GOVERNANCE
BASEL INSTITUTE ON GOVERNANCE

The Basel AML Index
2013

Contents

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1. Introduction

The 2013 edition is the second release of the Basel Anti-Money Laundering (AML) Index. First published in April 2012, it continues to be the only rating of country money laundering/terrorist financing risk by an independent non-profit institution. This year's version of the Basel AML Index covers 149 countries, five more countries than the previous edition. The Key Findings section below presents some other highlights of the 2013 ranking.

Along with the Public Basel AML Index version, the Basel Institute also provides a subscription-based Expert Edition (with updates on sanctions) as a risk assessment tool for financial institutions and other multinational operating firms of all sizes. Such risk assessment tools are part of regulatory requirements, particularly in the financial industry. Against this background the Expert Edition offers an industry wide, low-cost solution for reporting entities to rely on an independent country risk ranking. As a non-profit organisation, access is offered free-of charge for public institutions and authorities such as central banks, Financial Intelligence Units (FIUS), as well as relevant international non-profit organisations and academic institutions for specific research purposes. For more information on the Expert Edition see section 4 or the following link: http://index.baselgovernance.org/index/expert-edition.

The challenges of creating an AML country risk rating and a standardized risk assessment have been substantial, as others have acknowledged in the past. For example, even though the Financial Action Task Force (FATF) has issued guidance documents on National Money Laundering Risk Assessment[1] and the Risk-Based Approach (RBA)[2], there is no definition on how to assess money laundering risks on a cross-country basis nor is there a set model of indicators that should be used. The lack of clear concepts and methodological standards means that compliance officers and researchers face considerable constraints and challenges when attempting to rate countries according to their risk of money laundering. Also, because money laundering and terrorism financing are secret acts on which firm data is missing, it is challenging to find an appropriate methodology for measuring such risks that adequately reflects the limited available data while providing meaningful results. In developing the Basel AML Index, the Basel Institute therefore sought to address questions such as: What are credible and relevant sources to identify money laundering/terrorist financing risks? What indicators and methodology can be used to assess a country's vulnerability to money laundering?

Despite these challenges, and after extensive research, analysis and data collection (including from third party sources), we are convinced that we have succeeded in overcoming these challenges. Feedback on the first edition of the Basel AML Index has been overwhelmingly positive. AML practitioners from the private and public sectors as well as journalists widely use the Basel AML Index and have welcomed it as a much-needed addition to the existing AML toolbox. The financial industry considers the Basel AML Index as a highly useful tool to fulfil regulatory requirements in relation to AML country risk rating, particularly valuing its foundation in scientific research and the independence of its author. Within the first year of the Basel AML Index, the FATF has already listed it in its publication on *Specific Risk Factors in the Laundering of Proceeds of Corruption - Assistance to reporting institutions,* as one of the Indexes to be considered for country or geographic risk factors (FATF 2012: 31)[3].

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[1] http://www.fatf-gafi.org/media/fatf/content/images/National_ML_TF_Risk_Assessment.pdf
[2] http://www.fatf-gafi.org/media/fatf/documents/reports/RBA%20ML%20and%20TF.pdf
[3] http://www.fatf-gafi.org/media/fatf/documents/reports/Specific%20Risk%20Factors%20in%20the%20Laundering%20of%20Proceeds%20of%20Corruption.pdf

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The Basel AML Index will strive to continuously review the methodological challenges in country risk ratings and monitor new trends and data that may become available. Consequently, the Basel AML Index is a dynamic ranking that will be reviewed each year and updated as necessary. We will also continue to collect expert feedback and perform due diligence on the data collected to maintain a high standard of qualitative assessment of the Basel AML Index. This can only happen with a collective effort and we therefore thank all experts, partners and users of the Basel AML Index for their input and feedback as well as all data providers (listed in our Annex).

2. What is the Basel AML Index?

- an overview of over 140 countries according to their risk level in ML/TF;
- a composite index based on public sources and third party assessments;
- an innovative research-based risk ranking to be updated annually;
- a risk assessment tool to mitigate money laundering and terrorist financing.

The Basel AML Index is a country risk ranking focusing on money laundering / terrorist financing risk covering more than 140 countries. Developed by the Basel Institute and its expert team from the International Centre for Asset Recovery (ICAR), the Basel AML Index is based on a composite methodology, which draws its components from a broad spectrum of data generated by third-party sources.

The Basel AML Index consists of 14 indicators assessing Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) frameworks as well as good governance standards in the financial and public sector.[4] In order to measure the risk of money laundering and terrorist financing, the Basel AML Index resorts to various data types such as expert assessments, surveys and other perception-based data. A core component and focus is the use of the FATF Mutual Evaluation Reports (MER) which reflect countries' compliance and implementation of AML and CTF laws. Additionally, related aspects such as banking secrecy, corruption, financial regulations, judicial strengths and civil rights are also taken into account in order to provide a holistic picture of money laundering / terrorist financing risks. By combining these various data sources, the Basel AML Index score represents a country's overall risk level regarding money laundering and terrorist financing. The Basel Institute does not generate its own data but relies on data from trusted third party sources such as FATF, World Bank, World Economic Forum and Transparency International, employing aggregation techniques to generate new results or scores from those component sources.

The Basel AML Index does not measure the actual existence of money laundering activity in a country; instead it provides a basis for assessing the risk level – or the vulnerability of a given country based on its adherence to AML/CTF standards and other risk categories. It is important to note that the amount of money laundering activity or the amount of money laundered cannot be directly measured as there is no quantitative and objective data available.

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[4] The 2013 Basel AML Index version removed Euromoney's sub-indicator on political risk as it is not publicly available anymore. The overall score is now based on 14 indicators instead of 15. There are no significant changes as the Euromoney political risk sub-index constituted 1.25% of the overall score only.

