure 7: Overview of the methodological process behind the Basel AML Index.....	27
Figure 8: Factors contributing to a high risk score.....	28
Figure 9: Simple diagram of the expert weighting system.....	30

Acronyms

AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
FATF	Financial Action Task Force
FATF MERs	FATF Mutual Evaluation Reports
FIU	Financial Intelligence Unit
FSI	Financial Secrecy Index
IDEA	Institute for Democracy & Electoral Assistance
IMF	International Monetary Fund
IO	Immediate Outcome (FATF)
ML/TF	Money Laundering / Terrorist Financing
NGO	Non-governmental organisation
OCCRP	Organized Crime and Corruption Reporting Project
OECD	Organisation for Economic Co-operation and Development
R.	Recommendation (FATF)
TI CPI	Transparency International Corruption Perceptions Index
US INCSR	United States State Department International Narcotics Control Strategy Report
WEF	World Economic Forum
WJP	World Justice Project

1 Introduction

This report accompanies the eighth edition of the Basel AML Index, which has been published by the Basel Institute on Governance since 2012.

The Basel AML Index is the only independent, research-based index issued by a not-for-profit organisation ranking countries according to their risk of money laundering and terrorist financing (ML/TF). It provides risk scores based on the quality of a country's anti-money laundering and countering the financing of terrorism (AML/CFT) framework and related factors such as perceived levels of corruption, financial sector standards and public transparency.

The Public Edition of the Basel AML Index 2019, and the analysis in this report, covers 125 countries with sufficient data to calculate a reliable ML/TF risk score. It focuses on five domains:

1. Quality of AML/CFT Framework
2. Bribery and Corruption
3. Financial Transparency and Standards
4. Public Transparency and Accountability
5. Legal and Political Risks

The Expert Edition interface, which includes a customisable interactive ranking and world map, covers 203 countries. This subscription-based service is used by companies and financial institutions as an ML/TF country risk-rating tool for compliance and risk assessment purposes. In the public sector, it is used by regulatory bodies and Financial Intelligence Units, as well as NGOs and academia, for research and policy measures in the area of AML/CFT.

Additional services and resources this year include an upgraded, in-depth analysis of FATF Mutual Evaluation Reports as part of the Expert Edition Plus package (see Chapter 6) and a detailed analysis of ML/TF risks in a particular region (see Chapter 7 for a special regional focus on post-Soviet countries).

The Basel Institute has conducted extensive research in calculating the risk scores following academic best practices. The methodology is reviewed every year by an international and independent panel of peer reviewers to ensure that the ranking is accurate, plausible and continues to capture the latest developments in ML/TF risks.

The Basel AML Index is developed and maintained by the Basel Institute's International Centre for Asset Recovery (ICAR).

2 What does the Basel AML Index measure?

The Basel AML Index measures the risk of ML/TF in countries using data from publicly available sources such as the Financial Action Task Force (FATF), Transparency International, the World Bank and the World

Economic Forum. A total of 15 indicators of countries' adherence to AML/CFT regulations, levels of corruption, financial standards, political disclosure and the rule of law are aggregated into one overall risk score. By combining these data sources, the overall risk score represents a holistic assessment addressing structural as well as functional elements of the country's resilience against ML/TF.

The scores are aggregated as a composite index using a qualitative and expert-based assessment in order to form the final country ranking in Chapter 3. They should be read in conjunction with the analysis and descriptions of the methodology and indicators in the rest of the report. Without this background, the results may easily be misunderstood or misrepresented, and this may have unwanted consequences for any policy or compliance decision that is taken as a result.

The Basel AML Index does not measure the *actual amount* of money laundering or terrorist financing activity, but rather is designed to assess the *risk* of such activity. ML/TF risk is understood as a broad risk area in relation to a country's vulnerability to ML/TF and its capacities to counter it.

The Basel AML Index ranks countries based on their overall scores, capturing the complex global nature of ML/TF risks and providing useful data for comparative purposes. However, the primary objective is not to rank countries superficially in comparison with each other, but to provide an overall picture of different countries' risk levels and serve as a solid basis for examining progress over time.

2.1 Notes and limitations

Simplifying a complex issue: The Basel AML Index Public Edition is a composite index, meaning it provides a simplified comparison of countries' risks of ML/TF. Each country's risk score is calculated from available data and does not represent an opinion or subjective assessment by the Basel Institute. The scores summarise a complex and multidimensional issue, and should not be viewed as a factual or quantitative measurement of ML/TF activity or as a specific policy recommendation for countries or institutions. For a more thorough understanding of where exactly the risks lie, or to verify overall scores that look implausible, users should look at the individual results of underlying indicators available in the Expert Edition.

Methodological choices: There is no objective standard in creating a composite index, which is why choices and judgments on indicators and their weight have to be made when developing and evolving the Basel AML Index. See Annex I (Methodology) for more information.

Perception-based indicators: The Index relies heavily on perception-based indicators such as the Transparency International Corruption Perceptions Index (TI CPI). In contrast to financial risk models based purely on statistical calculations, the Basel AML Index evaluates structural factors by quantifying regulatory, legal, political and financial indicators that influence countries' vulnerability to ML/TF. Transforming qualitative data into quantitative data does not fully overcome the limitations of perception-based indicators. Unlike financial risk models, country risk models cannot be used as a solid basis for prediction or for calculating potential loss connected to ML/TF.

FATF fourth-round evaluations: The Financial Action Task Force (FATF) Mutual Evaluation Reports (MERs), a key indicator in the Basel AML Index, assess a country's legal and institutional AML/CFT framework and its implementation of AML/CFT measures in line with the 40 FATF Recommendations (see Annex I (Methodology) and II (Indicators)). The FATF methodology was revised in 2013 (fourth round of evaluations) in order to emphasise not only technical compliance with the Recommendations but the

effectiveness of AML/CFT systems according to 11 Immediate Outcomes.¹ The overwhelming majority of countries assessed in the fourth round of evaluations so far – marked by an asterisk in the Basel AML Index – have received dramatically lower scores for effectiveness than for technical compliance. This has also had a major impact on their performance in the Basel AML Index, which weighs countries' results in effectiveness as twice as important as their results in technical compliance.

Data collection: Data collection for the 2019 Public Edition of the Basel AML Index was finished in June 2019. The results of Cape Verde, Haiti, Senegal, Trinidad and Tobago, and Zimbabwe do not include the latest FATF reports, published in late July and August 2019. The Expert Edition is updated throughout the year.

Insufficient data for some countries: Only countries with sufficient data to calculate a reliable ML/TF risk score are included in the Public Edition of the Basel AML Index. See Annex I (Methodology) for the definition of "sufficient data". The Expert Edition contains a more comprehensive overview of all 203 countries with their risk scores and details of the available data.

Comparability of results: The Basel AML Index methodology evolves each year to more accurately capture ML/TF risks. The addition this year of one extra indicator with a 5% weighting, the TRACE Bribery Risk Matrix, may slightly influence comparability of the results between 2018 and 2019, but not more than 5%.

Separating ML vs. TF risks. The Index does not disaggregate data on ML- and TF-related risks. This is due to a shortage of separate, consistent and regularly updated data related to TF risks. Current FATF MERs are still the most solid basis for evaluating both ML and TF, though as aggregated scores.

Trade-based money laundering: The FATF identifies three main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origins and integrating it into the formal economy: use of the financial system; physical movement of money (e.g. cash couriers); physical movement of goods through the trade system.² The Basel AML Index focuses mostly on the first two ways, with less coverage of financial crime facilitated by international trade.

Use for compliance or risk assessment purposes: Due to these limitations, we recommend that the Basel AML Index Expert Edition, rather than the Public Edition, should be used for compliance or risk assessment purposes. The Expert Edition should also form part of a comprehensive, risk-based compliance programme along with additional indicators and procedures relevant to the organisation's specific needs.

¹ <https://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%2022%20Feb%202013.pdf>

² <https://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundrying.html>

3 Scores and ranking

Countries are ranked from highest to lowest level of risk. The change column reflects the comparison of 2018 and 2019 results. Negative scores identify progress made (lower risks for the country) and positive scores demonstrate an increase in ML/TF risks.

Ranking	Country	Score	Change 18/19	Ranking	Country	Score	Change 18/19
1	MOZAMBIQUE	8.22	-0.06	24	ANGOLA	6.33	-0.16
2	LAOS	8.21	-0.04	25	SERBIA*	6.33	-0.19
3	MYANMAR*	7.93	0.43	26	TAJKISTAN*	6.28	-2.02
4	AFGHANISTAN	7.76	-0.52	27	ALGERIA	6.28	-0.07
5	LIBERIA	7.35	-0.07	28	KAZAKHSTAN	6.27	-0.09
6	HAITI	7.34	0.01	29	ECUADOR	6.25	-0.05
7	KENYA	7.33	-0.07	30	JAMAICA*	6.24	-0.24
8	VIETNAM*	7.30	-0.07	31	THAILAND*	6.22	-0.08
9	BENIN	7.27	0.02	32	SENEGAL	6.20	0
10	SIERRA LEONE	7.20	-0.04	33	TURKEY	6.19	0.08
11	CAPE VERDE	7.01	-0.01	34	PANAMA*	6.19	-0.02
12	NIGERIA	6.89	0.03	35	GUYANA	6.14	0.02
13	ZIMBABWE*	6.87	0.01	36	MOROCCO	6.12	-0.1
14	PARAGUAY	6.74	-0.05	37	UKRAINE*	6.01	-0.05
15	YEMEN	6.74	-0.07	38	BOLIVIA	6.01	-0.01
16	CAMBODIA*	6.63	-0.85	39	ALBANIA*	6.00	0.43
17	TANZANIA	6.63	-0.08	40	VANUATU*	5.90	-0.47
18	COTE D'IVOIRE	6.62	0.03	41	KYRGYZSTAN*	5.86	-0.33
19	CHINA*	6.59	0.57	42	BOSNIA-HERZEGOVINA	5.83	-0.01
20	MONGOLIA*	6.57	-0.08	43	COLOMBIA*	5.83	1.41
21	NICARAGUA*	6.53	-0.19	44	PHILIPPINES	5.81	-0.13
22	ARGENTINA	6.50	-0.05	45	BANGLADESH*	5.80	0.02
23	PAKISTAN	6.45	-0.04	46	MARSHALL ISLANDS	5.76	-0.16

