

Basel AML Index: 9th Public Edition

Ranking money laundering and terrorist financing risks around the world



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July 2020

The Basel AML Index is developed and maintained by the International Centre for Asset Recovery at the Basel Institute on Governance.

1 Introduction

This report accompanies the 9th Public Edition of the Basel AML Index. Published annually since 2012, it remains the only independent, research-based index by a non-profit organisation ranking countries according to their risk of money laundering and terrorist financing (ML/TF).

The Basel AML Index measures the risk of ML/TF in countries around the world. Risk is defined broadly as a country's vulnerability to ML/TF and its capacities to counter it. It does not measure the actual amount of ML/TF activity in a country.

Risk scores are based on data from publicly available sources such as the Financial Action Task Force (FATF), Transparency International, the World Bank and the World Economic Forum. They cover 16 indicators in five domains relevant to assessing ML/TF risk at the country level:

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 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' and regions' risk levels and their progress in addressing vulnerabilities over time.

The Public Edition
of the Basel AML Index 2020, and the analysis in this report, **covers 141 countries** with sufficient data to calculate a reliable ML/TF risk score.

The Expert Edition,
which includes a **customisable interactive ranking and world map, covers 203 countries.** Companies and financial institutions use the Expert Edition for compliance and risk assessment purposes. In the public sector and academia, it supports AML/CFT research and policy-making.

Expert Edition Plus
subscribers benefit from an **in-depth quantitative and written analysis of FATF reports.**

The Basel Institute has conducted extensive research in calculating the risk scores following academic best practice. The methodology is reviewed every year by an independent panel of experts to ensure that the ranking is accurate, plausible and continues to capture the latest developments in ML/TF risks. To avoid misunderstanding or misrepresentation of the results, risk scores should be read in conjunction with the description of the methodology, along with its limitations and indicators, in Annexes I and II.

2 Scores and ranking

Ranking	Country	Score
1	Afghanistan*	8.16
2	Haiti	8.15
3	Myanmar	7.86
4	Laos*	7.82
5	Mozambique*	7.81
6	Cayman Islands	7.64
7	Sierra Leone*	7.51
8	Senegal	7.30
9	Kenya*	7.18
10	Yemen*	7.12
11	Cambodia	7.10
12	Vietnam*	7.04
13	Angola*	7.02
14	Nigeria*	6.88
15	Benin*	6.85
16	Nicaragua	6.78
17	Côte d'Ivoire*	6.78
18	China	6.76
19	Algeria*	6.74
20	Venezuela*	6.56
21	Zimbabwe	6.54
22	Cape Verde	6.52
23	Sri Lanka	6.52
24	Paraguay*	6.45
25	Bahamas	6.43
26	Tanzania*	6.39

27	Kyrgyzstan	6.32
28	Pakistan	6.30
29	Liberia*	6.25
30	Mongolia	6.24
31	Bolivia*	6.20
32	Tajikistan	6.02
33	Thailand	6.01
34	Jamaica	5.99
35	Jordan	5.96
36	Panama	5.96
37	United Arab Emirates	5.89
38	Bangladesh	5.88
39	Qatar*	5.87
40	Barbados	5.87
41	Turkey	5.76
42	Macao Sar, China	5.72
43	Uzbekistan*	5.71
44	Albania	5.69
45	Philippines	5.67
46	Belize*	5.64
47	Bosnia-Herzegovina*	5.63
48	Seychelles	5.59
49	Marshall Islands*	5.57
50	Honduras	5.54
51	Morocco	5.54
52	Russia	5.51

53	Malta	●	5.48
54	Serbia	●	5.47
55	Guyana*	●	5.40
56	Tunisia	●	5.40
57	Turks and Caicos	●	5.35
58	Aruba*	●	5.34
59	Mauritius	●	5.33
60	Saudi Arabia	●	5.33
61	Lebanon*	●	5.33
62	Vanuatu	●	5.29
63	Gambia*	●	5.29
64	Samoa	●	5.27
65	Malaysia	●	5.25
66	Azerbaijan*	●	5.24
67	Ukraine	●	5.23
68	Mexico	●	5.20
69	Japan*	●	5.16
70	India*	●	5.15
71	Moldova	●	5.14
72	Guatemala	●	5.10
73	Kazakhstan*	●	5.08
74	Argentina*	●	5.08
75	Antigua and Barbuda	●	5.07
76	Botswana	●	5.06
77	Dominican Republic	●	5.05
78	Brazil*	●	5.02
79	Armenia	●	5.00
80	Hong Kong Sar, China	●	4.99
81	Hungary	●	4.99
82	Egypt*	●	4.96
83	Bermuda	●	4.91
84	Ecuador*	●	4.89
85	Ghana	●	4.89

86	El Salvador*	●	4.87
87	South Africa*	●	4.83
88	Cyprus	●	4.81
89	Romania*	●	4.79
90	Costa Rica	●	4.76
91	Trinidad and Tobago	●	4.75
92	Luxembourg*	●	4.74
93	Switzerland	●	4.74
94	Canada	●	4.68
95	Colombia	●	4.62
96	Indonesia	●	4.62
97	Latvia	●	4.62
98	South Korea	●	4.61
99	Italy	●	4.61
100	United States	●	4.57
101	Netherlands*	●	4.56
102	Singapore	●	4.56
103	Georgia*	●	4.54
104	Peru	●	4.53
105	St. Vincent and the Grenadines*	●	4.48
106	Ireland	●	4.46
107	Germany*	●	4.42
108	Bahrain	●	4.41
109	Austria	●	4.38
110	Poland*	●	4.36
111	Taiwan, China	●	4.31
112	Czech Republic	●	4.29
113	St. Lucia*	●	4.25
114	Iceland	●	4.25
115	Grenada*	●	4.12
116	United Kingdom	●	4.02
117	Macedonia*	●	3.98
118	Belgium	●	3.98

119	Croatia*	●	3.95	131	Lithuania	●	3.51
120	Slovakia*	●	3.95	132	Denmark	●	3.46
121	Uruguay	●	3.94	133	Slovenia	●	3.35
122	France*	●	3.92	134	Sweden	●	3.32
123	Dominica*	●	3.88	135	New Zealand*	●	3.24
124	Australia	●	3.84	136	Norway	●	3.19
125	Chile*	●	3.82	137	Cook Islands	●	3.13
126	Montenegro*	●	3.75	138	Bulgaria*	●	3.12
127	Greece	●	3.73	139	Finland	●	2.97
128	Portugal	●	3.66	140	Andorra	●	2.83
129	Spain	●	3.66	141	Estonia*	●	2.36
130	Israel	●	3.62				



* Countries not yet assessed with the fourth-round FATF methodology, limiting comparability.

3 Regional focus

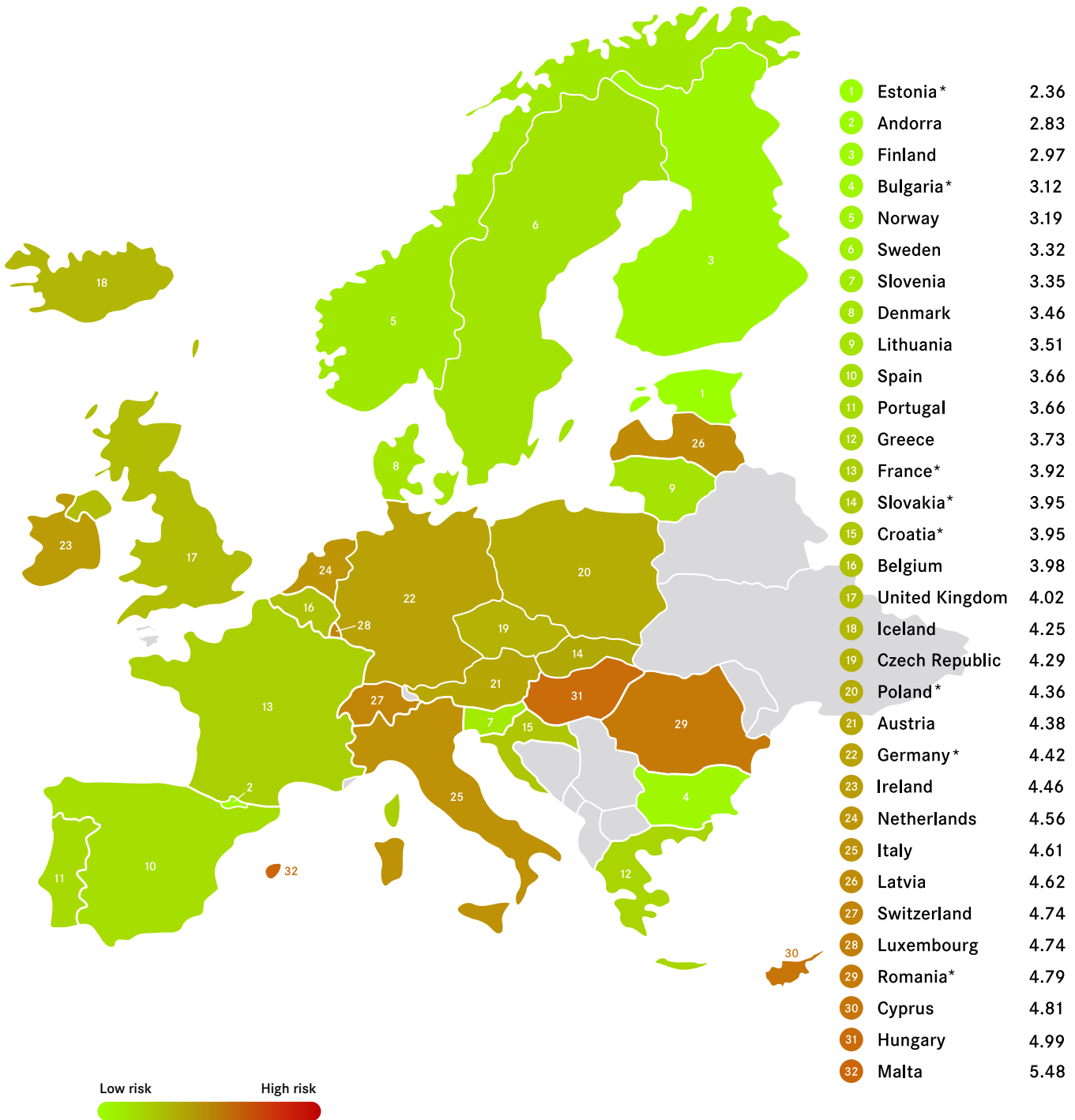
The Basel AML Index follows the World Bank classification of countries, with an additional separation of Europe and Central Asia into two regions:

- European Union and Western Europe
- Europe and Central Asia
- East Asia and Pacific
- Latin America and Caribbean
- Middle East and North Africa
- North America
- South Asia
- Sub-Saharan Africa

While each country has different risks, we do see particular trends and problem zones in each region that help highlight weak links and areas to address.