3. Key Findings

The top 10 countries identified as the highest risk countries in the 2013 Basel AML Index are Afghanistan (8.55), Iran (8.48), Cambodia (8.35), Tajikistan (8.27), Iraq (8.19), Guinea-Bissau (8.17), Haiti (8.09), Mali (7.95), Swaziland (7.90), and Mozambique (7.90).

	Country	Overall Score	▼ Risk
1	Afghanistan	■ 8.55	
2	Iran	■ 8.48	
3	Cambodia	■ 8.35	
4	Tajikistan	■ 8.27	
5	Iraq	■ 8.19	
6	Guinea-Bissau	■ 8.17	
7	Haiti	■ 8.09	
8	Mali	■ 7.95	
9	Swaziland	■ 7.9	
10	Mozambique	■ 7.9	

Why do these countries rank as highest risk countries and what are the underlying factors for this? The fact that these countries were ranked the highest does not necessarily mean that they have the most money laundering and terrorism financing activities. The Basel AML Index is designed to assess the *risk* of money laundering, i.e. to indicate the *vulnerability* of a country to money laundering and terrorism financing. Therefore, high-risk scores indicate how vulnerable a country is based on its AML/CFT framework, rule of law, financial standards and public transparency. The top 10 countries are identified in the Basel AML Index as the most vulnerable to money laundering and terrorism financing based on their poor performance by the majority of indicators and measurements that have been used in the Index. The main factors are inadequate money laundering legislation and terrorist financing, however additional variables and factors considered in the Basel AML Index include high rates of perceived corruption, lack of judicial strength, lack of resources to control the financial system, and lack of public and private transparency. Without adequate monitoring mechanisms or without adequate transparency and accountability of government action, money laundering/terrorism financing can thrive. These two variables particularly illustrate the circumstances and structural contextual factor of a country and greatly influence the implementation of an AML/CFT framework, which is why particularly developing or low-income countries are positioned at the top of the Basel AML index.

Among the OECD countries Greece (6.39), Luxembourg (6.24), Turkey (6.11), Japan (6.03), Austria (5.79), Germany (5.79), and Switzerland (5.76) have received the highest risk scores. While some of these countries are actually known for sound financial stability, low rates of perceived corruption and strong political and judicial institutions, they still find themselves at an above-average high risk score (compared to other OECD countries) in some of the sub-indices.

Again, the high risk ranking does not mean there is necessarily a high level of money laundering or terrorism financing activity in these countries. Instead, in these cases, the FATF Mutual Evaluation Reports (MER), secrecy laws, public

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disclosure such as transparent political finances, or their roles as major financial centres have been the reason for their relatively high position in the Basel AML Index. The United States 2013 International Narcotics Control Strategy Report (INCSR) on Money Laundering, which is one of the sources for the Index states:

> *"A government (e.g., the United States or the United Kingdom) can have comprehensive anti-money laundering laws on its books and conduct aggressive anti-money laundering enforcement efforts but still be classified a "Primary Concern" jurisdiction. In some cases, this classification may simply or largely be a function of the size and/or sophistication of the jurisdiction's economy".*[5]

By contrast, jurisdictions such as Cyprus (5.03), Singapore (4.92), the United Kingdom (4.81), or Colombia (4.64) had comparatively low risk ratings in the 2013 Basel AML Index, despite perceptions of them as major financial centres or tax havens. In these cases, the FATF MERs, which are given considerable emphasis and weight in the Basel AML Index, were an important factor that positively influenced their rating. According to the latest FATF MER, these countries have been most compliant or largely compliant with the FATF recommendations. Cyprus is a good example for a case where a very satisfactory result in an FATF review may not be universally shared when put to a serious test. As such it illustrates that the plausibility of some of its sources or the ranking can and even should be questioned. The Basel AML Index final scores are the result of the aggregated scores of a composite index that is based on 14 external indicators from various types of data. Understanding the underlying methodology of the Index is important to make an appropriate interpretation of the results and findings. Chapter 5 outlines our methodology and chapter 7 briefly summarizes the feedback we received during the review of last year's index. Please feel free to contact the Basel Institute on questions to specific country scores and/or the methodology at: index@baselgovernance.org.

4. What is the Expert Edition of the Basel AML Index?

In addition to the Public Version of the Basel AML Index, there is also an Expert Edition available for a more sophisticated independent risk assessment tool for institutions and other stakeholders, which have to comply with AML, counter-terrorism financing (CTF), sanctions and anti-bribery rules. In contrast to the Public Edition's content, the Expert Edition allows users to customize risk indicators and to compare all scores within the subcategories. Specific sub-indicators can be selected to make a comparison between the categories, which enables a more tailored assessment of the underlying indices. The Expert Edition is provided free of charge to academics and interested non-profit organizations as well as institutions that have provided data for the Basel AML Index; other institutions are charged an annual subscription-based fee of 2000 CHF to help to cover the development and maintenance costs of the Basel AML Index.
In contrast to the public version, it provides:

- an overview of over 200 countries according to their risk level in money laundering/terrorist financing;
- a customizable tool for an additional risk assessment based on your personal preference;
- monitoring of U.N. sanctions, U.S. State Sponsor of Terrorism lists, and FATF Public Statements;
- regular updates as new data becomes available.