Ranking	Country	Score	Change 18/19	Ranking	Country	Score	Change 18/19
47	HONDURAS*	5.76	-0.09	76	BRAZIL	4.97	0.01
48	RUSSIA	5.75	-0.08	77	QATAR	4.97	-0.11
49	VENEZUELA	5.72	0.03	78	SWITZERLAND*	4.96	-0.37
50	UZBEKISTAN	5.71	-0.11	79	CANADA*	4.92	0
51	INDIA	5.60	0.32	80	HUNGARY*	4.90	-0.02
52	UNITED ARAB EMIRATES	5.60	-0.1	81	LATVIA*	4.89	0.91
53	BAHRAIN*	5.46	0.13	82	NETHERLANDS	4.86	-0.04
54	EL SALVADOR	5.46	0.03	83	TAIWAN, CHINA	4.84	-0.31
55	LEBANON	5.46	-0.53	84	SOUTH AFRICA	4.83	-0.51
56	BOTSWANA*	5.46	0.06	85	LUXEMBOURG	4.82	-0.29
57	DOMINICAN REPUBLIC*	5.41	-0.39	86	JORDAN	4.77	-0.07
58	PERU*	5.33	0.19	87	ROMANIA	4.76	0.01
59	AZERBAIJAN	5.31	-0.12	88	GUATEMALA*	4.75	-0.2
60	GHANA*	5.29	-0.03	89	ST. LUCIA	4.73	0.25
61	MOLDOVA	5.29	-0.08	90	ST. VINCENT AND GRENADINES	4.69	0.23
62	MALAYSIA*	5.28	-0.21	91	ICELAND*	4.66	0.07
63	SAUDI ARABIA*	5.26	0.25	92	AUSTRIA*	4.64	0.3
64	TRINIDAD AND TOBAGO*	5.26	0.01	93	KOREA, SOUTH	4.60	-0.09
65	COSTA RICA*	5.23	-0.24	94	GRENADA	4.59	0.39
66	GEORGIA	5.20	-0.11	95	SINGAPORE	4.58	0.07
67	INDONESIA*	5.13	-0.6	96	GREECE	4.56	0
68	MEXICO*	5.13	-0.04	97	IRELAND*	4.55	-0.03
69	HONG KONG SAR, CHINA	5.11	-0.07	98	EGYPT	4.55	-0.8
70	ARMENIA*	5.08	-0.15	99	GERMANY	4.49	0.05
71	GAMBIA	5.05	-0.03	100	SPAIN*	4.42	-0.03
72	UNITED STATES*	5.03	0.03	101	DOMINICA	4.40	0.23
73	JAPAN	5.02	-0.09	102	POLAND	4.34	-0.04
74	CYPRUS	5.01	0	103	BELGIUM*	4.29	-0.17
75	ITALY*	4.99	-0.1	104	CHILE	4.18	0.02

Ranking	Country	Score	Change 18/19	Ranking	Country	Score	Change 18/19
105	CZECH REPUBLIC*	4.15	0.03	116	ISRAEL*	3.76	-0.08
106	UNITED KINGDOM*	4.13	-0.1	117	SLOVENIA*	3.70	-0.05
107	PORTUGAL*	4.10	-0.56	118	URUGUAY	3.58	-0.47
108	FRANCE	4.09	-0.03	119	LITHUANIA*	3.55	0.43
109	SLOVAKIA	4.04	-0.09	120	BULGARIA	3.51	-0.02
110	AUSTRALIA*	3.97	-0.09	121	SWEDEN*	3.51	-0.24
111	DENMARK*	3.95	-0.16	122	MACEDONIA	3.22	-0.11
112	MONTENEGRO	3.94	-0.01	123	NEW ZEALAND	3.18	-0.02
113	MALTA	3.94	-0.02	124	FINLAND*	3.17	0.6
114	NORWAY*	3.91	-0.21	125	ESTONIA	2.68	-0.05
115	CROATIA	3.82	-0.01				

Table 1: Basel AML Index 2019 - Public Edition

* Countries assessed with the fourth-round FATF methodology

4 Analysis of results

4.1 General trends

- **Some progress – but very slow:** More countries showed slight improvements in their risk scores in 2019 than last year, but there have been no substantial changes indicating significant progress in tackling ML/TF. This confirms the general trend visible over the eight years since the Basel AML Index was first calculated: most countries are slow to improve their resilience against ML/TF risks.
- **Improvements are minor:** Between 2018 and 2019, 27% of countries listed in the Public Edition (34/125) improved their scores by more than 0.1 point. However, only one country (Tajikistan) managed to improve its score by more than 1 point.
- **Some countries are still going backwards:** The risk scores of 13% of countries (16/125) deteriorated by more than 0.1 point. Colombia, Latvia, Finland and China demonstrated the highest deterioration in risk scores.
- **Most countries are at significant risk:** 60% of countries in the 2019 Public Edition ranking (74/125) have a risk score of 5.0 or above and can be loosely classified as having a significant risk of ML/TF. The mean average level of risk, though marginally better than 2018, remains above this (5.39 in 2019 compared to 5.63 in 2018).

4.2 Lowest performing countries

Mozambique, Laos and Myanmar are the lowest performing countries out of the 125 countries assessed by the Public Edition of the Basel AML Index. These three countries are listed among the US INCSR list of major money laundering countries. Only Myanmar has been assessed by the FATF fourth-round methodology, which may influence comparability between the countries.

4.2.1 Mozambique

Mozambique's overall ML/TF risk score is 8.22 out of 10. The quality of its AML/CFT framework (Domain 1) is poor (9.28), based on data from the FATF (9.08) and the US INCSR (10), which lists it as a major money laundering jurisdiction. Poor border controls and weak government institutions expose the country to cross-border crimes related to drugs and human trafficking. Mozambique is also vulnerable to other predicate offences including corruption, car theft and smuggling, robbery, cash smuggling, illicit trade in precious metals and stones, customs fraud and goods smuggling.³

Mozambique has high risks associated with corruption, which is a pervasive problem in the country. The country scores 7.11 for corruption (based on the TI CPI) and 7.70 for bribery risks (based on the TRACE Bribery Risk Matrix). In January 2019, Mozambique announced the indictment of 18 individuals in connection to the USD 2 billion "tuna bonds" scandal that plunged the country into its worst financial crisis since independence. According to the Organized Crime and Corruption Reporting Project (OCCRP), in 2013 the former finance minister Manuel Chang "approved \$2 billion of government loans from Credit Suisse and Russian bank VTB Capital, partially concealing them from donors including the International Monetary Fund (IMF). The loans funded maritime projects including a state-owned tuna fishery. However, an estimated 10 percent was diverted into bribes and kickbacks".⁴ Mozambique defaulted on the loans in January 2017, plunging the country into a financial crisis with debt soaring to 112% of GDP.

The country also fares poorly on Financial Transparency and Standards (Domain 3), with a score of 6.5. The country's risk level in Domain 4 (Public Transparency) and Domain 5 (Political and Legal Risks) is medium. The country faces issues with the strength of public institutions, as well as the financial openness of political parties and the level of media freedom.

4.2.2 Laos

Laos has an overall score of 8.21 and continues to face a high risk of money laundering despite leaving the FATF's list of jurisdictions with strategic deficiencies in 2017.

The country has high risks relating to the poor quality of its AML/CFT framework (Domain 1), scoring 9.12 out of 10. The country also has a low performance rating according to the FATF assessment, with a score of 8.87 out of 10. However, the latest FATF report on Laos was issued in July 2011 and the country has not gone through a fourth-round evaluation, which impacts on the validity and accuracy of its score.

³ https://esaamlg.org/index.php/Countries/readmore_members/Mozambique

⁴ <https://www.occrp.org/en/daily/9090-mozambique-charges-18-in-tuna-bonds-scandal>; see also <https://www.justice.gov/opa/press-release/file/1141826/download>

The main issues noted in the 2011 report related to the general lack of awareness of AML/CFT and the lack of dedicated resources to undertake required reforms. The report also noted a high concern about drug-related illicit proceeds (estimated at about 10% of GDP or USD 750 million) as well as deficiencies in the criminalisation of ML and the absence of a freezing mechanism⁵.

The US INCSR lists Laos as a major money laundering jurisdiction, giving it the highest risk level of 10. The main vulnerabilities relate to the cash-driven economy and limited law enforcement capacities, as well as the existence of widespread corruption, drug and human trafficking, and environmental crimes. The main sectors vulnerable to risk include the banking industry, stock market, insurance providers, casinos, the real estate industry and money exchange shops.

The country's performance in Domain 2 (Corruption and Bribery) is also poor, with a score of 6.73 under TI CPI data and 7.10 under the TRACE Bribery Risk Matrix. Corruption is a high risk for companies operating in Laos and "petty bribery is another dimension of corruption in Laos; companies are likely to encounter this when trading across borders, paying taxes or acquiring public services".⁶ In June 2019, the ruling communist party announced an anti-corruption campaign.⁷ It remains to be seen whether this will lead to any immediate results.

Laos performed poorly in Domain 3 (Financial Transparency and Standards), with a risk score of 6.16, and Domain 4 (Public Transparency and Accountability), with a score of 7. In Domain 5 (Political and Legal Risks), Laos scored 6.82, reflecting a weak and inefficient judiciary as well as a low level of press freedom.

4.2.3 Myanmar

Myanmar's overall score is 7.93. The quality of its AML/CFT framework (Domain 1) is poor, with a score of 8.6 based on data from the FATF (8.2) and US INSCR (10).

The country was assessed with the FATF's fourth-round methodology in September 2018, and its performance in the 11 Immediate Outcomes – which measure the effectiveness of AML/CFT measures – was only 3%. Technical compliance was rated at 48%. The overall FATF score in the Basel AML Index is now 8.2, compared to 7.3 based on the previous 2011 FATF report. This does not necessarily reflect a deterioration of the country's position in FATF data. Rather, compared to the previous year, a more accurate picture of the situation is now available as Myanmar has undergone its first assessment under the new FATF methodology (See Chapter 2, Notes and limitations).