3.1 European Union and Western Europe

Despite having a generally lower risk than the global average, the region’s biggest deficiency is the quality of AML/CFT frameworks. This could indicate that AML/CFT does not enjoy the same level of priority in Europe than other accountability and transparency factors captured by the Index.

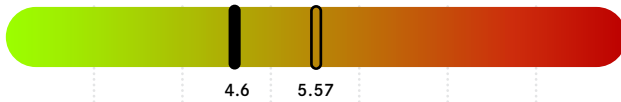


*Countries marked with a star haven’t yet undergone an FATF fourth-round evaluation. This may affect comparability between countries. Only countries with sufficient data to calculate a reliable risk score are included.

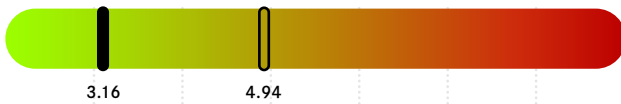
Overall risk score



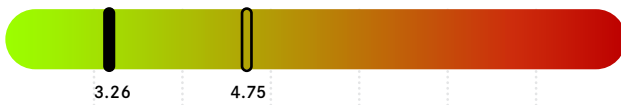
Quality of AML / CFT framework



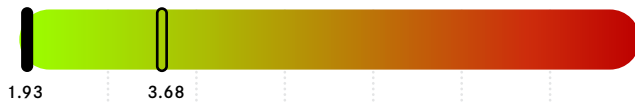
Bribery and corruption



Financial transparency and standards



Public transparency and accountability



Legal and political risk



3 4 5 6 7 8

Region Global average



Weakest area:
Quality of AML / CFT frameworks



Belgium, Cyprus, Malta, the Netherlands, Spain and the UK listed by the US as *major money laundering destinations*

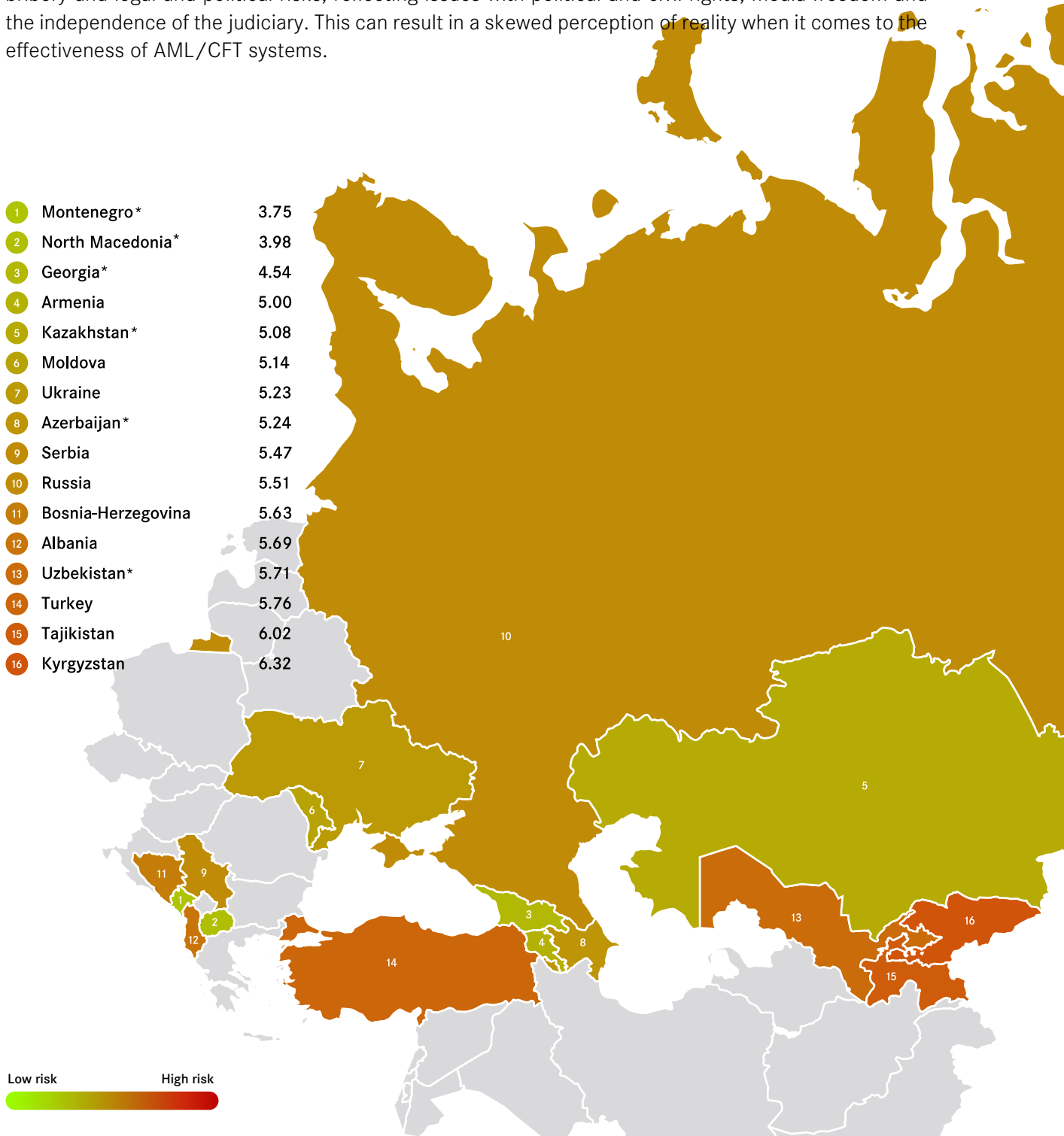


High levels of financial secrecy undermine AML / CFT frameworks in Switzerland, Luxembourg, the Netherlands and the UK

3.2 Europe and Central Asia

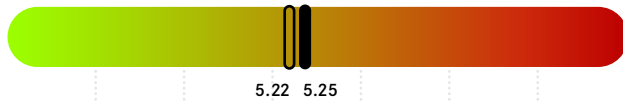
The region’s overall risk score is close to the global average and faring slightly better with respect to the quality of the AML/CFT framework. Weaknesses are most apparent when it comes to corruption and bribery and legal and political risks, reflecting issues with political and civil rights, media freedom and the independence of the judiciary. This can result in a skewed perception of reality when it comes to the effectiveness of AML/CFT systems.

1	Montenegro*	3.75
2	North Macedonia*	3.98
3	Georgia*	4.54
4	Armenia	5.00
5	Kazakhstan*	5.08
6	Moldova	5.14
7	Ukraine	5.23
8	Azerbaijan*	5.24
9	Serbia	5.47
10	Russia	5.51
11	Bosnia-Herzegovina	5.63
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13	Uzbekistan*	5.71
14	Turkey	5.76
15	Tajikistan	6.02
16	Kyrgyzstan	6.32

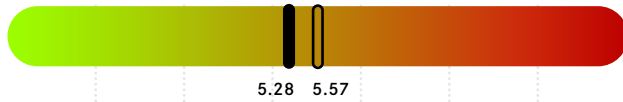


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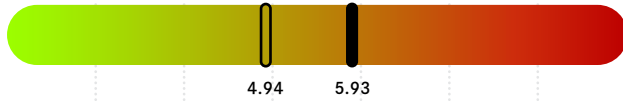
Overall risk score



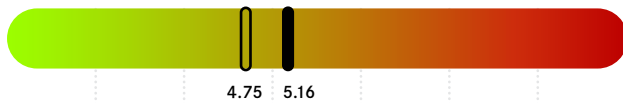
Quality of AML / CFT framework



Bribery and corruption



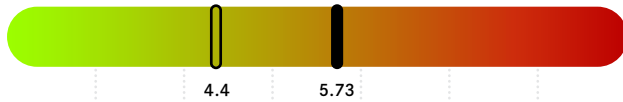
Financial transparency and standards



Public transparency and accountability



Legal and political risk



3 4 5 6 7 8

Region Global average



Weakest areas:
Corruption and issues with political and civil rights, media freedom and independence of the judiciary