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[5] http://www.state.gov/j/inl/rls/nrcrpt/2013/vol2/204062.htm

The rationale for creating the Expert Edition is to assist financial institutions and reporting entities that are facing considerable regulatory, legal and reputational risk. For instance, the Financial Service Authority (FSA)[6] in the UK has fined a Zurich-based bank £525,000 and its former Money Laundering Reporting Officer (MLRO) £17,500 for failure to take reasonable care to establish and maintain adequate AML systems and controls. The FSA explains in their press release that the bank was fined due to broad failures in risk-ranking[7]. Past incidents such as the HSBC case – that have, amongst other AML control violations, failed to maintain or even manipulate country risk rating – illustrate the significance of an independent country risk assessment. The FATF recommends for example that advanced Anti-Money Laundering (AML) systems should be following the principles of a Risk Based Approach (RBA). The RBA guidance documents of both the Wolfsberg Group (March 2006) and FATF (June 2007) state that country or geographic risk is one of the most commonly used risk criteria for an effective RBA to counter money laundering and terrorism financing, as money launderers tend to seek out countries in which there is a low risk of detection due to weak or ineffective anti-money laundering regulations. Both guidance documents also note that "there is no universally agreed definition by either governments or institutions that prescribe whether a particular country represents a higher risk".[8]

By applying a risk-based approach the Basel AML Index Expert Edition also serves as a useful risk assessment tool to identify and assess high-risk countries and to assist in mitigating money laundering and terrorist financing risks. Reporting entities will therefore profit from a low-cost solution to properly address their country's risk and thereby satisfy their own and their regulators' requirements.

Public Version vs. Expert Edition

Public version	Expert Edition
Overall score	Overall score, 14 sub-indicators and sanctions list
149 countries	203 countries
Online only	Download the data and integrate it into your assessment system
Update annually	Updated at regular intervals as new data becomes available
For interested individuals	For financial institutions, compliance & due diligence experts, AML/CTF regulators, Financial Intelligence Units (FIUs), academics & researchers
Provided as-is	Expert advice and tailor-made solutions are available upon request

5. Methodology

The Basel AML Index uses a composite data methodology. A composite data methodology draws its components by aggregating and synthesizing different measures generated by various third-party data sources.[9] Before applying the methodology, a conceptual framework has been discussed by a group of experts, which is described in the following.

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[6] The FSA has now become two separate regulatory authorities: the Financial Conduct Authority and the Prudential Regulatory Authority
[7] See the FSA Press Release for details.
[8] Wolfsberg Statement on Guidance on a Risk Based Approach for Managing Money Laundering Risks, Wolfsberg Group (2006): http://www.wolfsberg-principles.com/pdf/Wolfsberg_RBA_Guidance_%282006%29.pdf
[9] The Basel Institute on Governance does not generate its own data. Instead it relies on data from others, employing aggregation techniques to generate new results or scores from those component sources.

One major step before selecting the sources and applying the standardization of data is to establish a framework that captures the related components of money laundering, the measurements that exist and the relationship in which they stand with each other. In contrast to other governance rankings, the Basel AML Index does not consider indicators such as economic performance, education levels or trade, fiscal and environment policy. These indicators may distort the actual risk assessment in corruption and money laundering.[10] Rather, the Basel AML Index focuses on AML/CTF-standards and considers related indicators that could fuel or hinder the risk level.[11]

The conceptual framework has been discussed through an expert assessment using an RBA, which focuses on geographic risk factors. As a result of this expert assessment, the Basel Institute decided to pursue a multidimensional approach and to distinguish between the following five categories that were identified as key to money laundering / terrorist financing risks:

- Money Laundering/Terrorist Financing Risk
- Corruption Risk
- Financial Transparency & Standards
- Public Transparency & Accountability
- Political & Legal Risk

These five categories were chosen because, firstly, they represent distinctive components as well as critical aspects in assessing risks of money laundering / terrorist financing as a whole. Categorizing these five issue areas provides a simple framework that captures the complex set of variables. Secondly, it is possible to assign individual weightings for each category (see figure 2), because they all measure different and distinct issue areas. For example it is necessary to distinguish money laundering / terrorist financing risks from corruption risk. Even though corruption is related to money laundering / terrorist financing, they both describe two different phenomena. A country with a high level of corruption may reflect the demand side of corruption but does not necessarily indicate the origin of illicit money, its way through financial centres and the destination country of laundered money. Many countries with a weak judicial system and enforcement capabilities are ranked as highly corrupt, while countries receiving or facilitating the flow of illicit money are not considered as highly corruptive. These financial centres are more adequately represented in one of the indicators which identify jurisdictions that could facilitate, move or receive money obtained through corruption or other illicit means.

This multidimensionality displays how countries perform in the five categories independent from each other. As a result different weightings can be given. The idea is to achieve an overall result for a country but at the same time to distinguish between the above mentioned categories so that the individual scores can be viewed in isolation.[12]

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[10] For example country X may have a strong economical performance, a liberal market economy and a stable government, but at the same time it could also have loose regulations in financial and banking regulations. In addition, country X's AML compliance to international standards may also be inadequate. As a consequence country X may perform well under overall governance indicators that focus on economic freedom or competiveness, investment indicator and level of education but may be a high potential money laundering risk in terms of financial activity and transactions.

[11] A detailed description of why we chose certain variables and how we transformed raw data into our scaling system can be requested. Annex I provides an overview of all sources used with references and the respective links.

[12] The individual scores can be viewed in the Expert Edition only.

