Basel AML Index 2018
Report

Basel AML Index 2018

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1 Basel AML Index 2018

The Basel Anti-Money Laundering Index is an independent annual ranking that assesses the risk of money laundering and terrorist financing (ML/TF) around the world.

This is the seventh edition of the Basel AML Index issued by the International Centre for Asset Recovery, part of the Basel Institute on Governance.

It focuses on anti-money laundering and countering the financing of terrorism (AML/CFT) frameworks, plus related factors that impact the risk of ML/TF, such as corruption, transparency and the rule of law.

Key features:

- Overview of 129 countries according to their risk of money laundering and terrorist financing
- Interactive ranking revealing trends and changes in risk over time
- Research-led, composite index based on public sources and third-party assessments
- AML risk assessment tool covering 203 countries for compliance purposes, policymaking and research (Expert Edition)

1.1 Money laundering risks in context

Money laundering and terrorist financing continue to cripple economies, distort international finances and harm citizens around the globe. Estimates of the amount of money laundered worldwide range from US$500 billion to a staggering US$1 trillion[1].

Most countries are making little or no progress towards ending corruption[2] and public transparency is showing signs of decline, with governments making less information available about how they manage public funds[3]. Despite the recent surge in reporting on high-profile corruption and money laundering schemes, such as the Panama Papers, Odebrecht scandal and Global Laundromat investigation, indications are that global press freedom has declined to its lowest point in 13 years[4].

These factors are known to impact negatively on the risk of ML/TF. Looking at them in conjunction with countries' specific AML/CFT frameworks helps us to understand trends and developments in ML/TF risks.

The Basel AML Index brings data on all these factors together to gain a more comprehensive picture of drivers of ML/TF risks, with a view to guiding informed measures to counter them.

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[1] MONEYVAL 2017 Annual Report
[2] Transparency International 2017 Corruption Perceptions Index
[3] International Budget Partnership 2017 Open Budget Index
[4] Freedom House report: Attacks on the Record: The State of Global Press Freedom 2017–2018

2 Scores & rankings

Only countries with sufficient data to calculate a reliable ML/TF risk score are included in the Public Edition of the Basel AML Index. Sufficient data means there is data available for at least 8 out of the 14 indicators, including at least two out of the three indicators in the ML/TF category (see Methodology > Changes in 2018).

The Expert Edition, which is free for academic, public and supervisory institutions and non-profit organisations, contains a more detailed overview of all 203 countries and their risk scores based on the available data.

Ranking	Country	Score	Change 17/18	Ranking	Country	Score	Change 17/18
1	TAJIKISTAN	8.30	+0.03	24	ANGOLA	6.49	-0.09
2	MOZAMBIQUE	8.28	+0.21	25	PAKISTAN	6.49	-0.08
3	AFGHANISTAN	8.28	-0.07	26	JAMAICA	6.48	-0.07
4	LAOS	8.25	0.00	27	VANUATU	6.37	-0.17
5	GUINEA-BISSAU	8.16	-0.16	28	KAZAKHSTAN	6.36	0.00
6	MYANMAR	7.50	-0.02	29	ALGERIA	6.35	-0.05
7	CAMBODIA	7.48	-0.43	30	TIMOR-LESTE (East Timor)	6.31	-0.04
8	LIBERIA	7.42	+0.13	31	THAILAND	6.30	-0.29
9	KENYA	7.40	-0.29	32	ECUADOR	6.30	0.00
10	VIETNAM	7.37	-0.04	33	MOROCCO	6.22	-0.09
11	HAITI	7.33	-0.12	34	PANAMA	6.21	-0.58
12	BENIN	7.25	-0.09	35	SENEGAL	6.20	-0.04
13	SIERRA LEONE	7.24	+0.04	36	KYRGYZSTAN	6.19	-0.06
14	CAPE VERDE	7.02	+0.06	37	GUYANA	6.12	-0.04
15	ZIMBABWE	6.86	+0.01	38	TURKEY	6.11	-0.17
16	NIGERIA	6.86	+0.01	39	UKRAINE	6.06	-0.39
17	YEMEN	6.81	-0.02	40	CHINA	6.02	-0.09
18	PARAGUAY	6.79	-0.71	41	BOLIVIA	6.02	-1.11
19	NICARAGUA	6.72	+0.15	42	LEBANON	5.99	+0.01
20	TANZANIA	6.71	-1.15	43	PHILIPPINES	5.94	+0.31
21	MONGOLIA	6.65	+0.51	44	MARSHALL ISLANDS	5.92	-0.41
22	COTE D'IVOIRE	6.59	+0.03	45	HONDURAS	5.85	-0.04
23	ARGENTINA	6.55	-0.08	46	BOSNIA-HERZEGOVINA	5.84	+0.02