According to this latest FATF report, Myanmar is exposed to a large number of significant ML threats, including drug production and trafficking, environmental crimes (including the illegal extraction of jade, wildlife trafficking and illegal logging), human trafficking, corruption and bribery.⁸

⁵ <http://www.apgml.org/members-and-observers/members/member-documents.aspx?m=a6c4a803-0e15-4a43-b03a-700b2a211d2e>

⁶ <https://www.ganintegrity.com/portal/country-profiles/laos/>

⁷ <https://thediplomat.com/2019/07/the-only-way-to-end-corruption-in-laos/>

⁸ <http://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/APG-Mutual-Evaluation-Report-Myanmar.pdf>

Myanmar is listed in the US INCSR as a major money laundering jurisdiction. According to the State Department report, Myanmar's economy is underdeveloped, as is its financial sector, and the majority of currency is still held outside the formal banking system (although bank deposits have increased over the past several years). The INCSR supports the FATF findings, noting that major sources of illicit proceeds in Myanmar include narcotics, trafficking in persons, the illegal trade in wildlife, gems, and timber, as well as public corruption.

Corruption and bribery (Domain 2) present a serious issue, with high scores of 6.73 (corruption) and 7.1 (bribery). The country lacks financial transparency (with a Domain 3 score of 7) and faces issues related to political and legal risks (scoring 6.44 in this category). These factors make Myanmar potentially appealing to criminal organisations.

4.3 Notable performers in 2019

While there is no country with a zero risk of money laundering, the best performing countries according to the Basel AML Index in 2019 are Estonia, Finland and New Zealand.

4.3.1 Estonia

Estonia's overall risk score is low at 2.68 out of 10. Estonia scores 2.95 in Domain 1 (Quality of AML/CFT Framework). The low risk score is largely driven by its good performance in the 2014 FATF country report, which produces a score of 3.61 and states that Estonia's supervisory framework is "broadly sound", and the authorities "have been effective in confiscating and seizing property in ML and drug related cases".⁹ This score may worsen when Estonia is re-assessed according to the FATF fourth-round methodology focusing on the effectiveness of AML/CFT measures and not only technical compliance. Not only is it common for countries to obtain poorer scores when assessed with the latest methodology, but Estonia has been subject to recent criticism of its effectiveness in preventing ML.

The Financial Secrecy Index (FSI) also ranks Estonia as a low-risk country, listing it 93rd out of 112 countries.¹⁰ The few identified ML/TF issues relate to legal entity transparency (public company ownership and corporate tax disclosure, as well as recorded company ownership).

Estonia also displays good results in Domain 2 (Corruption and Bribery), scoring 2.54. Indeed, in January 2019, the TI CPI named Estonia as the least corrupt country in emerging Europe.¹¹ The country's scores for Domains 3, 4 and 5 demonstrate a low risk in the areas of financial transparency, public transparency and legal and political risk.

It is important to note that the data does not reflect the risk of Estonia's geographic proximity to Russia and the issues that may be associated with this. Estonia has been labelled as one of the first ports of entry for Russian money launderers wishing to gain access to the European financial market.

⁹ <https://rm.coe.int/report-on-fourth-assessment-visit-executive-summary-anti-money-launder/168071600b>

¹⁰ <https://www.financialsecrecyindex.com/en/introduction/fsi-2018-results>

¹¹ <https://emerging-europe.com/news/estonia-is-emerging-europes-least-corrupt-country/>

4.3.2 Finland

Finland's overall score is 3.17 out of 10. In Domain 1 (Quality of AML/CFT Framework) Finland achieved a score of 4.38. Of the three best performing countries, Finland is the only country that has been assessed by the FATF fourth-round methodology, which occurred in February 2019. The country achieved a 45% performance score in relation to effectiveness, and a 66% performance score in technical compliance. According to the FATF report, "Finland has an adequate level of understanding of its ML and TF risks, and especially of its main ML risks associated to the grey economy. Those risks are addressed in a well-coordinated manner and through an efficient and comprehensive set of preventive measures".¹²

Despite this, the FATF highlighted the risks connected with its geographical proximity to Russia: "Given its geographical location, Finland is a major European gateway to and from non-European countries, and strong business and trade relationships have developed between Finland and Russia, as well as with neighbouring Baltic States and other Nordic countries. This geographic proximity supports the development of commercial routes, including trade routes in illicit flows of goods and funds".

The FATF report, which notes the limited ability of competent authorities to establish the beneficial ownership of legal persons in a timely manner: "The public registries are not fully reliable and relevant remedies to ensure that registers are kept up-to-date are not available". This is supported by the FSI, which ranks Finland 71 out of 112 countries. The main issues relate to secrecy of ownership registration (recorded company ownership, limited partnership transparency and public company ownership). Finland demonstrates a low risk level in Domain 2, 3, 4 and 5.

Even though the country possesses a low ML/TF risk, in March 2019 the National Bureau of Investigation of Finland said it recorded dozens of cases of international money laundering in Finland in 2018, and has so far seized EUR 225,000 from criminal gangs. The cases relate to professional money launderers, so-called "money mules", who have opened up hundreds of bank accounts all over the country¹³. This demonstrates the general point that no country, including those with strong AML/CFT frameworks and institutions, is immune to money laundering risks.

4.3.3 New Zealand

New Zealand's overall score is 3.18. The country's performance in Domain 1 is 4.22, based on a good performance in the FATF report (3.81) and the low-to-medium risks associated with financial secrecy (4.95). As with Estonia, New Zealand has not yet been assessed with the FATF fourth-round methodology, and the country report was issued in 2009. It is hoped that the findings from 10 years ago, namely that the ML offence is being actively enforced, and that the confiscation regime is "generally sound" and is put to frequent and effective use, hold true today.¹⁴ The report did however identify some issues of concern related to weak preventive measures.

¹² <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Finland-2019.pdf>

¹³ <https://newsnowfinland.fi/crime/report-international-money-laundering-on-the-rise-in-finland>

¹⁴ <https://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20New%20Zealand%20ES.pdf>

New Zealand is ranked in the FSI as a low-to-medium risk country. The main issues are related to ownership registration and legal entity transparency.¹⁵

The country scores well for risks in Domains 2-5.

Even though the country has a low risk of ML/TF, the Ministry of Justice estimates that about NZD 1.35 billion (USD 0.9 billion) from fraud and illegal drugs is laundered in New Zealand each year.¹⁶

4.4 Top five improving countries

Tajikistan, Cambodia, Egypt, Indonesia and Portugal demonstrate the greatest improvements in the Public Edition of the Basel AML Index 2019.

Country	2019 score	2018 score	Difference
TAJKISTAN*	6.28	8.30	-2.02
CAMBODIA*	6.63	7.48	-0.85
EGYPT	4.55	5.35	-0.80
INDONESIA*	5.13	5.73	-0.60
PORTUGAL*	4.10	4.66	-0.56

Table 2: Top 5 improving countries

* Countries assessed with the fourth-round FATF methodology

Different reasons explain the improvements. Tajikistan enjoys a huge decrease in its ML risk score due to a much more positive FATF assessment in December 2018, which produces a score of 5.53 compared to 9.35 previously. The country also shows slightly improved scores in corruption and political/legal risks.

Similarly, Indonesia’s updated FATF evaluation in September 2018 improves its FATF score from 6.32 to 4.73.

Making such significant progress in FATF assessments under the fourth-round methodology is rather exceptional; in general, the fourth-round evaluations lead to a deterioration in country scores.

Improvements in the risk score for Cambodia, Egypt and Portugal are mainly due to them being dropped from the US INCSR list of major money laundering countries. Cambodia also shows slight improvements in relation to public transparency and accountability.

15 <https://www.financialsecrecyindex.com/PDF/Finland.pdf>

16 https://www.nzherald.co.nz/fraud/news/article.cfm?c_id=213&objectid=12166953

4.5 Why some countries have fallen in the ranking

Colombia, Latvia, Finland, China and Lithuania have dropped significantly in the ranking due to an increase in the ML/TF risk category after having undergone an FATF evaluation based on the fourth-round methodology. Colombia's FATF risk score rose sharply from 2.72 to 5.57, Latvia's from 3.26 to 5.87, Finland's from 3.26 to 4.77, China's from 4.63 to 6.23 and Lithuania's from 3.68 to 5.33.

This may, but does not necessarily have to, indicate a sudden and dramatic deterioration in the countries' ML/TF risks. It is more likely that it points to longstanding gaps in relation to the effectiveness of the concerned country's AML/CFT framework that have only just been highlighted by the new FATF methodology. This represents an opportunity for these countries to fill these gaps, as well as a wake-up call for all countries to focus on effectiveness and not just tick-box compliance with FATF Recommendations.

Country	2019 score	2018 score	Difference
COLOMBIA*	5.83	4.42	-1.41
LATVIA*	4.89	3.98	-0.91
FINLAND*	3.17	2.57	-0.60
CHINA*	6.59	6.02	-0.57
LITHUANIA*	3.55	3.12	-0.43

Table 3: Top 5 deteriorating countries

* Countries assessed with the fourth-round FATF methodology

5 Comparison of countries across five domains

5.1 Domain 1: Quality of AML/CFT Framework

This domain consists of three indicators covering risks related to the quality of the legal and institutional AML/CFT framework of a particular country and the ability of its financial and economic system to mitigate risks of ML/TF. This domain has a 65% weighting in the overall score. Countries' scores for this domain are based on assessment of data from their latest FATF MER (35% weighting), the FSI (20% weighting) and the US INSCR (10% weighting).