In order to reach the final score the Basel AML Index follows the common steps of composite indexing, which are:

1.	• Selection of data
2.	• Scaling (Standardisation)
3.	• Weigthing of variables
4.	• Aggregation
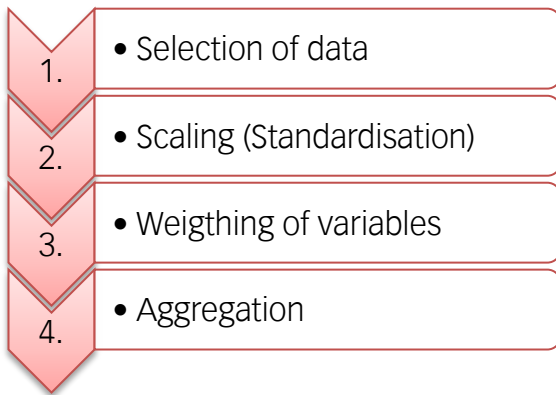
Selection

The selection of indices and sources is of utmost importance. The Basel Institute has selected only relevant indicators, sub-indicators and assessments that examine AML/CTF standards and other related data indicating financial risks in the given jurisdiction. Each of them have a different focus and objective, thus combining the selected sources is a new undertaking and requires a thorough review of the data and methodology. The review process entails verifying the quality of data, the date, country coverage and methodology. The final selection of sources was the result of this review process and can be viewed further below (Figure 1)[13].

The criteria for indices to be included were:

- 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 (where does the data come from and what sources were used?)
- Date of data
- Country coverage
- Public availability

After a thorough research of existing indicators the Basel Institute has selected a final choice of variables illustrated in figure 1:

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[13] The Basel AML Index team may add or delete indicators when a review process concludes such steps to be taken.

Figure 1: Composition of Sources

Money Laundering / Terrorist Financing Risk	FATF Rec. 1-40 on Anti Money Laundering FATF SR 1-9 on Counter Terrorist Financing TJN – Financial Secrecy Index US INCSR – Volume II on Money Laundering
Corruption Risk	TI CPI – Perception of Public Corruption
Financial Transparency & Standards	WB Doing Business – Business Disclosure WEF GCR – Strength of auditing & reporting WEF GCR – Regulation of securities WB IDA IRAI – Financial Sector
Public Transparency & Accountability	Int. IDEA – Political Finance Database IBP – Open Budget Index WB IDA IRAI – Transparency, Acount.&Corr.
Political & Legal Risk	FH – Press Freedom & Freedom in the World WEF GCR – Institutional Strength BTI – Rule of Law

See Annex for an overview of all sources

Scaling

Most indicators chosen for the Basel AML Index have their own scoring system. This raw data needs to be scaled and standardized before weighting each variable. In order to reach a unified coding system all raw data or individual indicator scores were collected and normalized using the Min-Max method into a 0 – 10 system where 0 indicates the lowest risk level and 10 the highest risk level. For the Public Edition, all variables and scores were standardized into one aggregated ranking
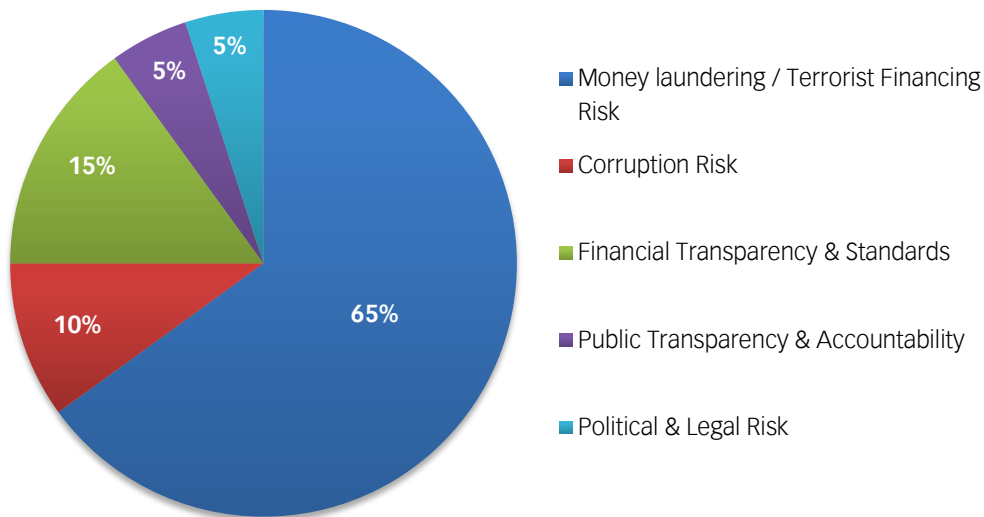
Weighting/ Aggregation

In creating a composite Index, each variable or component receives a weight to aggregate all scores into one score. There are different techniques to determine the weight of each variable. A standard and comparatively simple system consists of adding all variables and weighting them equally. This assumes however that all variables are equally relevant in the context of money laundering / terrorist financing. 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 broad coverage are assigned with more weighting. 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."[14]

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[14] OECD Handbook on Constructing Composite Indicators: Methodology and User Guide, OECD (2008): http://www.oecd.org/dataoecd/37/42/42495745.pdf

An alternative method is the expert weighting scheme or so-called participatory method, where experts assign a weight for a variable based on their in-depth knowledge and expertise in the matter at stake. Hereby, experts rank or categorize each of the identified indicators in terms of their degree and relative importance. After carefully assessing the advantages and disadvantages of each of these weighting methods, the Basel Institute has decided to make use of an expert weighting scheme in order to reflect an appropriate overall score of the AML Index. The variables that are being used are different in terms of quality, coverage and relevance. Given the specific AML focus and the various categories, the Basel Institute believes that the expert weighting scheme method is the most appropriate one. Certain components are more significant than others in assessing money laundering / terrorism financing risk. Consequently, the individual variables are not weighted equally nor are they weighted as a result of their statistical quality. As it is the goal to reflect the money laundering/terrorist financing risk, particular emphasis has been placed on the indicators reflecting AML/CTF assessments and financial standards. As a result, the FATF Mutual Evaluation Reports which deal specifically with the topic of AML/CTF have been weighted stronger than, for example, indicators reflecting the civil rights or political risk indices, which should be also factored in but in a less representative way. The individual weights are given by senior anti-money laundering experts from the Basel Institute on Governance and ICAR. External experts with compliance and risk assessment background were also consulted for this procedure. As it is always the case with the expert weighting method, it must be noted that the weighting scheme is based on the Basel AML Index team's experience and expertise, and a degree of subjectivity cannot be avoided.