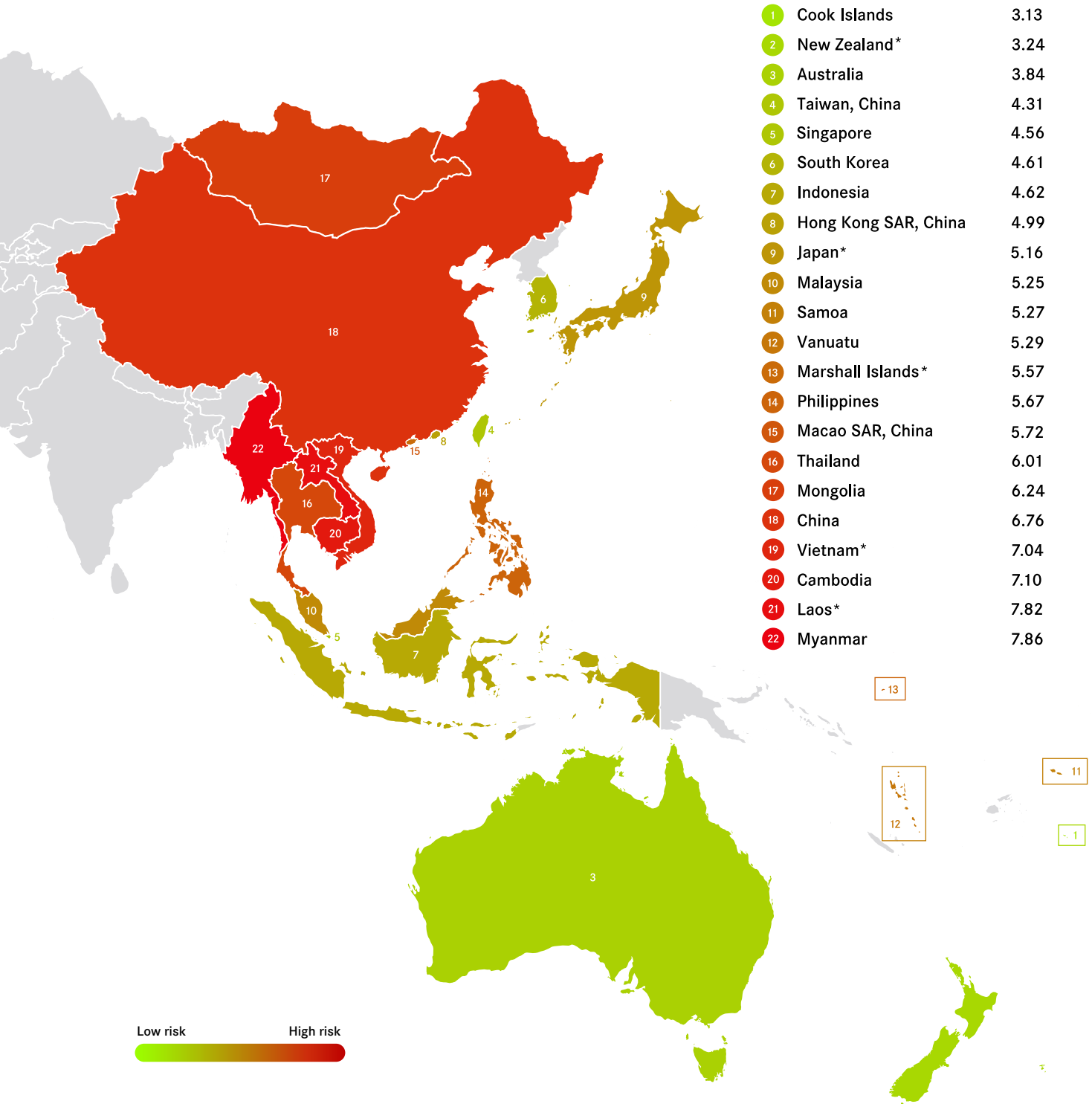
Three quarters of the countries are listed by the US as *major money laundering destinations*



The region faces *high risks of human trafficking*, with the highest exposure level in Russia

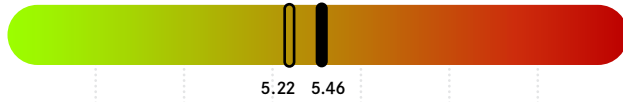
3.3 East Asia and Pacific

The East Asia and Pacific region has a slightly higher than average overall risk score. The most prominent weaknesses relate to the quality of the AML/CFT framework itself, and to underperformance with respect to public transparency and accountability. In both areas, technical and legal adjustments as well as effective implementation would need to be the focus of future reform.

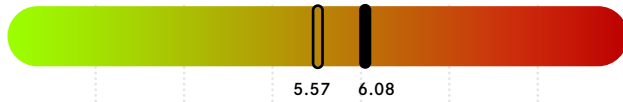


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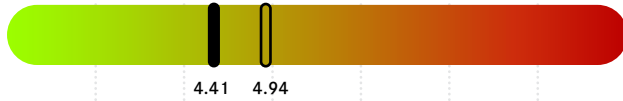
Overall risk score



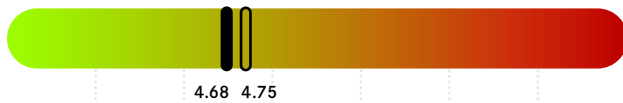
Quality of AML / CFT framework



Bribery and corruption



Financial transparency and standards



Public transparency and accountability



Legal and political risk



3 4 5 6 7 8

Region Global average



Weakest area:
Quality of AML / CFT frameworks



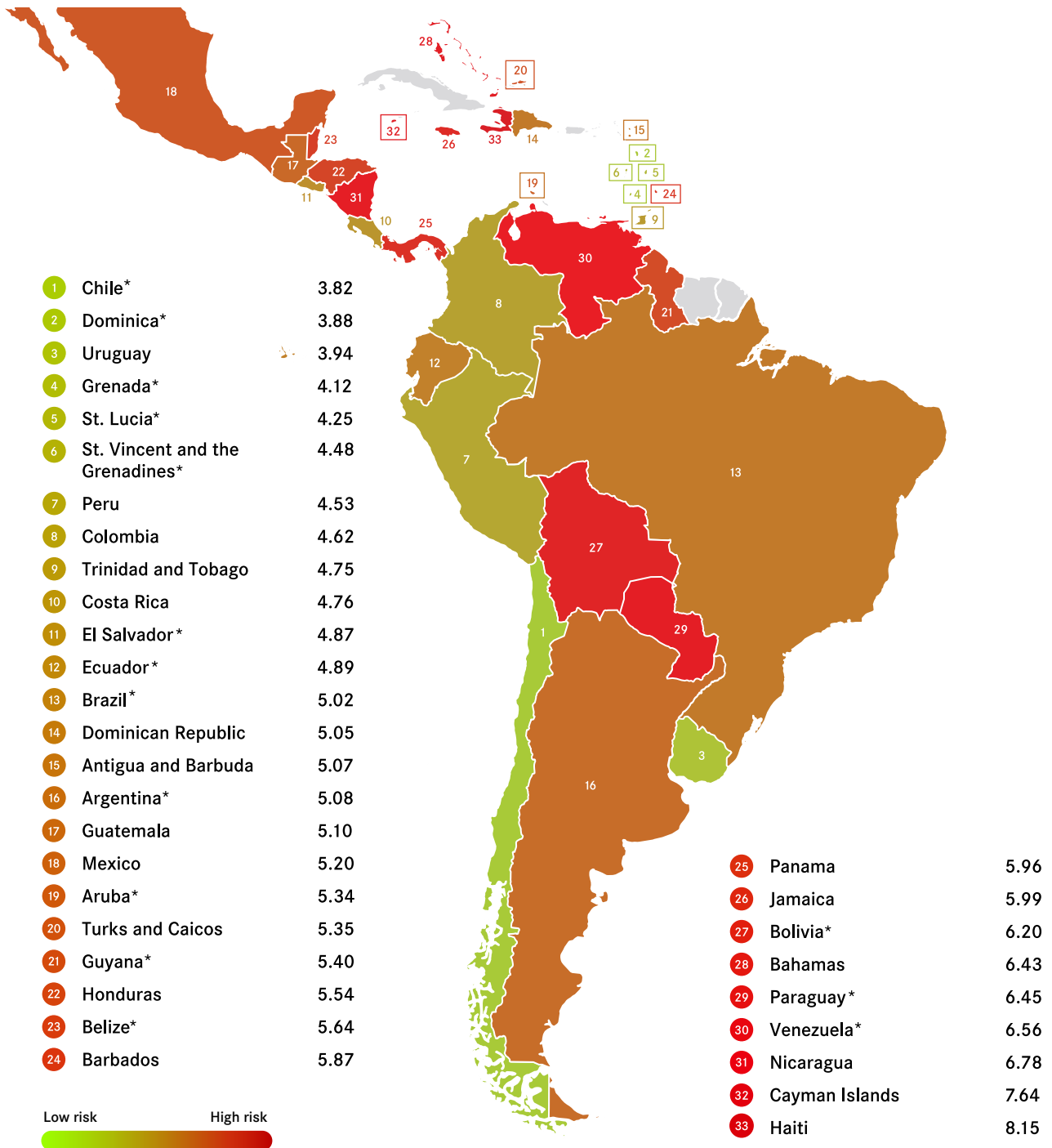
Nearly half of all countries are listed by the US as *major money laundering destinations* - China, Hong Kong, Indonesia, Laos, Macao, Malaysia, Myanmar, Philippines, Thailand and Vietnam



Hong Kong, Japan, Singapore and Taiwan face *the largest issues with financial secrecy*

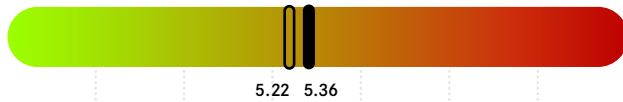
3.4 Latin America and Caribbean

Only around half of countries in this region have undergone an FATF fourth-round evaluation, limiting comparability and, if the general trend holds, making it likely that more countries will fall down the rankings as they undergo new FATF evaluations. At the moment, the main deficiencies lie in high levels of corruption and bribery, low levels of financial transparency and weak public transparency and accountability.