Ranking	Country	Score	Change 17/18	Ranking	Country	Score	Change 17/18
47	RUSSIA	5.83	+0.13	80	CYPRUS	5.01	+0.75
48	UZBEKISTAN	5.82	-0.17	81	SAUDI ARABIA	5.01	+0.22
49	DOMINICAN REPUBLIC	5.80	-0.41	82	UNITED STATES	5.00	+0.50
50	SERBIA	5.80	+0.01	83	BRAZIL	4.96	-0.80
51	BANGLADESH	5.78	- 0.03	84	GUATEMALA	4.95	-0.64
52	INDONESIA	5.73	-0.53	85	MAURITIUS	4.94	-0.49
53	UNITED ARAB EMIRATES	5.70	-0.01	86	CANADA	4.92	+0.26
54	VENEZUELA	5.69	-0.75	87	HUNGARY	4.92	+0.36
55	ALBANIA	5.57	-0.08	88	NETHERLANDS	4.90	+0.60
56	KUWAIT	5.54	-0.01	89	JORDAN	4.84	-0.06
57	MALAYSIA	5.49	-0.20	90	ROMANIA	4.75	+0.26
58	COSTA RICA	5.47	+0.25	91	AZERBAIJAN	4.70	-0.07
59	EL SALVADOR	5.43	+0.06	92	SOUTH KOREA	4.69	+0.48
60	BOTSWANA	5.40	+0.10	93	PORTUGAL	4.66	+0.72
61	MOLDOVA	5.37	-0.06	94	ICELAND	4.59	+1.06
62	EGYPT	5.35	-0.21	95	IRELAND	4.58	+0.56
63	SOUTH AFRICA	5.34	+0.75	96	GREECE	4.56	+0.35
64	SWITZERLAND	5.33	+0.48	97	SINGAPORE	4.51	-0.03
65	BAHRAIN	5.33	-0.10	98	ST. LUCIA	4.48	-0.38
66	GHANA	5.32	-1.01	99	ST. VINCENT AND THE GRENADINES	4.46	-0.75
67	GEORGIA	5.31	+0.03	100	BELGIUM	4.46	+0.37
68	INDIA	5.28	+0.38	101	SPAIN	4.45	+0.45
69	TRINIDAD AND TOBAGO	5.25	-1.50	102	GERMANY	4.44	+0.05
70	ARMENIA	5.23	+0.79	103	COLOMBIA	4.42	-0.02
71	HONG KONG SAR, CHINA	5.18	-0.04	104	POLAND	4.38	+0.77
72	MEXICO	5.17	+0.11	105	AUSTRIA	4.34	-0.31
73	TAIWAN, CHINA	5.15	+0.81	106	UNITED KINGDOM	4.23	-0.09
74	PERU	5.14	-0.01	107	GRENADA	4.20	-0.85
75	JAPAN	5.11	+0.07	108	DOMINICA	4.17	+0.09
76	LUXEMBOURG	5.11	-0.03	109	CHILE	4.16	-0.18
77	ITALY	5.09	+0.44	110	SLOVAKIA	4.13	+0.19
78	GAMBIA	5.08	-1.62	111	CZECH REPUBLIC	4.12	+0.47
79	QATAR	5.08	-0.03	112	NORWAY	4.12	+0.32

Ranking	Country	Score	Change 17/18	Ranking	Country	Score	Change 17/18
113	FRANCE	**4.12**	**+0.17**	122	SWEDEN	**3.75**	**+0.35**
114	DENMARK	**4.11**	**+1.14**	123	SLOVENIA	**3.75**	**+0.97**
115	AUSTRALIA	**4.06**	**+0.19**	124	BULGARIA	**3.53**	**-0.31**
116	URUGUAY	**4.05**	**-0.57**	125	MACEDONIA	**3.33**	**-0.76**
117	LATVIA	**3.98**	**+0.34**	126	NEW ZEALAND	**3.20**	**+0.17**
118	MALTA	**3.96**	**+0.30**	127	LITHUANIA	**3.12**	**-0.55**
119	MONTENEGRO	**3.95**	**-0.81**	128	ESTONIA	**2.73**	**0.00**
120	ISRAEL	**3.84**	**+0.24**	129	FINLAND	**2.57**	**+0.80**
121	CROATIA	**3.83**	**-0.28**				

3 Key trends

Money laundering and terrorist financing risks vary greatly from region to region, country to country, and even within countries. However, some key patterns and trends in ML/TF risk can be identified.

3.1 Little measurable progress in countering money laundering

Over the seven years since it was first calculated, the Basel AML Index has consistently indicated slow progress among most countries in improving their ML/TF risk scores.

64% of countries in the 2018 ranking (83/129) have a risk score of 5.0 or above and can be loosely classified as having a significant risk of money laundering and terrorist financing. The mean average level of risk remains above this (5.63 in 2018).