Figure 2 provides an overview of the weighing (individual weightings of each variable is left out for simplicity reasons).

Figure 2: Weighting scheme

- Money laundering / Terrorist Financing Risk — 65%
- Corruption Risk — 10%
- Financial Transparency & Standards — 15%
- Public Transparency & Accountability — 5%
- Political & Legal Risk — 5%

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6. Missing Data / Imputation of Missing Data

Not every variable is available for each country. However, we endeavoured to have at least one variable for each category that can compensate for the missing variables of that category. In other words, if a country is not covered by the World Bank Doing Business and the World Bank IDA IRAI indicators but is covered by the two WEF indicators that also inform the value attached to the category "Financial Transparency & Standards", the two WEF indicators are used to calculate the value attached to the 15% input for Financial Transparency & Standards category.

For the Public Edition, countries for which more than 50% of the data was missing were not included in the ranking. In the 2013 version a country needs a minimum of eight out of 14 variables to be included in the Public Edition of the Basel AML Index. Countries that are missing all three variables in the key category (ML/TF Risk) were excluded as well even if they would have had more than eight variables available. By contrast, in the Expert Edition all covered countries are included; however those countries with insufficient data are specifically marked and indicated in the Index.

7. Challenges and Limitations

The Basel AML Index has certain limitations that should be considered when interpreting the data. The overall score and ranking of the Public Edition is based on a composite index, meaning it provides a simplified comparison of countries' performance in the area of AML/CTF. While the Basel AML Index scores summarize a complex and multidimensional issue, they should not be viewed as a factual or quantitative measurement of money laundering/terrorist financing activity or as a specific policy recommendation for countries or institutions.

In terms of the methodology, there is no objective standard in creating a composite index, which is why in the development of the Basel AML Index we made choices and judgments on variables and weightings. A regression analysis was not used for the selection and weighting; instead a qualitative expert weighting system as described above was used for the variables.[15] Other experts or practitioners may disagree with the choices. This is why this Project Report discloses the weighting schemes and a list of sources (see Annex I).[16]

Another limitation comes from the fact that while much emphasis of the weighting has been placed on the FATF Mutual Evaluation Reports, FATF reports are not conducted annually, which leads to some country assessments being older than others. The fact that the legislative framework may have changed in the meantime also somewhat limits the comparability of these scores. From 2014 onwards the FATF will apply a revised review methodology which should allow a better assessment of countries' effectiveness in fighting Money Laundering and Terrorism.

The Basel Institute reviews its methodology frequently and therefore welcomes comments and suggestions on our methodological approach: index@baselgovernance.org

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[15] See the Methodology section for more details. Since the weighting did not use a statistical approach, the Index does not calculate for a margin of error, uncertainty analysis or sensitivity analysis at this stage.
[16] Please contact the Basel Institute if you have specific questions about the methodology: index.baselgovernance.org

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8. Feedback and Review on the Basel AML Index 2012

The Basel AML Index has received overwhelmingly positive feedback both from media as well as practitioners in the field of AML. A range of newspapers and expert journals, such as the Wall Street Journal Corruption Current, the Economist and others have reported about the Basel AML Index publication last year.[17] We have also invited external experts and subscribers to the Expert Edition to provide their feedback on our methodology. Most of them have praised the methodology used and stated that it is consistent with their understanding and approach. One financial supervisor and subscriber to the Basel AML Index Expert Edition has stated that the Basel AML Index is "an invaluable piece of objective analysis that should be useful to regulators and financial institutions."

Some criticism has also been received, the majority of which was addressed at some of the sources used in the Index, with only the minority addressing issues relating to the underlying methodological approach. Discontent was particularly expressed regarding the FATF MER reports. The Basel AML Index uses the FATF MER, which assesses countries according to their compliance with the 40 + 9 recommendation, as one of three key variables in its ML/TF category. One problem that has been expressed is that the FATF and its FATF-Style Regional Bodies (FSBRs) do not conduct their evaluation annually, but rather in irregular timeframes depending on the FSBRs. Consequently, more updated data is available for some countries than for others, meaning recent legislative reforms are taken into consideration only for those countries that have an updated MER available. Other countries may have to wait up to four or six years until the next MER is conducted for these changes to be reflected in their Basel AML Index ranking. As mentioned in section 7 above, we acknowledge the issue of "out-dated" FATF MERs. We realize that the FATF review periods of sometimes as much as five to six years are a limitation to the Index. Notwithstanding these weaknesses, the assessments and findings produced by the FATF MER are necessary and relevant in the absence of an alternative source of data. There is no comparable assessment available that thoroughly reviews the legislative framework regarding AML/CFT. The FATF reports have a standardized methodology that can be quantified and used for the comparison of more than 140 countries. It has to be further noted, that although countries may have changed and improved their legislation recently, it takes substantial time for the laws to take effect and to implement the new AML/CFT framework. The Basel AML Index rates countries according to their AML/CTF "risks". Even though in some cases the risk scores may not reflect the latest current legislative framework, the scores still indicate an estimated risk score which is a result from the AML/CTF legislative framework that has been in place in the past. Experts have often pointed out that simply changing the legislative framework or changing the laws on the books is not sufficient. For the laws to be effectively enforced, substantial implementation time is required.