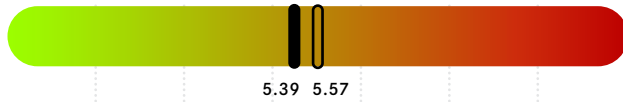


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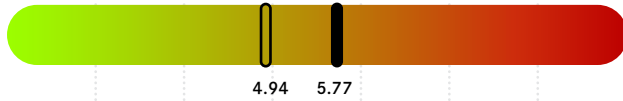
Overall risk score



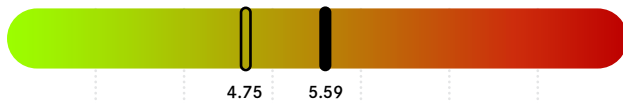
Quality of AML / CFT framework



Bribery and corruption



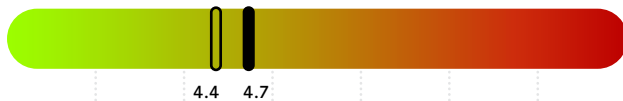
Financial transparency and standards



Public transparency and accountability



Legal and political risk



3 4 5 6 7 8

Region Global average



Weakest area:
Corruption and bribery



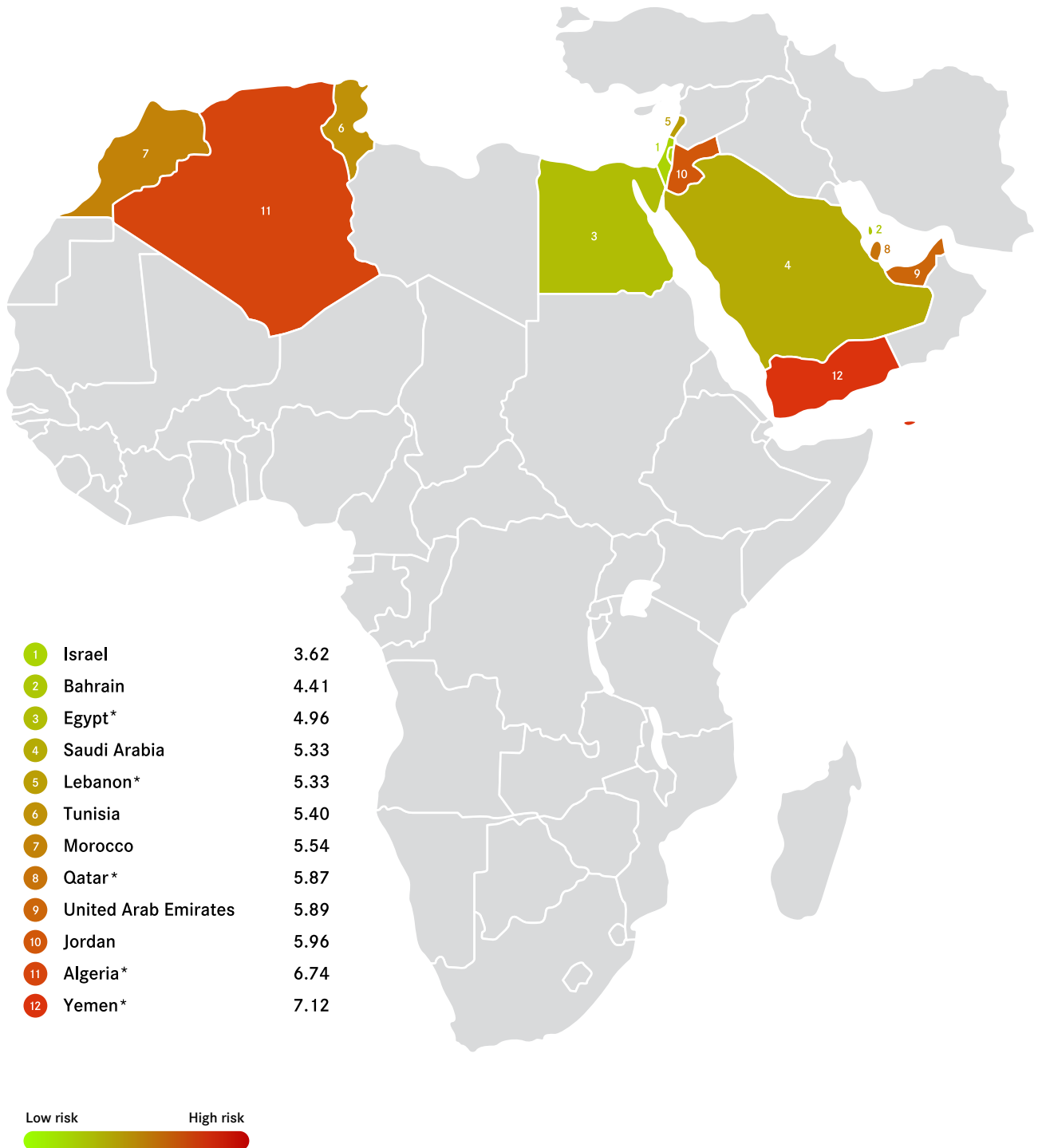
Almost 90% of countries are listed by the US as *major money laundering destinations* - exceptions are the Turks and Caicos, Grenada, Chile and Uruguay



The Cayman Islands, Bahamas and Panama face the *largest issues with financial secrecy*

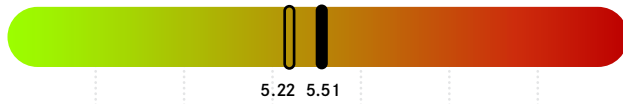
3.5 Middle East and North Africa

Risk levels in this region are higher than the global average across the board. Governments will need to work hard to improve their performance in all categories. The discrepancy to the global average in the category Public Transparency and Accountability is particularly striking and needs urgent attention.

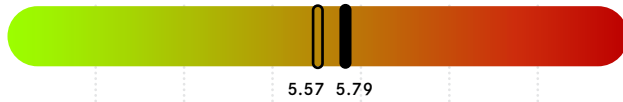


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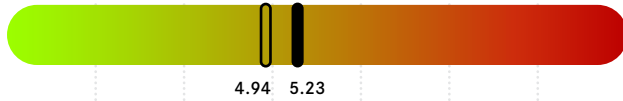
Overall risk score



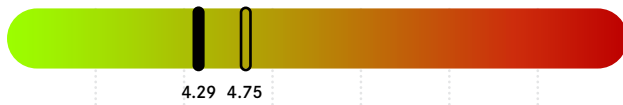
Quality of AML / CFT framework



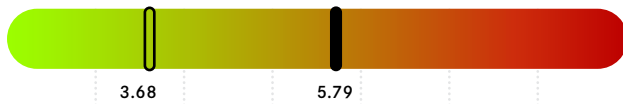
Bribery and corruption



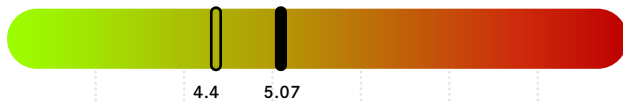
Financial transparency and standards



Public transparency and accountability



Legal and political risk



3 4 5 6 7 8

Region Global average



Weakest area:
Public transparency and accountability



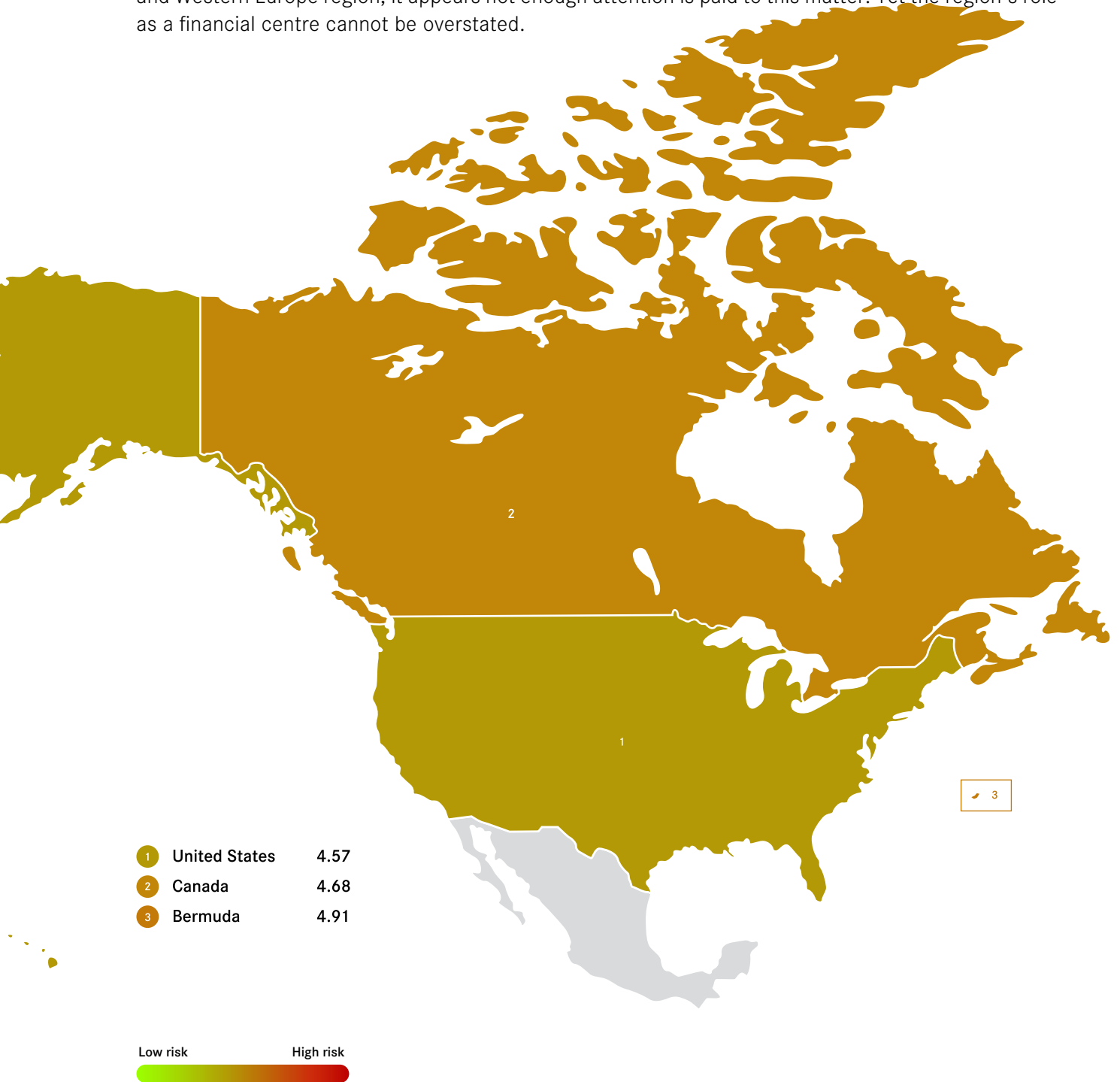
The US lists Algeria, Morocco and the UAE as *major money laundering jurisdictions*



Algeria, Qatar and the UAE are rated as having the *highest levels of financial secrecy*

3.6 North America

Though containing only three countries, this region plays a huge part in global financial markets. It scores better than the global average in all categories, but clearly the headstart over the rest of the world is very minimal when it comes to the actual AML/CFT framework. Similar to the European Union and Western Europe region, it appears not enough attention is paid to this matter. Yet the region's role as a financial centre cannot be overstated.