Country	2019 score in Domain 1
ESTONIA	2.95
BULGARIA	3.16
MACEDONIA	3.28
CROATIA	3.59

SLOVENIA*	3.67
MONTENEGRO	3.90
LITHUANIA*	3.91
URUGUAY	3.93
DOMINICA	3.95
NEW ZEALAND	4.22

Table 4: Top performing countries in Domain 1

* Countries assessed with the fourth-round FATF methodology

Performance in Domain 1 is largely driven by FATF data and the methodology used for the FATF assessment of a particular country. The FATF reports issued prior to the introduction of the fourth-round methodology are outdated and do not cover the extent to which financial systems and economies are resilient against threats of ML/TF. They also do not provide data on a country’s performance regarding the 11 FATF Immediate Outcomes, measuring the effectiveness of systems.

As a consequence, countries that have not yet been subjected to the FATF’s fourth-round evaluation usually have better scores. Indeed, out of the 10 best performing countries in this domain, only two (Slovenia December 2018, Lithuania February 2019) have had recent FATF assessments.

It can be expected that the risk rating of countries that have not been evaluated by the FATF in the last few years, including of current top performers, will change significantly in the next few years due to scheduled FATF evaluations (e.g. Uruguay to be evaluated in July 2019, Macedonia in April 2021, Croatia in July 2021 and Montenegro in April 2022). There are no scheduled onsite missions for Estonia and Bulgaria for the next three years. Consequently, these countries will not drastically change their position in the Basel AML Index before the new FATF data appears.

For comparison, if the Basel AML Index only scored countries that had undergone FATF fourth-round evaluations, the Domain 1 list of top performers would be:

Country	2019 score in Domain 1
SLOVENIA*	3.67
LITHUANIA*	3.91
PORTUGAL*	4.36
FINLAND*	4.38
SWEDEN*	4.5
ISRAEL*	4.55
CZECH REPUBLIC*	4.74
SPAIN*	4.85
AUSTRALIA*	5.08
DENMARK*	5.17

Table 5: Top performing countries in Domain 1 with an FATF fourth-round evaluation

The two tables on countries' performance in Domain 1 show a significant difference in the minimum and maximum scores of the top 10 performing countries. For countries that have undergone FATF fourth-round evaluations, the minimum risk score 1 is lower (2.95 versus 3.67), as is the average result for these countries (3.65 versus 4.52).

Data from the FSI and the US INSCR also have an important impact on Domain 1 risk scores. For instance, none of the countries in the two lists of best performers (except Dominica) are in the US INSCR list of major money laundering countries, and none are among the top 20 countries in the FSI.

Country	2019 score in Domain 1
MOZAMBIQUE	9.28
LAOS	9.12
MYANMAR*	8.60
KENYA	8.56
AFGHANISTAN	8.55
CAPE VERDE	8.49
BENIN	8.33
LIBERIA	8.16
VIETNAM	8.12

Table 6: Lowest performing countries in Domain 1

* Countries assessed with the fourth-round FATF methodology

In contrast, the US INSCR list includes most of the lowest performing countries in Domain 1. Mozambique, Laos, Kenya, Afghanistan, Cape Verde, Benin, Liberia, Vietnam and the Cayman Islands are defined by the INSCR Vol. II as “major money laundering countries” for narcotics-related money laundering.¹⁷

The distribution of ML/TF risk in Domain 1 across all of the assessed countries shows that most countries (87 out of 125) have a medium level of risk, referring to a score between 3.3 and 6.6. 36 countries have a high risk of ML/TF, scoring from 6.70 to 9.90. Only three countries are rated as low risk with a score below 3.3.

¹⁷ <https://www.state.gov/wp-content/uploads/2019/03/INSCR-Vol-INSCR-Vol.-2-pdf.pdf>

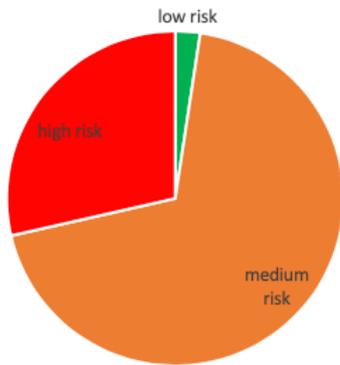


Figure 1: Global distribution of ML/TF risks (Domain 1)

5.2 Domain 2: Bribery and Corruption

Domain 2 consists of two indicators, covering corruption (TI CPI) and bribery (TRACE Bribery Risk Matrix). Corruption and bribery are very common predicate offences to money laundering. Countries with high exposure or vulnerability to corruption are at a higher risk of money laundering as proceeds of corruption need to be laundered.

Bribery, defined as an illicit flow of money from a private entity to a public official in exchange for being granted a government service, is an important form of corruption. It generates significant amounts of money that need to be laundered to enter the financial system.

Domain 2 has a 10% weighting in the Basel AML Index, which is equally distributed between TI CPI scores (5%) and TRACE Bribery Risk Matrix scores (5%).

Country	2019 score in Domain 2
DENMARK	1.03
NEW ZEALAND	1.08
SINGAPORE	1.20
SWEDEN	1.31
FINLAND	1.35
NORWAY	1.40
SWITZERLAND	1.50
NETHERLANDS	1.60
LUXEMBOURG	1.68
UNITED KINGDOM	1.82

Table 7: Top performing countries in Domain 2

Country	2019 score in Domain 2
VENEZUELA	8.32
AFGHANISTAN	8.12
YEMEN	8.03
HAITI	7.96
ANGOLA	7.84
CAMBODIA	7.81
ZIMBABWE	7.57
NICARAGUA	7.43
MOZAMBIQUE	7.40
BANGLADESH	7.39

Table 8: Lowest performing countries in Domain 2

Most countries have a medium risk of ML associated with corruption and bribery. The distribution of low- and high-risk countries is almost equal.

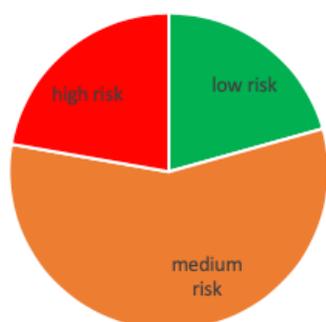


Figure 2: Global distribution of corruption and bribery risks (Domain 2)

5.3 Domain 3: Financial Transparency and Standards

Domain 3 covers risks of ML associated with financial transparency issues. The data are taken from the IMF and World Economic Forum (WEF) and covers such indicators as strength of auditing, business disclosure, regulations of security exchanges and quality of financial standards.

Transparency in the business sector is an important component to provide a holistic assessment of money laundering risks. The Domain has a 15% impact on the overall score of countries.

Country	2019 score in Domain 3
FINLAND	0.97
MACEDONIA	1.00
NORWAY	1.14
SINGAPORE	1.21
CANADA	1.41
HONG KONG SAR	1.44
AUSTRALIA	1.53
NETHERLANDS	1.68
NEW ZEALAND	1.68
LUXEMBOURG	1.69

Table 9: Top performing countries in Domain 3

Country	2019 score in Domain 3
MARSHALL ISLANDS	8.00
YEMEN	7.62
HAITI	7.35
BAHRAIN	7.00
MYANMAR	7.00
GRENADA	7.00
ST. LUCIA	6.50
MOZAMBIQUE	6.50
LIBERIA	6.36
LAOS	6.16

Table 10: Lowest performing countries in Domain 3

Similar to Domain 1, most countries (81 out of 125) are identified as medium risk. However, this time there are 37 countries with a low risk rating and only six countries with a high risk rating related to their financial transparency and standards.

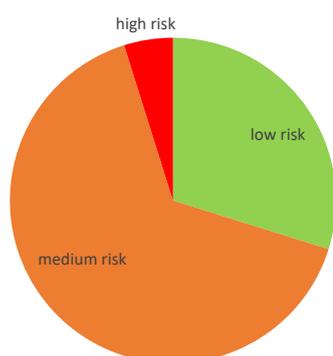


Figure 3: Global distribution of financial transparency risks (Domain 3)

5.4 Domain 4: Public Transparency and Accountability

Domain 4 relates to the transparency of public disclosures, the openness of budgets and public accountability. An example of money laundering in this context relates to bribery and contributions to election campaigns and political parties in return for advantages. The Domain has a 5% impact on the overall score and consists of data from the International IDEA Political Finance Database, the Open Budget Index and the World Bank IDA Resource Allocation Index.

The best performing countries show a near-zero risk level in this domain. Finland, Luxembourg, Israel, Taiwan, Belgium, Estonia, Jamaica, Ireland and Lithuania all score between 0 and 1.

Country	2019 score in Domain 4
SWITZERLAND	10.00
QATAR	10.00
BAHRAIN	10.00
SAUDI ARABIA	9.90
GAMBIA	9.00
CHINA	8.70
LEBANON	8.60
ZIMBABWE	8.57
YEMEN	8.50
VANUATU	8.00

Table 11: Lowest performing countries in Domain 4

Low performance in this domain is mainly associated with poor transparency levels of political finances, mainly related to inadequate campaign spending reporting by parties and candidates. Unlike the other domains, the distribution of risk scores shows that most countries are ranked as low risk.

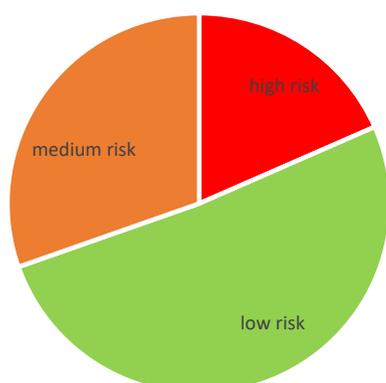


Figure 4: Global distribution of public transparency risks (Domain 4)

5.5 Domain 5: Legal and Political Risks

This domain covers political and legal risks associated with media freedom and strength of the rule of law in the country. The data are taken from Freedom House, the WEF and the World Justice Project (WJP). Freedom of expression in the press is seen as an important tool to expose money laundering. Additionally, a functioning and independent judicial system is a critical measure to deter crime, including financial crimes and money laundering, through the threat of punishment. Domain 5 has a 5% weighting in the overall score.