However, based on this feedback, one way to address this limitation is to consider the FATF Follow-up reports. The Basel AML Index will extract information from Follow-up Reports if available. Unfortunately, only a few Follow-up Reports and FSBRs attach a complete updated table of the recommendations that have been assessed as compliant or non-compliant. This is a further indication of the irregular and inconsistent approach in assessing the members of the FATF and FSRBs. Additionally, it is assumed that all MER have the same quality, which has been questioned as well. The Basel Institute would therefore also welcome improvements in consistency by the FATF and its FSBRs.

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[17] See: http://blogs.wsj.com/corruption-currents/2012/05/07/new-aml-rankings-index-puts-iran-at-top-of-risk-list/ and
http://www.economist.com/news/finance-and-economics/21574509-effects-cyprus-other-tax-havens-haven-sent

The Basel Institute has also received feedback to reconsider the use of the Tax Justice Network's (TJN) Financial Secrecy Index (FSI) from one external observer. The first concern addressed the fixed lobbying position and viewpoint of the TJN which according to the critic colours the objectivity of the TJN. The second concern was raised regarding some of the indicators used by the FSI, which according to the critic do not relate to standards set by global or regional inter-governmental organisations, or by individual countries. In response to this feedback, we have also initiated a review of the FSI, whereby TJN was also asked to respond and provide further clarification on their methodology.

On the matter of the first concern regarding TJN's objectivity, it is the opinion of the review committee that data cannot be discounted solely based on an organisations objective or mission as this would lead to an ideological debate. Most organisations that are cited as sources for our Index pursue a specific mission that may be considered to colour their assessment of matters at stake. The mission of these data providers may be reflected in the themes that they research and collate data on. However, in choosing to include these data sets in the Index we have thoroughly reviewed the underlying research methodology of these data sets, to ensure that they are following state-of-the-art methods of scientific research and thus present research results in an independent and unbiased fashion. The review also addressed the second concern, namely whether some of the FSI indicators do not conform to standards set by global or regional inter-governmental organizations. It is important to note, that the Basel AML Index has generally taken a holistic approach and considers related aspects of AML/CFT such as business disclosure, strength of auditing and reporting standards, and public budget transparency. The review re-evaluated whether the 15 Key Financial Secrecy Indicators (KFSIs) appear relevant for measuring the risk of money laundering and terrorist financing.

The internal review concluded that content-wise, the FSI and its focus and assessment of specific provisions regarding financial transparency, financial structures and secrecy laws are in line with what the Basel AML Index considers as risks and vulnerability of a country regarding money laundering and terrorist financing. In fact, several indicators of the 15 KFSIs deal with provisions that are based on the FATF recommendations.[18] Moreover, the FSI conducts a survey, where Financial Intelligence Units can respond about their capacity and effectiveness in AML. In sum, the relevance and credibility of the FSI is further supported by the German chapter of Transparency International, which stated that the: "Tax Justice Network's FSI nicely complements our Corruption Perceptions Index, which looks at the demand side (or bribe-taking) of corruption, and Bribe Payers Index which looks at the supply side."[19] The FSI publishes the results of each country online at their website: http://www.secrecyjurisdictions.com/jurisdictions, which is accessible for further public scrutiny and review. The result of the Basel Institute's review has come to the conclusion that FSI's approach and methodology is consistent with other indicators that are based on expert assessment and surveys and the decision was to maintain the FSI score without changes at this stage.

The Basel Institute encourages further feedback to stimulate debate and critical review in order to provide a continuous and proper risk assessment. Details on the above review or further questions can be directed at index@baselgovernance.org

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[18] The main thematic categories covered by the FSI are: knowledge of beneficial ownership, key aspects of corporate transparency regulation, efficiency of tax and financial regulation, international standards and cooperation in relation to tax crimes and money laundering.
[19] http://blog.transparency.org/2011/10/04/where-the-money-can-hide-the-new-financial-secrecy-index-was-published-today/

BASEL INSTITUTE ON GOVERNANCE

About the Basel Institute on Governance

The Basel Institute on Governance is an independent not-for-profit competence centre specialised in corruption prevention and public governance, corporate governance and compliance, anti-money laundering, criminal law enforcement and the recovery of stolen assets. Based in Switzerland, the Basel Institute's multidisciplinary and international team works around the world with public and private organisations towards its mission of tangibly improving the quality of governance globally, in line with relevant international standards and good practices. The Basel Institute is composed of four divisions, the International Centre for Asset Recovery (ICAR), the division for Public Governance, the division for Corporate Governance and Compliance, and the International Centre for Collective Action (ICCA). The Institute is affiliated with 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.

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Annex I: Table of Sources used for the Basel AML Index 2013

Indicators	Date	Link
1.) Bertelsmann Stiftung Transformation Index 2012 - Rule of Law scores	2012	www.bti-project.org.
2.) FATF – Mutual Evaluation Reports	N/a	http://www.fatf-gafi.org/
3.) Freedom House – Freedom in the World & Press Freedom Index	2012 - 2013	http://www.freedomhouse.org/
4.) International IDEA – Political Finance Database (selected questions)	2012	http://www.idea.int/political-finance
5.) International Budget Partnership – Open Budget Index	2012	http://internationalbudget.org/what-we-do/open-budget-survey/
6.) Tax Justice Network – Financial Secrecy Index	2011	http://www.financialsecrecyindex.com/2011results.html
7.) Transparency International – Corruption Perception Index (CPI)	2013	www.transparency.org
8.) US State Department – International Narcotics Control Strategy Report (INCSR): Volume II Money Laundering and Financial Crimes	2013	http://www.state.gov/j/inl/rls/nrcrpt/2013/vol2/index.htm
9.) World Bank Doing Business Ranking – Business Extent of Disclosure Index	2012	http://data.worldbank.org/indicator/IC.BUS.DISC.XQ
10.) World Bank IDA Resource Allocation Index – Selected categories	2011	http://www.worldbank.org/ida/IRAI-2011.html
11.) World Economic Forum – Global Competitiveness Report 2012 – 2013: Selected scores from the Executive Opinion Survey	2012 - 2013	http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