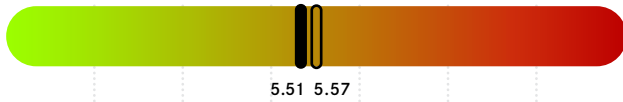


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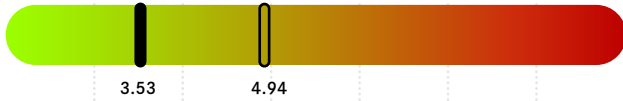
Overall risk score



Quality of AML / CFT framework



Bribery and corruption



Financial transparency and standards



Public transparency and accountability



Legal and political risk



3 4 5 6 7 8

Region Global average



Weakest area:
Quality of AML / CFT frameworks



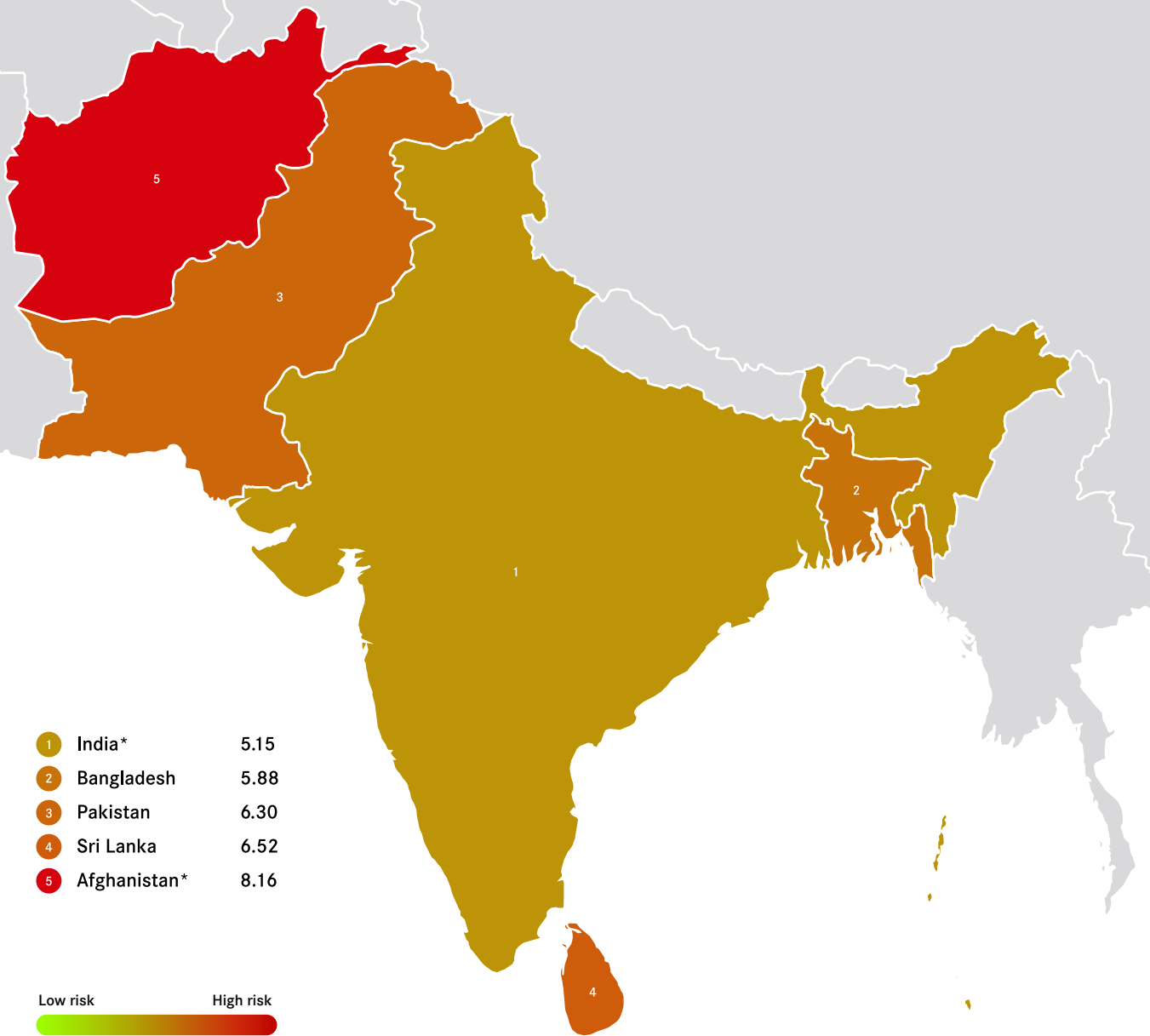
Canada and the US are listed in the US INCSR as *major money laundering jurisdictions*



The US is rated as having *the highest financial secrecy risks* in the region and one of the highest risks globally

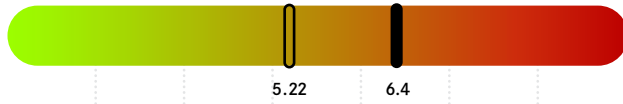
3.7 South Asia

This region has the highest overall risk score and exceeds the global average across all categories. Major deficiencies are the quality of AML/CFT frameworks and very high levels of corruption and bribery. But governments will need to take a coordinated and holistic approach across all categories in order to lower their ML/TF risks and improve their healthy access to financial markets and investments.

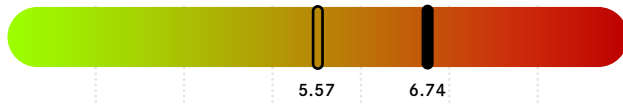


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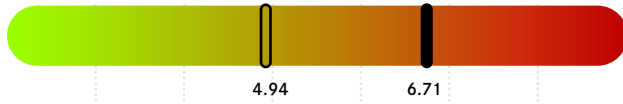
Overall risk score



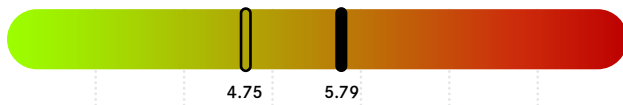
Quality of AML / CFT framework



Bribery and corruption



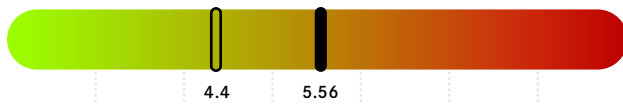
Financial transparency and standards



Public transparency and accountability



Legal and political risk



3 4 5 6 7 8

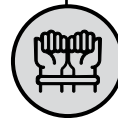
Region Global average



Weakest area:
Quality of AML/CFT frameworks



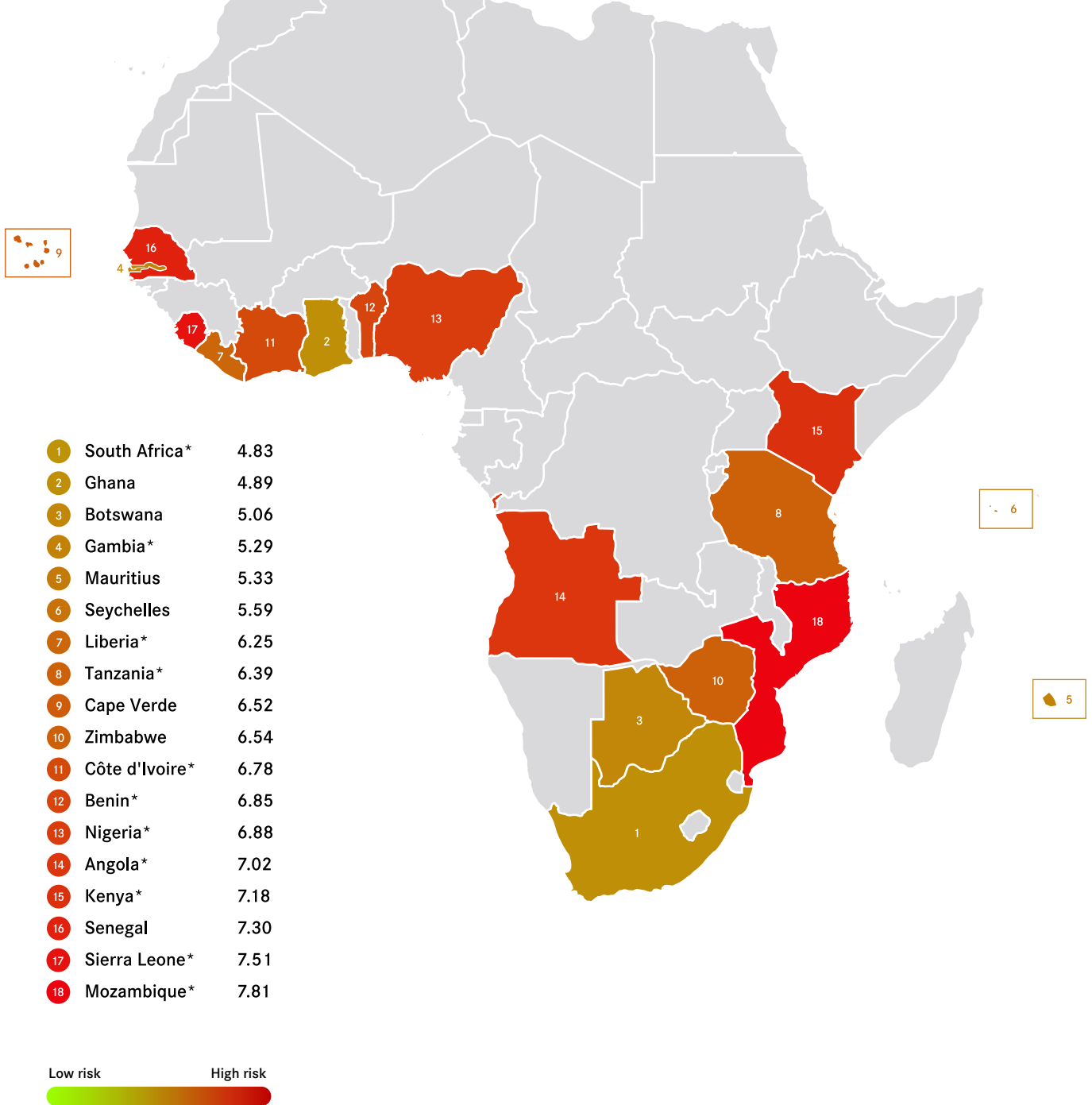
Afghanistan, India and Pakistan are listed by the US as *major money laundering jurisdictions*