Less than 4% of countries in the ranking (4/129) have improved their scores by 1 point or more in the last year (Ghana, Bolivia, Tanzania, Trinidad and Tobago). Between 2012 and 2018, only 17% (21/129) have improved their score by 1 point or more.

The downward trend is more striking. 42% of countries have worsened their risk scores between 2017 and 2018. Almost 37% of countries now have a worse risk score than they did in 2012.

The highest risk score has also remained roughly the same, fluctuating between 8.55 and 8.6 between 2012 and 2018.

Clearly, still too little is being done to effectively counter ML/TF risks.

3.2 Effectiveness lags behind technical compliance

The most concerning aspect illustrated by the Basel AML Index is the apparent low level of effective enforcement of AML/CFT measures.

The FATF Mutual Evaluation Reports, a key indicator in the Basel AML Index, assess a country's legal and institutional AML/CFT framework and its implementation of AML/CFT measures in line with the 40 FATF Recommendations. These are designed to improve relevant legislation, law enforcement, international cooperation and customer due diligence (see Methodology).

Clearly, the mere existence of laws and institutions is not enough to effectively combat ML/TF. As a consequence, the FATF methodology was revised in 2013 to emphasise the *effectiveness* of AML/CFT systems and not simply technical compliance with the Recommendations[5].

The overwhelming majority of countries assessed with the updated methodology so far – marked by an asterisk in the Basel AML Index – have received dramatically lower scores for effectiveness than for technical compliance.

This has also had a major impact on their performance in the Basel AML Index, which weighs countries' results in effectiveness as twice as important as their results in technical compliance. For example:

- 77% of countries assessed using the new methodology have not achieved outcomes for investigating ML activities and prosecuting offenders.
- 47% have achieved a low level of effectiveness in investigating and prosecuting ML offences.
- 40% have not achieved outcomes in confiscating the proceeds of crime.

If this pattern continues, and especially when combined with the poor progress recorded in the Basel AML Index since 2012, one must fear that many governments worldwide are still not doing enough to sincerely prevent and combat ML/TF. Even worse, it will indicate that they are consciously neglecting efforts to boost implementation effectiveness by hiding behind formal compliance structures that merely give the appearance of AML/CFT commitment.

This observation is supported by a recent European Commission proposal to reinforce the role of the European Banking Authority in effectively supervising money laundering risks, because in the words of Commission Vice-President for the Euro and Social Dialogue, Valdis Dombrovskis, "[a]nti-money laundering supervision has failed all too often in the EU."[6]

3.3 ML/TF is not a standalone risk

Our analysis over the last seven years has consistently shown that countries with a high risk of ML/TF share some or all of these features:

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[5] https://www.fatf-gafi.org/media/fatf/documents/methodology/FATF Methodology 22 Feb 2013.pdf
[6] EC State of the Union 2018 press release, 12 September 2018. http://europa.eu/rapid/press-release_IP-18-5724_en.htm

- Weak public institutions, political rights and rule of law

- Low levels of financial/political transparency

- Restrictions on press freedom

- Lack of resources to control the financial system

- Predominantly cash-based economies

- High levels of smuggling activity and illegal trafficking (in drugs, humans, wildlife products, etc.)

The interconnectedness of the factors used to calculate the Basel AML Index score of a country is also highlighted in this year's edition, in which many countries saw improvements in one or two areas that were then wiped out by a deterioration in others.

For example, despite improvements in indicators relating to corruption, financial transparency and public transparency, Slovenia still deteriorated in its overall score due to a huge increase in its financial secrecy rating.

Taking a holistic approach to tackling money laundering issues is therefore essential. Economic development can only contribute to reducing the risk of money laundering if it is sustainable, in other words not based on corrupt practices or illegal trafficking. It must also be coupled with respect for basic human rights, effective control systems and an open political culture.

This complexity of factors behind a high ML/TF risk rating has implications for those considering doing business in a particular country.

Indiscriminate de-risking – avoiding rather than managing ML/TF risks by terminating relationships with entire regions or classes of customers – can have disastrous consequences as it cuts entire jurisdictions off from international financial flows, including legal ones. Rather than playing safe by de-risking, and thereby missing out on business opportunities and penalising innocent stakeholders, companies and financial institutions should drill down to the specific factors driving the high level of risk and implement measures to mitigate these.

A similar comprehensive approach must be taken by policymakers, who should seek to strengthen the comprehensive set of factors contributing to their country's raised level of risk, and by regulators, who should be cautious of too simple a definition of risk.

3.4 No such thing as zero risk of money laundering

While some countries have a lower risk of money laundering than others, no country was rated as having zero risk of ML/TF. In fact, the Basel AML Index shows an increase in the minimum risk score, from 1.78 in 2017 to 2.57 in 2018.