BaseL AML Index 2012 Overall Scores Public Version				Basel AML Index 2013 Overall Scores Public Version		
Country	Ranking	Overall Score		Country	Ranking	Overall Scores
IRAN	1	8.57		AFGHANISTAN	1	8.55
KENYA	2	8.49		IRAN	2	8.48
CAMBODIA	3	8.46		CAMBODIA	3	8.35
HAITI	4	8.16		TAJIKISTAN	4	8.27
TAJIKISTAN	5	8.12		IRAQ	5	8.19
MALI	6	7.88		GUINEA-BISSAU	6	8.17
UGANDA	7	7.63		HAITI	7	8.09
PARAGUAY	8	7.57		MALI	8	7.95
BELIZE	9	7.44		SWAZILAND	9	7.90
ZAMBIA	10	7.41		MOZAMBIQUE	10	7.90
BURKINA FASO	11	7.39		LAOS	11	7.82
ARGENTINA	12	7.35		KENYA	12	7.79
LIBERIA	13	7.35		UGANDA	13	7.73
YEMEN	14	7.32		NEPAL	14	7.62
BOLIVIA	15	7.25		PARAGUAY	15	7.54
NIGERIA	16	7.18		ZAMBIA	16	7.43
DOMINICAN REPUBLIC	17	7.17		BURKINA FASO	17	7.41
NIGER	18	7.11		YEMEN	18	7.34
ZIMBABWE	19	7.11		ARGENTINA	19	7.32

TANZANIA	20	**7.11**	BOLIVIA	20	**7.30**
COMOROS	21	**7.04**	LIBERIA	21	**7.27**
CAPE VERDE	22	**6.97**	LESOTHO	22	**7.13**
SIERRA LEONE	23	**6.97**	SIERRA LEONE	23	**7.13**
ECUADOR	24	**6.89**	NIGERIA	24	**7.10**
VIETNAM	25	**6.83**	NIGER	25	**7.08**
MAURITANIA	26	**6.82**	ZIMBABWE	26	**7.06**
BENIN	27	**6.81**	TOGO	27	**7.05**
NAMIBIA	28	**6.80**	BENIN	28	**7.05**
GREECE	29	**6.78**	TANZANIA	29	**6.97**
PAKISTAN	30	**6.75**	DOMINICAN REPUBLIC	30	**6.96**
TRINIDAD AND TOBAGO	31	**6.67**	CAPE VERDE	31	**6.92**
PHILIPPINES	32	**6.64**	PAPUA NEW GUINEA	32	**6.84**
VENEZUELA	33	**6.62**	VIETNAM	33	**6.76**
SURINAME	34	**6.62**	MAURITANIA	34	**6.74**
LEBANON	35	**6.62**	VENEZUELA	35	**6.73**
UKRAINE	36	**6.62**	NAMIBIA	36	**6.72**
COSTA RICA	37	**6.50**	LEBANON	37	**6.68**
AZERBAIJAN	38	**6.49**	ANGOLA	38	**6.63**
GAMBIA	39	**6.48**	ALGERIA	39	**6.60**
THAILAND	40	**6.46**	TRINIDAD AND TOBAGO	40	**6.56**
SRI LANKA	41	**6.42**	THAILAND	41	**6.56**
INDONESIA	42	**6.38**	PAKISTAN	42	**6.53**
BAHAMAS	43	**6.37**	GAMBIA	43	**6.53**
MONGOLIA	44	**6.35**	MARSHALL ISLANDS	44	**6.51**
UNITED ARAB EMIRATES	45	**6.32**	SURINAME	45	**6.48**
KYRGYZSTAN	46	**6.31**	AZERBAIJAN	46	**6.48**
BANGLADESH	47	**6.28**	GUYANA	47	**6.47**
SEYCHELLES	48	**6.23**	UKRAINE	48	**6.47**
LUXEMBOURG	49	**6.17**	COSTA RICA	49	**6.43**
SYRIA	50	**6.11**	PHILIPPINES	50	**6.42**
KUWAIT	51	**6.10**	GREECE	51	**6.39**
INDIA	52	**6.05**	KYRGYZSTAN	52	**6.36**