The region faces *high risks of human trafficking*, with the highest risk in Afghanistan

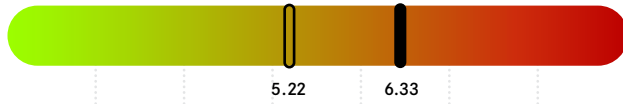
3.8 Sub-Saharan Africa

This region has the second-highest overall risk score and scores significantly below average across all categories, similar to South Asia. To add to this, the risk scores are likely to rise even higher after more countries are evaluated with the FATF fourth-round methodology, which evaluates the effectiveness of the systems and generally causes countries to fall down the ranking. A comprehensive and coordinated set of reforms is required to reduce the region’s risk levels and increase its attractiveness for investors.

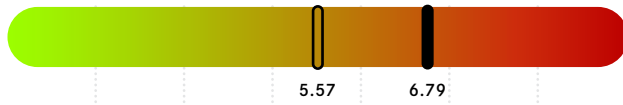


*Countries marked with a star haven’t yet undergone an FATF fourth-round evaluation. This may affect comparability between countries. Only countries with sufficient data to calculate a reliable risk score are included.

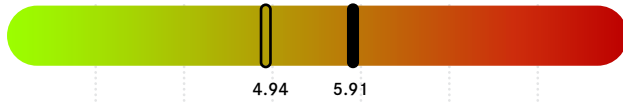
Overall risk score



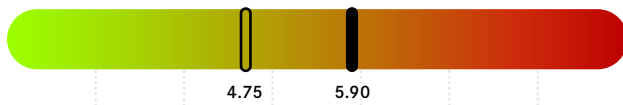
Quality of AML / CFT framework



Bribery and corruption



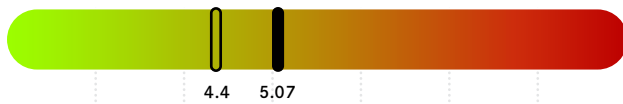
Financial transparency and standards



Public transparency and accountability



Legal and political risk



3 4 5 6 7 8

Region Global average



Weakest area:
Quality of AML / CFT framework



Half of countries are listed by the US as *major money laundering destinations*



The region suffers from a *lack of data on AML / CFT and related risks*

4 Global perspective: Focus on supervision

Global money laundering risks remain high, with an average in the 2020 Basel AML Index of 5.22 compared to 5.39 in 2019. Few countries are making dramatic progress in addressing these risks. In fact, only six countries improved their risk scores by more than one point. 35 countries went backwards.

Of course, major shifts in global risk patterns cannot be expected from one year to another. What's interesting, when a phenomenon is stagnant like this, is to really drill deeper into the underlying causes. One area in which countries score poorly across the board is the quality of AML/CFT supervision.

Data check

This analysis is based on FATF data for 100 countries assessed with the fourth-round evaluation methodology, which covers both the technical compliance and effectiveness of countries' AML /CFT systems. The research covers the following FATF indicators relevant to supervision:

Recommendations (R) – technical compliance:

- R26: Regulation and supervision of financial institutions
- R27: Powers of supervisors
- R28: Regulation and supervision of DNFBPs
- R34: Guidance and feedback
- R35: Sanctions

Immediate Outcome (IO) – effectiveness:

- IO3 Supervision

4.1 Supervision: why so poor?

Supervision by competent authorities of financial institutions, designated non-financial businesses and professions (DNFBPs) and virtual asset service providers (VASPs) is a major factor affecting AML/CFT risk and resilience.

This poor performance is consistent with breaches of AML provisions in European banks over the last few years, as well as with the recent Wirecard scandal in Germany, which have raised alarm about the quality of banking and non-banking supervision related to AML/CFT.

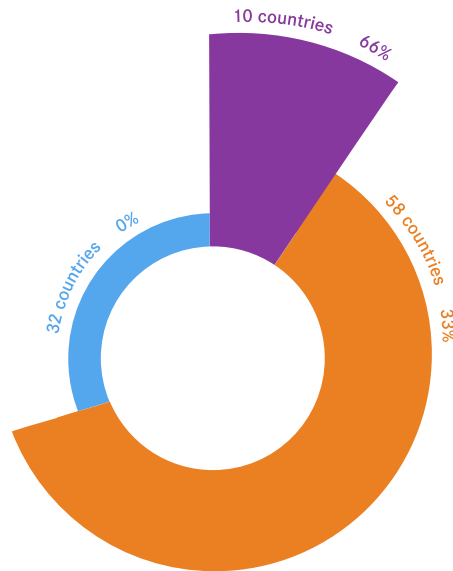
What is wrong, and what can be done to improve supervision generally?

Supervision is very much at the intersection between regulation and implementation, i.e. technical compliance with AML/CFT standards and their enforcement. Looking at data from recent FATF reports, we see that while countries generally have low or mediocre scores for technical compliance, the most problematic issue is with the effectiveness of their measures.

In terms of *technical compliance*, the average score for standards of regulation and supervision of financial institutions (R26) is only 57%. It is even lower for DNFBPs (R28), at 42%.

The average *effectiveness* of these measures and their implementation (IO3), however, lies even lower at 26%. A full 32 countries score zero in this category, and not a single country gets full marks.


Improving banking and non-banking supervision is therefore an obvious and clearly much needed way to strengthen AML/CFT systems worldwide. This may be through corrective measures and proportionate sanctions that help to change behaviours and deter non-compliance.





Effectiveness of AML supervision across countries

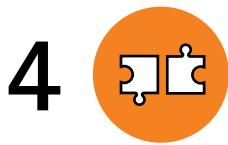
4.2 What factors contribute to ineffective supervision?

A content analysis of FATF Mutual Evaluation Reports from the 32 countries with an effectiveness rating of 0% for AML/CFT supervision identifies five general characteristics.

- 1**  **Limited powers**
 to sanction non-compliance by civil or administrative means. This leaves only criminal prosecution, for which the bar is typically high.

- 2**  **Limited resources**
 including qualified staff, processes, IT systems and tools.

- 3**  **Risk-based approach is not applied**
 meaning supervision is not commensurate with the risks and the size of the financial centre and the number and intensity of reviews are not aligned with existing risks.



4 Poor coordination

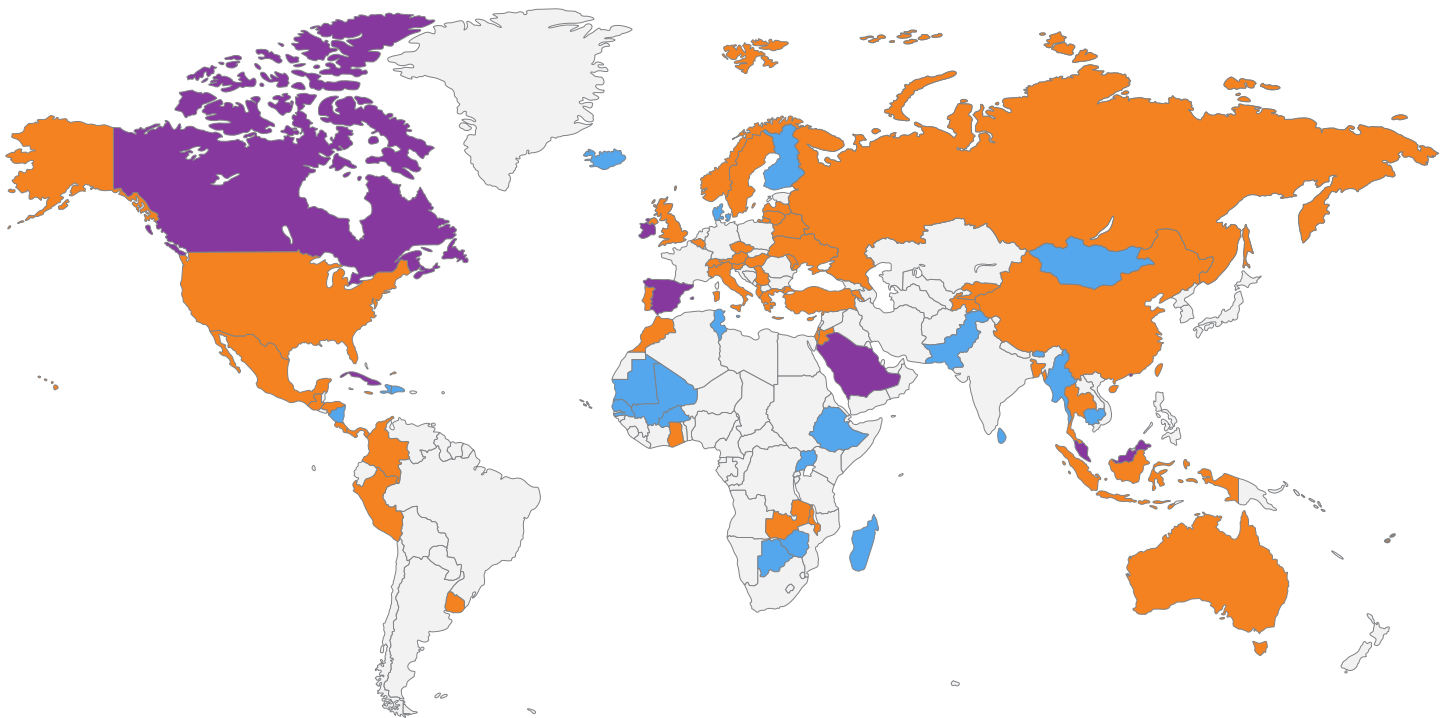
between competent authorities on supervision, with individual agencies focused only on their sectors.