Country	2019 score in Domain 5
FINLAND	1.03
NORWAY	1.11
SWITZERLAND	1.23
LUXEMBOURG	1.37
NEW ZEALAND	1.37
NETHERLANDS	1.37
DENMARK	1.38
SWEDEN	1.41
CANADA	1.72
ICELAND	1.75

Table 12: Top performing countries in Domain 5

Country	2019 score in Domain 5
YEMEN	8.04
VENEZUELA	7.83
UZBEKISTAN	7.35
LAOS	6.82
CAMBODIA	6.74
TAJKISTAN	6.69
AFGHANISTAN	6.65
ANGOLA	6.49
AZERBAIJAN	6.47
HAITI	6.45

Table 13: Lowest performing countries in Domain 5

Like in all other domains except Domain 4, the majority of countries are rated as medium risk.

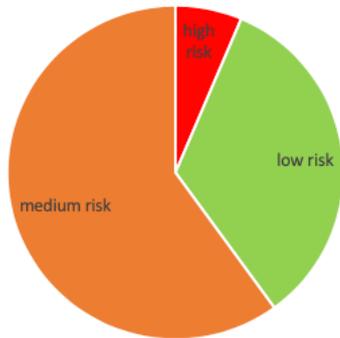


Figure 5: Global distribution of political and legal risks (Domain 5)

6 Special indicator focus - analysis of FATF data

During the first years of implementing the FATF fourth-round methodology, there were occasionally concerns about the comparability of data (see also explanations in section 5.1 above) and the presentation of findings.

Since then, we have observed significant improvements with respect to the harmonisation of the reporting methodology under the new methodology and more regular updates of consolidated FATF assessments. These improvements provide greater opportunities for enhanced analysis of this particular data set, which is presented in the following and is offered with regular updates as part of the Basel AML Index Expert Edition Plus package.

6.1 In-depth analysis of FATF data

This enhanced analysis is based on consolidated data from all published FATF Mutual Evaluation Reports (MERs) and converts the FATF rating (Compliant, Largely Compliant, Partially Compliant, Non-Compliant) into a numerical, colour-coded scale from 0 to 3.

As illustrated in Figure 6 below, the data are presented in Excel format, accompanied by graphics and an analysis of main achievements and trends. The Excel sheet includes regional indexation and information

about the review authority and the date of review to allow sorting by these criteria. The scores are presented in raw form as well as scaled from 0 to 3. Updates are provided on a quarterly basis.

Jurisdiction	Geographic region (World Bank)	Assessment body/bodies	Effectiveness				Technical Compliance					Overall scores				
			IO1	IO7	IO8	IO11	Effectiveness Scaled	Performance	R.4	R.6	R.7	Technical Compliance Scaled	Sum of Technical Compliance Scores	Performance* in Technical Compliance	FATF Score 1:1 Scaled	FATF Score 2:1 Scaled
Albania	Europe & Central Asia	MONEYVAL	1	1	1	0	6.67	33%	2	1	0	4.19	68	57%	5.43	5.84
Andorra	Europe & Central Asia	MONEYVAL	2	1	1	1	5.45	45%	3	2	3	3.00	64	70%	4.23	4.64
Antigua & Barbuda	Latin America & Caribbean	3FATF	1	0	1	0	7.88	23%	2	1	3	3.42	79	66%	5.85	6.39
Armenia	Europe & Central Asia	MONEYVAL	1	0	0	2	5.45	45%	2	2	2	2.00	96	80%	3.73	4.30
Australia	East Asia & Pacific	FATF/APG	2	1	1	2	4.85	52%	3	3	3	3.50	78	65%	4.17	4.40
Austria	Europe & Central Asia	FATF	1	0	1	2	6.36	36%	3	1	1	2.17	94	78%	4.27	4.96
Bahamas	Latin America & Caribbean	3FATF	0	0	0	0	8.48	15%	3	1	1	3.08	83	69%	5.78	6.68
Bahrain	Middle East & North Africa	FATF/INAFATF	1	1	1	1	5.76	42%	3	1	1	3.17	82	68%	4.46	4.89
Bangladesh	South Asia	APG	1	0	0	2	6.97	30%	2	3	2	3.75	75	63%	5.36	5.90
Barbados	Latin America & Caribbean	3FATF	0	0	0	0	8.79	12%	1	2	0	4.33	68	57%	6.56	7.30
Belgium	Europe & Central Asia	FATF	2	1	1	1	5.45	45%	3	1	1	1.83	98	82%	3.64	4.25
Bhutan	South Asia	APG	0	0	0	0	9.39	6%	1	1	1	4.08	71	59%	6.74	7.62
Botswana	Sub-Saharan Africa	ESAAMLG	0	0	0	0	9.39	6%	1	0	0	8.48	18	15%	8.93	9.08
Cambodia	East Asia & Pacific	APG	1	0	0	0	8.48	15%	2	2	0	4.75	63	53%	6.62	7.24
Canada	North America	IMF/FATF/APG	2	1	1	1	5.45	45%	2	2	2	3.75	75	63%	4.60	4.89
Cayman Islands	Latin America & Caribbean	3FATF	1	0	1	1	8.18	18%	2	2	2	3.42	79	66%	5.80	6.59
China	East Asia & Pacific	FATF/IMF/APG/E	2	1	2	0	6.97	30%	3	1	0	4.75	63	53%	5.86	6.23
Colombia	Latin America & Caribbean	GAFILAT	2	0	2	0	6.36	36%	3	1	0	4.02	70	58%	5.19	5.68
Cook Islands	East Asia & Pacific	APG	2	0	0	1	5.76	42%	2	2	1	3.08	83	69%	4.42	4.87
Costa Rica	Latin America & Caribbean	GAFILAT	1	1	1	0	7.27	27%	2	2	3	2.42	91	76%	4.84	5.85
Cuba	Latin America & Caribbean	GAFILAT	1	1	2	1	5.15	48%	2	3	2	2.25	93	78%	3.70	4.18
Czech Republic	Europe & Central Asia	MONEYVAL	1	1	2	1	5.76	42%	3	1	1	4.08	71	59%	4.92	5.20

Figure 6: Sample of FATF data available in the Expert Edition Plus package

The user can rank countries according to their results in the 11 Immediate Outcomes (IOs) and 40 Technical Recommendations (R). IO and R scores are presented both separately and aggregated.

The data are presented on two levels:

- Indicator level (separately for IOs and Rs) or horizontal comparison:
 - Total score per indicator
 - Average score per indicator
 - Performance (proportion of the potential achievements and real results)
- Country level (separately for IOs and Rs) or vertical comparison:
 - Total score per country
 - Average score per country
 - Performance per country (proportion of the potential achievements and real results)

The written analysis describes countries' performance in terms of both FATF technical recommendations and effectiveness criteria. The analysis helps users to:

- identify weak spots and strong points;
- rank countries according to their technical compliance and effectiveness;
- identify top and low performing countries and understand the reasons behind the scores;
- identify trends.

6.2 Analysis of FATF data: 2019 trends

6.2.1 AML/CFT systems remain largely ineffective

Ratings in relation to the FATF's IOs reflect the extent to which a country's measures in AML are effective. The 11 IOs represent key goals that an effective AML/CFT system should achieve. The annual results show that countries' effectiveness within the 11 IOs is low. The average performance ranges between 23% (lowest) and 50% (highest). In contrast, countries' performance in technical compliance is much better. The average distribution lies between 50% and 75%. Only two countries listed in the Public Edition of the Basel AML Index (Botswana and Mauritius) show a performance below 40%.

Six countries stand out with a particularly high performance (above 80%) when it comes to technical compliance. These are Spain, the United Kingdom, Belgium, Malaysia and Vanuatu. Spain and the United Kingdom also show a comparatively strong performance in relation to the IOs. The situation of Vanuatu is an unusual exception: it has one of the highest performances in technical compliance, yet at the same time demonstrates 0% effectiveness based on the IOs.

6.2.2 Countries are making progress in international cooperation and use of financial intelligence

Countries demonstrate the best performance in relation to IO2 on international cooperation and facilitation (50% effectiveness). Altogether, countries achieve an effectiveness of 37% in IO1, which relates to the overall understanding of the risks of ML/TF and the domestic coordination of efforts to combat ML/TF. They fare similarly well (also 37%) when it comes to the use of financial intelligence (IO6) and in relation to the investigation of terrorist finance offences (IO9). In contrast, performance relating to the prevention of terrorist organisations from raising or moving funds is slightly lower (only 30%).

6.2.3 Countries need to get better at supervising regulatory authorities and implementing preventive measures

FATF data show that all assessed countries have been facing significant issues when it comes to the supervision, monitoring and regulation of financial institutions (IO3), with an average performance of only 27%. The situation is even worse for IO4, which relates to preventive measures in ML/TF –countries average only 24% in this indicator.

6.2.4 Transparency of beneficial ownership remains a sticking point

Analysis of FATF data shows that countries demonstrate their lowest performance in dealing with beneficial ownership information (IO5), with an average effectiveness score of only 23%. In terms of technical compliance, the average score for R24 (Transparency and beneficial ownership of legal persons) is 42%. For R25 (Transparency and beneficial ownership of legal arrangements) it is 44%. Information on ownership structures is largely unavailable to competent authorities.

6.2.5 Reporting of suspicious transactions is quite effective but not followed by convictions

FATF data indicate that countries show a good performance in submitting suspicious transaction reports. Overall effectiveness for this R20 is around 80%. Out of those assessed with the fourth-round methodology (and included in the Public Edition of the Basel AML Index) only Panama and Botswana

demonstrated low effectiveness regarding the reporting of suspicious transactions. However, when it comes to ML investigations and prosecutions, the performance level is only 23%.

7 Special regional focus – post-Soviet countries

In 2019, the world saw a significant number of money laundering scandals related to “Russian money” entering the financial markets of European countries, revealed through investigations by the OCCRP and other investigative media outlets.

Consequently, the Basel AML Index has introduced a special geographic scope this year to provide an in-depth look at risks of ML/TF in post-Soviet countries. The Public Edition of the Basel AML Index covers the following: Armenia, Azerbaijan, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan, Ukraine, Uzbekistan.