GHANA	53	**6.04**	SRI LANKA	53	**6.35**
ST. LUCIA	54	**6.03**	BANGLADESH	54	**6.34**
CHINA	55	**6.02**	INDONESIA	55	**6.33**
HONDURAS	56	**6.02**	UNITED ARAB EMIRATES	56	**6.31**
GUATEMALA	57	**6.01**	LUXEMBOURG	57	**6.24**
TURKEY	58	**5.99**	KUWAIT	58	**6.18**
PANAMA	59	**5.98**	MOROCCO	59	**6.16**
MOROCCO	60	**5.97**	MONGOLIA	60	**6.14**
SAMOA	61	**5.97**	TURKEY	61	**6.11**
BRUNEI	62	**5.95**	HONDURAS	62	**6.08**
MOLDOVA	63	**5.93**	CHINA	63	**6.07**
JAPAN	64	**5.88**	JAPAN	64	**6.03**
NICARAGUA	65	**5.87**	GHANA	65	**6.00**
DOMINICA	66	**5.85**	SEYCHELLES	66	**6.00**
BOTSWANA	67	**5.84**	ST. LUCIA	67	**5.98**
GERMANY	68	**5.80**	TIMOR-LESTE (East Timor	68	**5.97**
CROATIA	69	**5.80**	GUATEMALA	69	**5.95**
VANUATU	70	**5.79**	INDIA	70	**5.95**
SWITZERLAND	71	**5.78**	KAZAKHSTAN	71	**5.94**
MEXICO	72	**5.76**	BRUNEI	72	**5.93**
ANGOLA	73	**5.75**	BOTSWANA	73	**5.88**
AUSTRIA	74	**5.74**	NICARAGUA	74	**5.87**
MACEDONIA	75	**5.74**	GRENADA	75	**5.86**
MALAWI	76	**5.72**	PANAMA	76	**5.85**
BAHRAIN	77	**5.71**	AUSTRIA	77	**5.79**
BOSNIA-HERZEGOVINA	78	**5.71**	GERMANY	78	**5.79**
RUSSIA	79	**5.66**	MACEDONIA	79	**5.78**
GEORGIA	80	**5.64**	CROATIA	80	**5.76**
ST. VINCENT AND THE GR	81	**5.59**	SWITZERLAND	81	**5.76**
BRAZIL	82	**5.55**	RUSSIA	82	**5.75**
JORDAN	83	**5.55**	BAHRAIN	83	**5.73**
SENEGAL	84	**5.55**	DOMINICA	84	**5.73**
COTE D'IVOIRE	85	**5.52**	MALAWI	85	**5.72**

HONG KONG SAR, CHINA	86	5.51		MEXICO	86	5.70
KOREA, SOUTH	87	5.50		ECUADOR	87	5.69
ALGERIA	88	5.50		VANUATU	88	5.63
ITALY	89	5.49		BOSNIA-HERZEGOVINA	89	5.61
ALBANIA	90	5.48		HONG KONG SAR, CHINA	90	5.60
SLOVAKIA	91	5.47		JORDAN	91	5.54
GRENADA	92	5.47		ITALY	92	5.54
MAURITIUS	93	5.46		QATAR	93	5.50
UZBEKISTAN	94	5.42		SENEGAL	94	5.48
BELARUS	95	5.42		KOREA, SOUTH	95	5.48
LATVIA	96	5.36		ALBANIA	96	5.43
UNITED STATES	97	5.26		ST. VINCENT AND THE GR	97	5.40
QATAR	98	5.24		UZBEKISTAN	98	5.40
SERBIA	99	5.20		BRAZIL	99	5.40
URUGUAY	100	5.18		COTE D'IVOIRE	100	5.39
GUYANA	101	5.17		MAURITIUS	101	5.35
TAIWAN, CHINA	102	5.16		UNITED STATES	102	5.24
MALAYSIA	103	5.16		SERBIA	103	5.19
SPAIN	104	5.15		SPAIN	104	5.18
ARMENIA	105	5.13		BARBADOS	105	5.18
KAZAKHSTAN	106	5.12		EL SALVADOR	106	5.16
EL SALVADOR	107	5.08		URUGUAY	107	5.15
BARBADOS	108	5.04		MALAYSIA	108	5.13
NETHERLANDS	109	5.03		CANADA	109	5.11
CANADA	110	5.00		TAIWAN, CHINA	110	5.11
EGYPT	111	4.98		EGYPT	111	5.10
ISRAEL	112	4.96		ISRAEL	112	5.06
TUNISIA	113	4.96		MOLDOVA	113	5.06
CYPRUS	114	4.93		CYPRUS	114	5.03
SINGAPORE	115	4.82		NETHERLANDS	115	5.01
CZECH REPUBLIC	116	4.81		LATVIA	116	4.93
SAUDI ARABIA	117	4.78		SINGAPORE	117	4.92
JAMAICA	118	4.77		ARMENIA	118	4.90

POLAND	119	4.74	UNITED KINGDOM	119	4.81
ROMANIA	120	4.68	GEORGIA	120	4.80
UNITED KINGDOM	121	4.66	SAUDI ARABIA	121	4.77
COLOMBIA	122	4.64	SLOVAKIA	122	4.76
OMAN	123	4.60	OMAN	123	4.75
PERU	124	4.59	CZECH REPUBLIC	124	4.74
IRELAND	125	4.52	POLAND	125	4.74
MONTENEGRO	126	4.44	JAMAICA	126	4.68
AUSTRALIA	127	4.37	ROMANIA	127	4.68
DENMARK	128	4.30	COLOMBIA	128	4.64
HUNGARY	129	4.29	IRELAND	129	4.63
PORTUGAL	130	4.28	AUSTRALIA	130	4.58
BULGARIA	131	4.24	PERU	131	4.50
BELGIUM	132	4.22	DENMARK	132	4.49
MALTA	133	4.22	MONTENEGRO	133	4.46
ICELAND	134	4.18	PORTUGAL	134	4.30
France	135	4.14	ICELAND	135	4.28
SOUTH AFRICA	136	4.12	SOUTH AFRICA	136	4.24
CHILE	137	4.08	BELGIUM	137	4.23
LITHUANIA	138	3.96	France	138	4.23
NEW ZEALAND	139	3.82	CHILE	139	4.17
FINLAND	140	3.59	BULGARIA	140	4.13
SWEDEN	141	3.50	HUNGARY	141	4.07
SLOVENIA	142	3.37	NEW ZEALAND	142	4.01
ESTONIA	143	3.28	MALTA	143	4.01
NORWAY	144	2.36	LITHUANIA	144	3.81
			SWEDEN	145	3.75
			FINLAND	146	3.74
			ESTONIA	147	3.31
			SLOVENIA	148	3.30
			NORWAY	149	3.17