5 Insufficient guidance

on ML/TF risks provided by supervisory body to reporting entities.

4.3 Effectiveness of AML supervision around the world



Countries rated by the FATF as having zero effectiveness (0%) in AML supervision

1 Denmark	8 Samoa	15 Turks and Caicos	22 Burkina Faso	29 Senegal
2 Finland	9 Vanuatu	16 Nicaragua*	23 Cabo Verde	30 Seychelles
3 Iceland	10 Antigua & Barbuda	17 Tunisia	24 Ethiopia	31 Uganda*
4 Malta	11 Dominican Republic	18 Bhutan	25 Madagascar	32 Zimbabwe*
5 Cambodia*	12 Cayman Islands	19 Pakistan*	26 Mali	
6 Mongolia	13 Haiti	20 Sri Lanka	27 Mauritania	
7 Myanmar*	14 Solomon Islands	21 Botswana*	28 Mauritius*	

Countries marked with an asterisk (*) are also “grey listed” by the FATF as jurisdictions subject to increased monitoring, indicating more widespread weaknesses in their AML/CFT systems.

4.4 Case studies



Denmark

How a low-risk country can be dragged down by weak supervision

Denmark is rated as a low-risk country for ML/TF, scoring 3.46 in the Basel AML Index. Its technical compliance with the relevant FATF Recommendations on supervision is relatively high at 67%. Yet it scores 0% for effectiveness. Why? The country's latest FATF Mutual Evaluation Report highlights the main issues:

- **Limited risk-based approach (RBA) to supervision**, based mostly on the national risk assessment rather than a detailed understanding of the specific threats and vulnerabilities of the country's financial sector.
- **Insufficient staff** to supervise a relatively large number of reporting entities, as well as carry out responsibilities in the development and drafting of legislation.
- **Regional variations**, with particular deficiencies in Greenland and the Faroe Islands.
- **Weak powers of enforcement and sanctioning** without referral to the police, and relatively low monetary fines with no minimum amount.
- **Reliance on "reputation risk"**, despite this being an ineffective deterrent in the FATF's assessment. For example, a major Danish bank in an EU country was accused of laundering EUR 1.1 billion in proceeds from Russian organised crime (see details of the "Russian Laundromat case" on pages 119-20 of Denmark's Mutual Evaluation Report). Despite the seriousness of the allegations and a public statement by the Danish Financial Supervisory Authority (FSA) detailing the bank's failings, it continued to be non-compliant for the next four years.

In two follow-up reports in November 2018 and November 2019, Denmark has since improved its scores in two technical areas: R34 (guidance and feedback) and R35 (sanctions). It will be interesting to see whether this will be compounded by an improvement in its effectiveness rating (IO3), because strong laws and regulations around supervision are of little use if they are 0% effective.



Spain

What we can learn from stronger (but still not perfect) supervision

According to the FATF evaluation, Spain has a relatively strong system of AML/CFT supervision thanks to:

- **Sufficient resources** including a strong team of qualified staff, structured into groups responsible respectively for off-site and onsite supervision.
- **Risk-based approach** well developed and followed by Spain's Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC) and the Bank of Spain.
- **Adequate powers and sanctions** for failure to comply with AML/CFT obligations, including fines of up to EUR 1.5 million plus the possibility of public reprimands, withdrawal of authorisation, and sanctions for directors or senior managers.
- **Cooperative approach**: Supervisory authorities provide guidelines and feedback to assist financial institutions and DNFBPs to apply national AML/CFT measures, as well as detect and report suspicious transactions.

While these positive factors should be lauded, Spain does not score 100% and will need to tackle the weaknesses identified in the FATF report for its system to be fully effective.

4.5 Looking beyond the raw numbers

The example of analysing the quality of supervision and its role with respect to the overall effectiveness of AML/CFT systems is also very pertinent to demonstrate that numbers should never be taken at face value. Policymakers and analysts will need to consider features of the FATF methodology (including for effectiveness) before drawing conclusions. In addition, they need to look not only at the overall scores or at individual sub-indicator scores, but also at how the scores in different sub-indicators relate to each other and may mutually influence each other.

By way of example, the data shows that jurisdictions that are scoring well with respect to the effectiveness of supervision often score poorly in the category political and legal risks. What does that mean for the quality and manner in which the supervisory regimes operate and are executed?

Another comparison which could be looked at, again at the level of sub-indicators and their interrelation, is that countries that score poorly on political and legal risks often score quite strongly with respect to the effectiveness of their AML/CFT regimes, especially in terms of case numbers and sanctions.

In other words, where countries score at highly opposite ends of the spectrum on certain sub-indicators, we need to look beyond the overall score in order to make sure we draw the right conclusions and, as a consequence, are promoting the right reforms to further advance that country's AML/CFT performance.

5 Expert Edition



This report refers to the **Public Edition** of the Basel AML Index, which covers 141 countries and is designed to give a general snapshot of money laundering trends around the world.

For professional compliance or risk assessment purposes, as well as research and policy making, we recommend using the Basel AML Index **Expert Edition**. The Expert Edition is a comprehensive and interactive risk assessment tool that helps users to evaluate the risk of corruption, money laundering and terrorist financing in any country in the world. Unlike the Public Edition, it allows users to drill down into the reasons behind a country's ML/TF risk score and explore where exactly that risk lies. The tool also highlights sanctions and other lists relevant to evaluating a country's risk of ML/TF, including those issued by the FATF, UN Security Council, US OFAC and European Union.

Expert Edition Plus offers a detailed comparative analysis of the FATF Mutual Evaluation Reports. This allows users to assess each FATF recommendation individually by focusing on specific compliance needs, for example due diligence or terrorist financing regulations.

Subscription options

	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	141	203	203
Annual updates	✓	✓	✓
Quarterly updates	—	✓	✓
Customisable interface with 16 indicators and sanctions information	—	✓	✓
Downloadable data set	—	✓	✓
Complete FAFT data set and analysis	—	—	✓

The above options include 5 users per subscription. To find out more about subscription options and request a free demo account, please visit: index.baselgovernance.org/expert-edition or contact index@baselgovernance.org

6 About and contact

The Basel Institute on Governance is an independent, non-profit organisation working around the world to strengthen governance and counter corruption and other financial crimes.

Headquartered in Basel, Switzerland since 2003, it is an Associated Institute of the University of Basel and has offices and field experts across Latin America and Africa. Some 80+ staff members work with public, private and academic partners worldwide on cross-cutting issues in the areas of asset recovery, public governance, public financial management, anti-corruption Collective Action and compliance.

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

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.

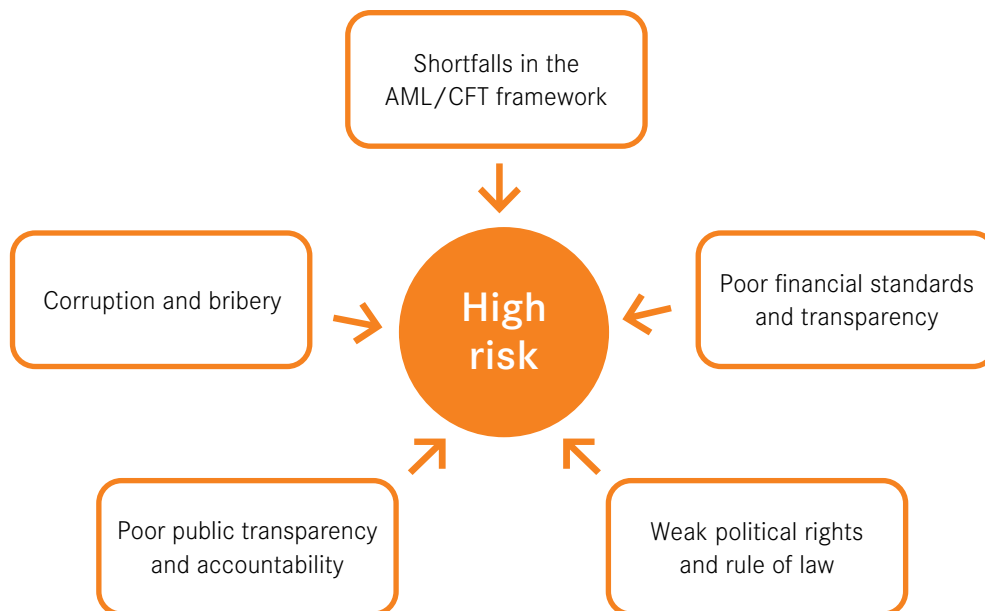
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7 Annex I: Methodology

7.1 Data sources

The Basel AML Index uses a composite methodology based on 16 indicators relevant to evaluating ML/TF country risk. These are categorised into five domains in line with the five key factors considered to contribute to a high risk of ML/TF:



Key factors contributing to a high risk of ML/TF

The objective of the Basel AML Index is to provide a holistic picture of money laundering risk. It therefore includes a wide range of indicators, each with a different focus and scope. Indicators may be added or removed by the Basel AML Index to reflect changing ML/TF risks and data sources.