7.1 Summary

Analysis of ML/TF risks in the post-Soviet region shows that the average risk level is 5.4, with significant deficiencies associated with corruption and bribery. In general, Central Asian countries (Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan) have a higher risk of ML/TF in comparison to Baltic countries (Latvia, Lithuania, Estonia). With regards to countries subjected to FATF assessments under the fourth-round methodology, Kyrgyzstan (27%) and Latvia (30%) demonstrate the lowest performance in terms of effectiveness, while Armenia has the best rating in both technical compliance and effectiveness.

7.2 Analysis

ML/TF risks across these countries during the last six years have been fairly stable, with an average risk score of 5.4 for the region (out of 10).

Country	2012	2013	2014	2015	2016	2017	2018	2019
ARMENIA*	5.13	4.9	4.86	4.89	4.63	4.44	5.23	5.11
AZERBAIJAN	6.49	6.48	6.46	4.9	4.84	4.77	5.43	5.31
ESTONIA	3.28	3.31	3.27	3.19	3.82	2.73	2.73	2.68
GEORGIA	5.64	4.8	4.83	4.8	4.71	5.28	5.31	5.20
KAZAKHSTAN	5.12	5.94	5.94	5.93	5.88	6.35	6.36	6.27
KYRGYZSTAN*	6.31	6.36	6.29	6.27	6.21	6.24	6.19	5.86
LATVIA*	5.36	4.93	5.03	4.98	4.91	3.64	3.98	4.89
LITHUANIA*	3.96	3.81	3.64	3.67	3.62	3.67	3.12	3.55
MOLDOVA	5.93	5.06	5.09	5.15	5.24	5.43	5.37	5.29

RUSSIA	5.66	5.75	6.29	6.26	6.22	5.7	5.83	5.75
TAJIKISTAN*	8.12	8.27	8.34	7.07	8.19	8.27	8.3	6.28
UKRAINE*	6.62	6.47	6.55	6.56	6.57	6.45	6.06	6.01
UZBEKISTAN	5.42	5.4	5.4	5.11	5.1	5.99	5.83	5.71

Table 14: Basel AML Index risk scores since 2012

*Countries assessed with the fourth-round FATF methodology

Small changes to the Basel AML Index methodology and indicators over the years, including the addition of a new indicator in 2019, may slightly influence results and comparability. However, it is clear that Central Asian countries (Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan) have a higher risk of ML/TF in comparison to Baltic countries (Latvia, Lithuania, Estonia).

Almost half of the countries (6 out of 13) were assessed with the FATF fourth-round methodology in the last few years by the regional FATF bodies. The results of these assessments indicate that these countries have a medium level of risk related to ML/TF.

Country	Effectiveness	Technical compliance
Armenia	45%	80%
Kyrgyzstan	27%	54%
Latvia	30%	63%
Lithuania	36%	68%
Tajikistan	36%	60%
Ukraine	36%	69%

Table 15: FATF evaluations according to the fourth-round methodology

Of these, Kyrgyzstan (27%) and Latvia (30%) demonstrate the lowest level of effectiveness. Armenia has the best performance in both technical compliance and effectiveness.

While risks identified by the FATF data for the region remain medium, more than 60% of the countries in the region, namely Armenia, Azerbaijan, Georgia, Kazakhstan, the Russian Federation, Tajikistan, Ukraine and Uzbekistan, are included in the US INCSR list of major money laundering countries. According to the 2019 US INCSR report, for all of these countries the primary sources of illicit proceeds include corruption, fraud, trafficking in drugs, arms, and organised crime, prostitution, cybercrime and tax evasion. Money is often laundered through real estate, insurance, financial and non-financial institutions, shell companies and bulk cash smuggling schemes. Countries in the US INCSR list of major money laundering countries have produced relatively few criminal convictions pertaining to money laundering, which is a reflection of broad weaknesses surrounding the rule of law and judicial independence.

Another indicator to assess the quality of the AML/CFT framework of the region is the FSI. Countries from this region are not present in the FSI's list of top 25 financial secrecy jurisdictions. Russia holds position number 29 and Ukraine number 43, while Latvia holds position number 55 out of 112 jurisdictions listed in total. In general, the region is not scored as having a high level of financial secrecy risks.

Existing data on corruption and bribery indicate a high risk level in this area. According to the TI CPI, Turkmenistan earns the highest risk points in the region, followed by Uzbekistan and Tajikistan. The region is the second lowest scoring region in the Basel AML Index, ahead of Sub-Saharan Africa¹⁸.

The data on financial and public transparency as well as political and legal risks differ heavily across the region, with Latvia and Lithuania showing the best results and Central Asian countries demonstrating the lowest performance.

8 Looking ahead

During development of the Basel AML Index 2019, it became clear that the quality of data concerning financial crimes is still a critical issue to be addressed. The FATF has taken positive steps by increasing the frequency of FATF updates and harmonising the methodology between different regional bodies. It is hoped that with a continuously increased frequency of fourth-round evaluations by FATF and its regional bodies, we can soon achieve full coverage and as such avoid skewed data due to outdated reports. The impact goes far beyond the Basel AML Index as the reports themselves, and the Basel AML Index, directly impact on the due diligence systems implemented by financial institutions and investors.

Helping these institutions untangle the data and use it easily and more accurately in their own system is one of the aims of the recently upgraded FATF analysis provided as part of the Expert Edition Plus package.

On the other hand, of course, it must be noted that, as illustrated by the latest high-profile ML cases, even low-risk countries are not entirely immune to money laundering risks or harm resulting from financial crimes. The resilience of their financial and public institutions is constantly tested by criminals. They need to stay on the radar for analysis for ML/TF risks.

In this respect, opacity of beneficial ownership remains a key issue across all countries and requires a coordinated response at the international level. The Basel AML Index is seeking ways to improve data coverage for risks associated with non-transparent beneficial ownership. The same applies to risks associated with increasing volumes of international trade. Trade-based money laundering is getting more and more attention and we are looking at how best to reflect this and possibly other emerging trends in the 2020 edition of the Basel AML Index.

¹⁸https://www.transparency.org/news/feature/weak_checks_and_balances_threaten_anti_corruption_efforts_across_eastern_eu

9 Subscription details

	Public Edition	Expert Edition	Expert Edition Plus
Private companies & financial institutions	Free	CHF 2,000	CHF 4,000
Public institutions & international/non-profit organisations	Free	Free	Free
Countries covered	125	203	203
Annual updates	✓	✓	✓
Quarterly updates	-	✓	✓
Customisable interface with 15 indicators and sanctions information	-	✓	✓
Downloadable data set	-	✓	✓
Complete FATF data set and analysis	-	-	✓

To find out more about subscription options and to request a free demo account, please visit: index.baselgovernance.org/expert-edition or contact index@baselgovernance.org

10 About and contact

The Basel Institute on Governance is an independent not-for-profit competence centre specialised in corruption prevention and public governance, corporate governance and compliance, Collective Action, anti-money laundering, criminal law enforcement and the recovery of stolen assets.

Based in Switzerland, the Basel Institute is an Associated Institute of the University of Basel and regularly works with international organisations and other institutions, including the World Bank, United Nations Office for Drugs and Crime (UNODC), Organisation for Economic Cooperation and Development (OECD), Council of Europe, International Monetary Fund, the Egmont Group and Interpol.

Experts at the Basel Institute work constantly to improve the accuracy of ML/TF risk ratings and facilitate their use for research and compliance purpose.

For the online version of the Basel AML Index, including interactive ranking tables and information about the Expert Edition and Expert Edition Plus, see index.baselgovernance.org.

For feedback and technical queries or to request a custom service, such as an analysis of a specific geographical region, please contact the Basel AML Index Project Manager, Kateryna Boguslavska, on kateryna.boguslavska@baselgovernance.org.

Basel Institute on Governance
Steinenring 60
4151 Basel
Switzerland
+41 61 205 55 11
www.baselgovernance.org

1 1 Annex I: Methodology

11.1 Overview

The Basel AML Index uses a composite methodology, drawing its components from various publicly available sources. The Index was originally developed as follows:

1. Extensive research was conducted in measuring money laundering and its challenges before the indicators were carefully selected.
2. Only relevant indicators, sub-indicators and assessments that examine AML/CFT frameworks and other factors related to money laundering risk were considered.
3. This was followed by the weighing of indicators according to their importance, based on expert opinions with academic, financial and senior AML experts.
4. The methodology is reviewed every year. During the annual review meeting, external experts verify the quality of the data, country coverage and methodology.

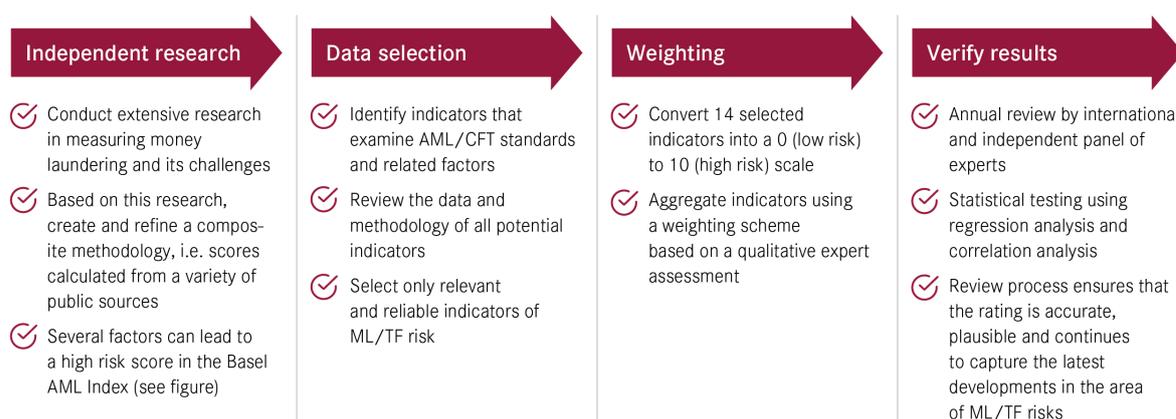


Figure 7: Overview of the methodological process behind the Basel AML Index

11.2 Data sources

The Basel AML Index uses a composite methodology, meaning that it draws its components by aggregating publicly available third-party data sources. The Basel AML Index aggregates 15 indicators and variables from relevant and reputable organisations in assessing the risk of money laundering/terrorism financing. Additionally, related aspects such as banking secrecy, level of corruption, financial regulations and judicial strength are factored in. Indicators may be added or removed by the Basel AML Index to reflect changing ML/TF risks and data sources.

Complex factors contribute to a high risk of money laundering and terrorist financing. However, the main areas are summarised below:



Figure 8: Factors contributing to a high risk score

The criteria for the inclusion of indicators are:

- Relevance and relationship to risks of money laundering and terrorist financing (related survey questions or assessment of relevant financial standards and regulations)
- Methodology of sources
- Availability of recent data (maximum age of data is 2 years with the exception of FATF MERs)
- Country coverage
- Public availability
- Low overlap with other indicators

The objective of the Basel AML Index is to provide a holistic picture of money laundering risk and therefore includes a wide range of indicators, each with a different focus and scope. A conceptual framework captures the multidimensionality of the data and categorises the indicators into five domains identified as key to ML/TF risks:

Domain 1: Quality of AML/CFT Framework (65%)

- FATF Mutual Evaluation Reports (35%)
- Tax Justice Network Financial Secrecy Index (20%)
- US State Department International Narcotics Control Strategy Report (INCSR) (10%)

Domain 2: Corruption Risk (10%)

- Transparency International Corruption Perceptions Index (5%)
- TRACE Bribery Risk Matrix (5%)

Domain 3: Financial Transparency and Standards (15%)

- Extent of Corporate Transparency Index (1.875%)
- WEF Global Competitiveness Report – Strength of auditing and reporting standards (5.625%)

- WEF Global Competitiveness Report – Regulation of securities exchanges (5.625%)
- World Bank IDA Resource Allocation Index – Financial sector regulations (1.875%)

Domain 4: Public Transparency and Accountability (5%)

- International IDEA Political Finance Database – Political disclosure (1.66%)
- International Budget Partnership Open Budget Index – Budget transparency score (1.66%)
- World Bank IDA Resource Allocation Index – Transparency, accountability and corruption in the public sector (1.66%)

Domain 5: Legal and Political Risk (5%)

- Freedom House: Freedom in the World and Freedom and the Media (1.66%)
- WEF Global Competitiveness Report – Institutional pillar (1.66%)
- World Justice Project Rule of Law Index (1.66%)

For detailed descriptions of each indicator and why it is important in assessing ML/TF risks, see Annex II.

11.3 Scaling

Most indicators chosen for the Basel AML Index have their own scoring system. To achieve a unified coding system, individual indicator scores are collected and normalised using the min-max method into a 0–10 system, whereby 0 indicates the lowest risk level and 10 indicates the highest risk level.

All scores are scaled and standardised in this way in preparation for the next step of weighting each variable.

11.4 Weighting

In creating a composite Index, each variable receives a weight to aggregate all scores into one score. There are different techniques to determine the weight of each variable.

- A standard, comparatively simple system consists of adding all the variables and weighting them equally. This assumes, however, that all variables are equally relevant in the context of ML/TF, which they are not.
- Another method would be through statistical models, such as factor analysis and data envelopment analysis. Weights are in this case chosen to reflect the statistical quality of the data. Statistically, more reliable data with broader coverage are given more weight. The OECD Handbook on Composite Indicators states however that “this method could be biased towards

the readily available indicators, penalising the information that is statistically more problematic to identify and measure.”¹⁹

- An alternative method is the expert weighting scheme or so-called participatory approach, where experts assign a weight for a variable based on their in-depth knowledge and expertise in the matter at stake.

After carefully assessing the advantages and disadvantages of each of these weighting methods, and given the specific AML focus, the Basel Institute has decided to use an expert weighting scheme to calculate the overall scores.

The variables used differ in quality, coverage and relevance, with some components being more applicable than others in assessing ML/TF risk²⁰.

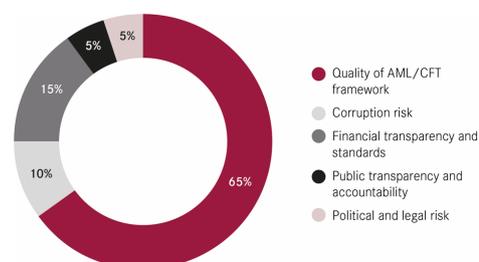


Figure 9: Simple diagram of the expert weighting system

The expert weighting method includes a degree of subjectivity. The role of the annual Basel AML Index expert review meetings is critical in ensuring that the original weighting decisions continue to be adequate and are not influenced by bias or other undue types of subjectivity.

11.5 Missing data

There is not always a complete set of 15 indicators available for all countries. Therefore, a country’s overall score is calculated based on available data only, and missing values are not replaced.

A country is only included in the Public Edition of the Basel AML Index if data on at least two key indicators from Domain 1 (Quality of AML/CFT Framework) are available.

11.6 Review meeting and changes in 2019

Each year the Basel Institute brings together external experts from a diverse set of AML, compliance and risk assessment backgrounds to review the methodology of the Basel AML Index for continued validity and adequacy, and to discuss trends in global AML regulation and practice that may impact its effectiveness. At the 2019 review meeting on 9 July, the following methodological changes were discussed:

¹⁹ OECD Handbook on Constructing Composite Indicators: Methodology and User Guide, OECD (2008): <https://www.oecd.org/els/soc/handbookonconstructingcompositeindicatorsmethodologyanduserguide.htm>

²⁰ For example, country X may have a strong performance in rule of law, a low level of perception of corruption, but at the same time it could also have extreme loose regulations in financial transparency and weak standards to comply with AML/CFT obligation. As a consequence, country X may perform well under overall governance indicators but still could potentially be a high risk in terms of illicit assets and financial transactions.

11.6.1 New indicator: TRACE Bribery Risk Matrix

It was decided that the Basel AML Index would now include data from the TRACE Bribery Risk Matrix in Domain 2 (Corruption Risk). Even though statistical testing shows a high correlation between the TI CPI and the TRACE Bribery Risk Matrix, the addition of this new indicator adds a private sector angle to the corruption/bribery data coverage.

Up until July 2019, Domain 2 had a 10% weighting in the overall score and was solely covered by the TI CPI. The TRACE Bribery Risk Matrix and the TI CPI now receive an equal weighting of 5% each.

11.6.2 More research needed on trade-based money laundering

The expert group discussed the issue of trade-based money laundering and analysed several data sources to cover the issue. However, it was decided to continue research on possible indicators before measuring the risk for this issue and including it in the Index.

11.6.3 Case-based data on ML cannot be included

The expert group also discussed the feasibility of adding case-related data to the Index, for example, the Panama Papers, Paradise Papers and investigations by OCCRP that have revealed ML schemes involving a number of different jurisdictions covered by the Index. It was decided not to include case-based data due to the following reasons:

- **Time lags between real cases and detection.** After a number of ML cases, some national regulators increased fines imposed on financial institutions for failing to enforce AML regulations. The resulting penalties were often imposed for transactions that happened many years previously. This huge time lag between real cases of AML misconduct and detection/sanctioning is problematic for an Index that is updated annually.
- **No regular updates.** ML cases in the media appear without any predictable regularity. It is impossible to provide updates to the data and to change positions of countries.
- **Countries cannot demonstrate progress.** Once a country is labelled a high-risk jurisdiction on the basis of its involvement in a ML media scandal, it is impossible for it to demonstrate progress in this area.

12 Annex II: Indicators

12.1 Domain 1: Quality of AML/CFT Framework

12.1.1 FATF Mutual Evaluation Reports

- *Type:* Expert assessment
- *Website:* www.fatf-gafi.org

What does it measure?

Financial Action Task Force (FATF) Recommendations are designed to reduce ML/TF risk by increasing effectiveness, detection and prevention, investigation and prosecution, and domestic and international information sharing in the assessed countries.

FATF Mutual Evaluation Reports (MER) provide a comprehensive assessment of a country's legal framework and its implementation of AML/CFT measures. The assessment is based on compliance with the 40 FATF Recommendations and 11 key effectiveness goals, or "immediate outcomes".

Why is it important?

FATF data is a primary source for assessing the quality of a country's legal and institutional AML/CFT framework and its application in practice.

The absence of AML/CFT legislation and of preventive and mitigation measures allow for increased and uncontrolled flows of illicit assets and consequently an increase in the risk of money laundering.

12.1.2 Tax Justice Network Financial Secrecy Index

- *Type:* Composite index (qualitative + quantitative data)
- *Website:* www.financialsecrecyindex.com

What does it measure?

Produced by the Tax Justice Network, the Financial Secrecy Index (FSI) measures the scale of a country's offshore banking activity, the level of bank secrecy and the size of its financial centre.

The measure for bank secrecy is qualitative and results in the "secrecy score", which assesses the level of transparency, secrecy and cooperation with information exchange processes based on the legal framework. The second measure is quantitative and reflects the size of each jurisdiction's share of the global market for financial services provided to non-resident clients. The secrecy score and the weighting are combined using a formula to calculate the final score, which is then used for the FSI ranking.

The FSI underwent a critical methodological review in 2016 and increased its country coverage to 112 countries in 2018²¹.

Why is it important?

The rationale for the inclusion of the FSI score is to take into account relevant environmental and jurisdictional factors that are conducive to money laundering. The logic employed by the FSI is that larger financial sectors provide more opportunities for illicit financial flows to be hidden.

While the methodology is unique, the FSI is based on credible sources and sound methodological standards.

12.1.3 US State Department International Narcotics Control Strategy Report (INCSR): Volume II Money Laundering and Financial Crimes

- *Type:* Expert assessment (List of jurisdictions according to level of concern)
- *Website:* www.state.gov/2019-international-narcotics-control-strategy-report/

What does it measure?

The INCSR is an annual report compiled by the US Department of State that assesses the money laundering situation in 200 jurisdictions.

As stated in the 2017 report, it includes an “assessment of the significance of financial transactions in the country’s financial institutions involving proceeds of serious crime”. It also takes into account steps taken or not to address financial crime and money laundering, each jurisdiction’s vulnerability to money laundering, the conformance of its laws and policies to international standards, the effectiveness with which the government has acted, and the government’s political will to take needed actions”.