In the 9th Public Edition released in July 2020 and in the Expert Edition from 1 July 2020 onwards, indicators are:

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) (5%)
- US State Department Trafficking in Persons (TIP) Report (5%)

Domain 2: Corruption Risk (10%)

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

Domain 3: Financial Transparency and Standards (10%)

- World Bank Extent of Corporate Transparency Index (2.5%)
- WEF Global Competitiveness Report – Strength of auditing and reporting standards (5%)
- World Bank IDA Resource Allocation Index – Financial sector regulations (2.5%)

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 (10%)

- Freedom House: Freedom in the World and Freedom and the Media (2.5%)
- WEF Global Competitiveness Report – Institutional pillar (2.5%)
- WEF Global Competitiveness Report – Judicial independence (2.5%)
- World Justice Project Rule of Law Index (2.5%)

The criteria for the inclusion of indicators are:

- Relevance and relationship to risks of ML/TF (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

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

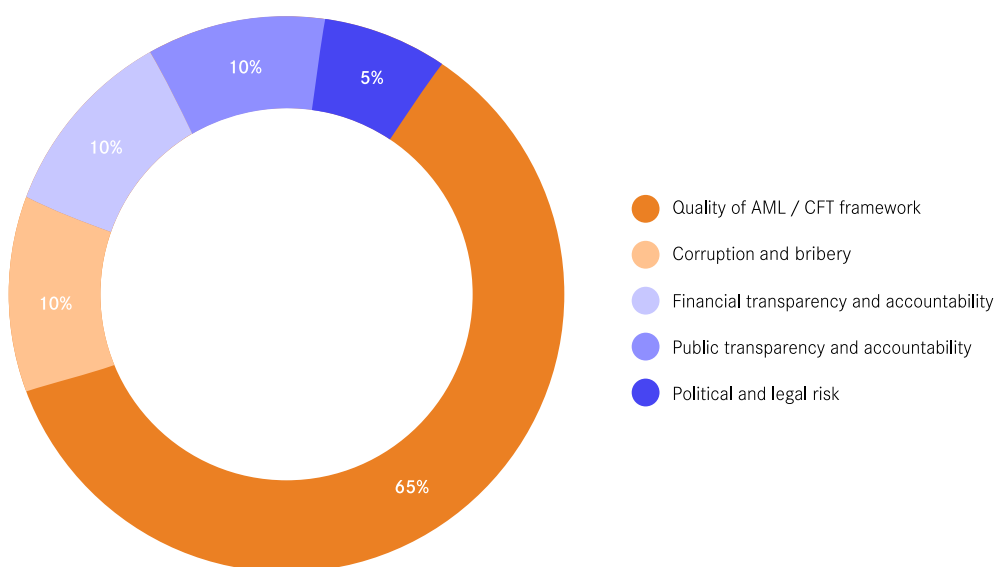
7.2 Scaling and weighting

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

As with any composite index, each variable then receives a weight to aggregate all scores into one score.

In this case, the variables used differ in quality, coverage and relevance, with some components being more applicable than others in assessing ML/TF risk.

The Basel AML Index therefore uses an expert weighting scheme (or so-called “participatory approach”), whereby experts assign a weight for a variable based on their in-depth knowledge and expertise in the matter.



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.

7.3 Notes and limitations

Data availability and limitations

Data collection for the 2020 Public Edition of the Basel AML Index was finished in June 2020 and does not reflect developments after that date. The Expert Edition is updated at regular intervals throughout the year.

There is not always a complete set of 16 indicators available for all countries. A country’s overall score is calculated based on available data only, and missing values are not replaced.

In addition, only countries with sufficient data to calculate a reliable ML/TF risk score are included in the Public Edition of the Basel AML Index. The Expert Edition contains a more comprehensive overview of all 203 countries with their risk scores and details of the available data.

Perception-based indicators

The Index relies heavily on perception-based indicators such as Transparency International's Corruption Perceptions Index. 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.

Comparability of results

The Basel AML Index methodology evolves each year to more accurately capture ML/TF risks, which affects the comparability of the results from year to year. In this case, the addition of two new indicators and subsequent changes in weighting (see section on the Review meeting below) affect the comparability of results.

Comparability between countries is also severely hampered by a lack of full coverage of countries by FATF fourth-round evaluations. Data from FATF Mutual Evaluation Reports and Follow-up Reports, which assess the quality of countries' AML/CFT systems, makes up 35% of the total risk score in the Basel AML Index. The FATF methodology was revised in 2013 (fourth round of evaluations) in order to emphasise not only technical compliance with the FATF Recommendations but the effectiveness of AML/CFT systems according to 11 Immediate Outcomes.

As per July 2020, 86 jurisdictions out of the 141 covered in the Public Edition (61%) had been evaluated with the FATF's fourth-round methodology, while 55 jurisdictions (39%) have still only been assessed with the third-round methodology. In the Expert Edition, 102 out of 203 jurisdictions have undergone a fourth-round evaluation. Most countries assessed in the fourth round of evaluations so far 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.

7.4 Review meeting and changes in 2020

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 two virtual 2020 review meetings on 22 and 24 April, the following methodological changes were agreed:

- **New indicator on judicial independence:** Data from the World Economic Forum's Global Competitiveness Report – Judicial Independence will be included in domain 5 “Political and Legal Risks”. The overall weight of domain 5 rises from 5% to 10%.
- **New indicator on human trafficking:** Data from the Trafficking in Persons (TIP) Report published by the US Department of State will be included in domain 1 “Quality of AML/CFT Framework”. The

indicator will have a 5% weighting.

- **Exclusion of indicator “Regulation of securities exchanges”** from domain 3 “Financial Transparency and Standards” due to the absence of relevant data. The overall weighting of domain 3 decreases from 15% to 10%.
- **Decrease in weight for US INCSR data**, which lists jurisdictions assessed by the US as “major money laundering jurisdictions” and appears in domain 1 “Quality of AML/CFT Framework”, from 10% to 5%. In line with the INCSR’s methodological changes, only one classification level will be used and all listed jurisdictions will be given a score of 10/10.

In addition, due to increasing coverage of countries by FATF fourth-round evaluations, the following jurisdictions now have sufficient data to be included in the Public Edition of the Basel AML Index in 2020: Andorra, Antigua and Barbuda, Bahamas, Barbados, Bermuda, Cayman Islands, Cook Islands, Macao, Mauritius, Samoa, Seychelles, Sri Lanka, Tunisia, Turks and Caicos.

8 Annex II: Indicators

8.1 Domain 1: Quality of AML / CFT Framework

FATF Mutual Evaluation Reports

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

What does it measure?

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.

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.

Why is it important?

The FSI provides data on 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.

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/2020-international-narcotics-control-strategy-report

What does it measure?

The INCSR is an annual two-volume report compiled by the US Department of State on countries' efforts to tackle all aspects of the international drug trade. The Basel AML 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”, defined as those “whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking”.

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.

US State Department Trafficking in Persons (TIP) Report

- Type: Expert assessment
- Website: www.state.gov/trafficking-in-persons-report-2020

What does it measure?

The TIP Report, produced by the US Department of State Office to Monitor and Combat Trafficking in Persons, ranks countries based on their perceived efforts to acknowledge and combat human trafficking. Countries are classed into four tiers reflecting their compliance with standards of the Trafficking Victims Protection Act (TVPA) of 2000.

Why is it important?

According to the United Nations Office on Drugs and Crime (UNODC), trafficking of human beings is the third-largest source of income for organised crime groups after drug and arms trafficking. According to the Organization for Security and Co-operation in Europe (OSCE), human trafficking annually generates an estimated USD 150 billion in profits.

This estimate is backed up by the FATF's Financial Flows from Human Trafficking report, which also refers to human trafficking as one of the fastest-growing and most profitable forms of international crime affecting nearly every country in the world. Due to these sizeable proceeds, human trafficking is often a predicate offence to money laundering.

8.2 Domain 2: Bribery and Corruption

Transparency International Corruption Perceptions Index

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

What does it measure?

Transparency International's Corruption Perceptions Index (CPI) scores reflect how corrupt a country's public sector is perceived to be by experts and business executives.

Why is it important?

Corruption is a common predicate offence to money laundering, 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.

TRACE Bribery Risk Matrix

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

What does it measure?

The TRACE Bribery Risk Matrix® (TRACE 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 TRACE 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.

8.3 Domain 3: Financial Transparency and Standards

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.

WEF Global Competitiveness Report – Strength of auditing and reporting standards

- Type: Expert survey
- Website: www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

What does it measure?

The World Economic Forum’s Global Competitiveness Report 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.

World Bank IDA Resource Allocation Index – Financial sector regulations

- Type: Expert survey
- Website: 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; and 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.

8.4 Domain 4: Public Transparency and Accountability

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?

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.

The Basel AML Index considers 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.

International Budget Partnership Open Budget Index – Budget transparency

- Type: Expert assessment
- Website: 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.

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

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

What does it measure?

This sub-indicator from the World Bank IDA Resource Allocation Index (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.

8.5 Domain 5: Legal and Political Risks

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.

WEF Global Competitiveness Report – Institutional pillar

- Type: Expert survey
- Website: www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

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. Jurisdictions with strong institutions, on the other hand, are better able to deter, detect and prosecute money laundering offences.

World Justice Project Rule of Law Index

- Type: Expert and public survey
- Website: worldjusticeproject.org/our-work/wjp-rule-law-index

What does it measure?

The World Justice Project (WJP) Rule of Law Index® measures how the rule of law is experienced and perceived 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; and criminal justice.

These country scores and rankings are based on answers drawn from 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.

WEF Global Competitiveness Report – Judicial independence

- Type: Expert survey
- Website: www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

What does it measure?

The indicator reflects answers to the question: “In your country, to what extent is the judiciary independent from influences of members of government, citizens, or firms?” Scores range from 1 (heavily influenced) to 7 (entirely dependent). The best result means that countries’ courts are not subject to improper influence from other branches of government or from private or partisan interests.

The score is based on integrating the latest statistics from international organisations and a survey of executives.

Why is it important?

Independence of the judiciary is one of the key prerequisites in the successful fight against financial crimes. A politically dependent judiciary may lead to politically motivated prosecutions and/or mislead about the number of convictions in ML/TF.