The Index uses data from Volume II, which covers money laundering and financial crimes. This includes a list of jurisdictions assessed to be “major money laundering countries”.

Why is it important?

The report provides a snapshot of the AML legal infrastructure of each country or jurisdiction and its capacity to share information and cooperate in international investigations.

12.2 Domain 2: Bribery and Corruption

12.2.1 Transparency International Corruption Perceptions Index

- *Type:* Composite index (survey/perception-based data)
- *Website:* www.transparency.org/cpi

²¹ See www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf for full details.

What does it measure?

Transparency International's Corruption Perceptions Index (CPI) score represents an aggregated perception-based dataset, which gives each assessed country a score between 0 (low levels of perceived corruption) and 100 (perceived as highly corrupt).

Why is it important?

Corruption is a common predicate offence to money laundering²², so countries with high exposure or vulnerability to corruption have a higher risk of money laundering.

Perception-based surveys on corruption are the best approximation to understanding corruption levels because, as with any crime and secretive activity, measuring the actual levels of such activity is not possible.

International organisations and regulatory bodies consider the CPI score as a key criterion for a country risk assessment. The CPI is the most widely used and recognised source for assessing the level of corruption.

12.2.2 TRACE Bribery Risk Matrix

- *Type:* Composite index
- *Website:* www.traceinternational.org/trace-matrix

What does it measure?

The TRACE Bribery Risk Matrix provides country scores for business bribery risk. The Basel AML Index uses Domain 1 and Domain 2. Domain 1 ("Opportunity") includes interaction, expectation and leverage. Domain 2 ("Deterrence") includes data on anti-bribery deterrence and enforcement such as societal disapproval of bribery ("Dissuasion") and governmental anti-bribery enforcement ("Enforcement").

The Bribery Risk Matrix was originally developed in 2014. Since 2017 it has been released annually. The data covers 200 countries.

Why is it important?

Bribery is an important form of corruption and generates significant amounts of proceeds of crime that need to be laundered to enter the financial system. In bribery, money flows usually from a private entity to a public official in exchange for being granted a government service, for example the right to extract resources from the state or a contract for goods or services. It is also often referred to as the "active" side of corruption.

²² FATF Report, Laundering the Proceeds of Corruption, 2011

12.3 Domain 3: Financial Transparency and Standards

12.3.1 World Bank Extent of Corporate Transparency Index

- *Type:* Expert survey
- *Website:* www.doingbusiness.org/en/data/exploretopics/protecting-minority-investors

What does it measure?

Part of the World Bank's Doing Business project, the Extent of Corporate Transparency Index measures corporate transparency in ownership stakes, compensation, audits and financial prospects. The information is based on the World Bank Doing Business questionnaire for corporate and securities lawyers.

Why is it important?

Transparency of this type of information in the business sector is a key aspect when considering money laundering risks. Secrecy in these areas allows the true ownership of assets to be hidden – an essential aspect of money laundering.

12.3.2 WEF Global Competitiveness Report – Strength of auditing and reporting standards

- *Type:* Expert survey
- *Website:* www.weforum.org/reports/the-global-competitiveness-report-2018

What does it measure?

The World Economic Forum's Global Competitiveness Report (GCR) is based on survey questions in 12 categories. One of the categories which feeds into the Basel AML Index relates to the strength of auditing and reporting standards.

Why is it important?

Robust auditing and reporting standards need to be in place to protect companies and the financial industry from being misused for financial crime. Audits can detect irregularities and prevent money laundering activities within the private sector, including the financial sector.

Countries with a low level of auditing and reporting standards might be more vulnerable to money laundering.

12.3.3 WEF Global Competitiveness Report – Regulation of securities exchanges

- *Type:* Expert survey
- *Website:* www.weforum.org/reports/the-global-competitiveness-report-2018

What does it measure?

Another of the 12 categories of the WEF GCR looks at the capacity of regulators “to ensure the stability of the financial markets”.

Why is it important?

According to the FATF, “the securities industry, along with banking and insurance, is one of the core industries through which persons and entities can access the financial system. This access provides

opportunities for criminals to misuse the financial system to engage in money laundering and terrorist financing. The securities industry is evolving rapidly and is global in nature. It provides opportunities to quickly carry out transactions across borders with a relative degree of anonymity. It is thus imperative to highlight and share current information about potential vulnerabilities.”²³

The vulnerability of this sector depends on the capacity of regulators to oversee and monitor securities.

12.3.4 World Bank IDA Resource Allocation Index – Financial sector regulations

- *Type:* Expert survey
- *Website:* <http://ida.worldbank.org/financing/resource-management/ida-resource-allocation-index>

What does it measure?

The World Bank’s International Development Assistance (IDA) Resource Allocation Index (IRAI) rates countries against a set of 16 criteria. The indicator on the financial sector assesses the policies and regulations that affect financial sector development. Three dimensions are covered:

- Financial stability
- The sector’s efficiency, depth and resource mobilisation strength
- Access to financial services

Why is it important?

Sound banking standards and adherence to regulations may be indicative of a country’s vulnerability to financial crime. Banking standards cover the quality of risk management and supervision as well as the regulatory framework. These factors are considered as relevant for the prevention of money laundering/terrorist financing risks.

The indicator has limitations related to its limited country coverage and overlap with other indicators used by the Basel AML Index.

12.4 Domain 4: Public Transparency and Accountability

12.4.1 International IDEA Political Finance Database – Political disclosure

- *Type:* Public data assessment
- *Website:* www.idea.int/data-tools/data/political-finance-database

What does it measure?

²³ FATF Report, Money Laundering and Terrorist Financing in the Securities Sector, 2009.

The International IDEA Political Finance Database assesses countries' regulations on disclosures by political parties. Experts examine whether provisions exist to disclose political parties' finances and whether donors have to disclose contributions made.

We selected the following four questions from the IDEA database, as they are the most relevant for a ML/TF country risk assessment:

1. Do political parties have to report regularly on their finances?
2. Do political parties have to report on their finances in relation to election campaigns?
3. Do candidates have to report on their campaign finances?
4. Is information in reports from political parties and candidates made public?

Why it is important?

Campaign financing may provide avenues for illicit funding and spending as well as opportunities for the misuse of public money. Money laundering may occur in the financing of political parties and election campaigns for the purposes of bribe payments and contributions made in return for advantages, and the misuse of state resources for electoral purposes. Regulations and disclosure in political financial provisions may prevent the abuse of public funds.

12.4.2 International Budget Partnership Open Budget Index – Budget transparency

- *Type:* Expert assessment
- *Website:* <http://internationalbudget.org/what-we-do/open-budget-survey/>

What does it measure?

The International Budget Partnership's Open Budget Index (OBI) measures the overall commitment of countries to budget transparency and allows for comparisons between countries.

The OBI is based on the answers to 109 questions and focuses on whether the government provides the public with timely access to comprehensive information contained in eight key budget documents.

Why is it important?

Transparency of public funds allows for a better understanding of their use and whether they are at risk of being used for illicit purposes.

Public and civil society can serve as a check and balance for government spending and thus reduce the risk of the misuse of public funds for private gain and money laundering.

12.4.3 World Bank IDA Resource Allocation Index – Transparency, accountability and corruption in the public sector

- *Type:* Expert assessment
- *Website:* <http://ida.worldbank.org/financing/resource-management/ida-resource-allocation-index>

What does it measure?

This sub-indicator from the World Bank IDA Resource Allocation (IRAI) assesses the extent to which executive, legislators and other high-level officials can be held accountable for their use of funds, administrative decisions and results obtained.

Why is it important?

Transparency is an essential aspect of accountability in fighting corruption and improving public governance. Accountability is enhanced by transparency in decision-making, access to relevant and timely information, public and media scrutiny as well as institutional checks on the authority of the chief executive, for example by the inspector general, ombudsman or independent auditor.

This data set is overall considered less significant than other indicators due to its restricted country coverage, with most high-income countries excluded from the index.

12.5 Domain 5: Legal and Political Risks

12.5.1 Freedom House: Freedom in the World and Freedom and the Media

- *Type:* Expert survey
- *Website:* www.freedomhouse.org

What does it measure?

Freedom House assesses the media in each country according to 25 indicators and assigns a press freedom score from 0 (best) to 100 (worst).

Why is it important?

Freedom of expression in the press is an important tool to expose money laundering offences and other important policy matters of public interest. Financial institutions use media reports as a source of information for issuing suspicious activity reports on their clients.

Vibrant civil society as well as the media can effectively function as watchdogs to detect money laundering offences. In contrast, low scores in press freedom and political and civil liberties tend to increase the risk of money laundering.

12.5.2 WEF Global Competitiveness Report – Institutional pillar

- *Type:* Expert survey
- *Website:* www.weforum.org/reports/the-global-competitiveness-report-2018

What does it measure?

The institutional pillar from the WEF's Global Competitiveness Report represents the quality of the institutions in a country. It combines several questions from the Executive Opinion Survey, including survey questions on diversion of public funds, corruption and auditing standards.

Why is it important?

The quality of governance and institutions is a valuable measure to indicate a country's capacity to prevent money laundering. Countries with weak institutions and levels of governance are more susceptible to crimes related to money laundering and corruption. Nations with strong institutions, on the other hand, are better able to deter, detect and prosecute money laundering offences.

12.5.3 World Justice Project Rule of Law Index

- *Type:* Expert and public survey

- *Website:* <https://worldjusticeproject.org/our-work/wjp-rule-law-index>

What does it measure?

The World Justice Project (WJP) Rule of Law Index reflects the rule of law in each country by providing scores and rankings organised around nine themes:

- constraints on government powers
- an absence of corruption
- open government
- fundamental rights
- order and security
- regulatory enforcement
- civil justice
- criminal justice.

These country scores and rankings are based on answers drawn from more than 100,000 household and expert surveys in 102 countries and jurisdictions.

Why is it important?

A functioning and independent judicial system is a critical measure to deter crime, including financial crimes and money laundering.

A comprehensive assessment of the rule of law in a country indicates its capacity to enforce legislation and regulations in general, including those related to AML/CFT.