The increase may partly be due to improved detection mechanisms and more availability of data. Another factor is changes in the Financial Secrecy Index, which automatically assigns a raised level of risk to countries with a large share in the global financial sector (see Methodology).

Even beyond that, many low-risk countries have issues that need to be addressed, for example related to beneficial ownership or politically exposed persons. What's more, criminals are ingenious at finding

new ways to launder money, and governments need to be constantly on the lookout and adjust their legal, institutional and policy responses accordingly.

In other words, a low risk score in the Basel AML Index is not a ticket to taking a leave from AML/CFT vigilance, either for a country's administration or for companies and financial institutions doing business in that country.

Recent money laundering scandals involving countries that are rated as low-risk countries on the 2018 Basel AML Index are a case in point.

3.5 What can we learn from low-risk countries?

Despite a deterioration in risk scores for some of the lower-risk countries in 2018, the list of countries with the lowest assessed risk has not changed significantly in recent years.

Between 2017 and 2018, Latvia, Iceland, Denmark and Poland left the list of top 10 low-risk countries and Lithuania, Macedonia, Bulgaria and Croatia joined it.

Country	Risk score 2017	Risk score 2018	Change 17/18
FINLAND	1.78	2.57	–0.80
ESTONIA	2.73	2.73	0.00
LITHUANIA	3.67	3.12	–0.55
NEW ZEALAND	3.03	3.20	+0.17
MACEDONIA	4.09	3.33	–0.76
BULGARIA	3.84	3.53	–0.31
SLOVENIA*	2.78	3.75	+0.97
SWEDEN*	3.40	3.75	+0.35
CROATIA	4.11	3.83	–0.28
ISRAEL	3.59	3.84	+0.24

*Countries accessed according to the new FATF methodology

Low-risk countries wishing to maintain their low risk ranking, and all countries wishing to improve their ranking, should take guidance in the following characteristics that low-risk countries typically share:

- Strong AML/CFT legislation including on the freezing of terrorist funds
- Competent authorities with the mandate and resources to investigate and prosecute ML/TF offences and issue sanctions for non-compliance
- Comprehensive measures for domestic and international cooperation
- High level of press freedom, with the media playing a central role in uncovering and reporting financial crime
- Financial sector highly regulated with competent supervisory authorities and minimal, if any, cash-based transactions

- High levels of transparency and integrity in public institutions and businesses
- Low levels of corruption

3.6 The two main reasons behind improvements in ML/TF risk ratings

The 10 countries with the greatest improvements in risk score in the Basel AML Index 2018 are:

Country	Risk score 2017	Risk score 2018	Change 17/18
TRINIDAD AND TOBAGO*	6.75	5.25	–1.50
TANZANIA	7.86	6.71	–1.15
BOLIVIA	7.13	6.02	–1.11
GHANA*	6.33	5.32	–1.01
GRENADA	5.05	4.20	–0.85
MONTENEGRO	4.76	3.95	–0.81
BRAZIL	5.76	4.96	–0.80
MACEDONIA	4.09	3.33	–0.76
VENEZUELA	6.44	5.69	–0.75
ST. VINCENT AND THE GRENADINES	5.22	4.46	–0.75

*Countries accessed according to the new FATF methodology

The Basel AML Index demonstrates that there is no strong correlation between a country's region and its change in risk score. Significant changes in 2018 were instead primarily affected by the following two factors, which are partly related to methodology:

3.6.1 Obtaining a better Financial Secrecy Index rating

Some countries improved their risk score due to changes in the methodology underlying the Financial Secrecy Index (FSI). The FSI measures the level of bank secrecy, scale of a country's offshore banking activity and size of its financial centre. A significant increase in the number of countries covered by the FSI led to the need to re-score FSI ratings for inclusion in the Basel AML Index (see Methodology).

For example, Trinidad and Tobago was assessed by the FSI for the first time in 2018 and obtained a low risk score. When combined with a lower risk of corruption and increased financial transparency, this allowed the country to achieve a significant improvement in risk score in the Basel AML Index.

Macedonia saw slight improvements in political and legal risks, financial transparency and public transparency, but the most substantial influence on the country's overall score was also the improvement in its FSI. Positive changes for Ghana, Brazil, Paraguay and Tanzania are also mainly explained by improved FSI scores.

3.6.2 Leaving the Jurisdictions of Primary Concern blacklist

Another influential factor for major changes in some countries' performance in the 2018 Basel AML Index was the inclusion or exclusion of the country on the list of Jurisdictions of Primary Concern in the US State Department International Narcotics Control Strategy Report (INCSR). Jurisdictions included in this list are considered to be "major money laundering countries" by the US Bureau of International Narcotics and Law Enforcement Affairs.

The improvement in Grenada's score in the 2018 Basel AML Index, for example, was mainly driven by the country's disappearance from the Jurisdictions of Primary Concern list.

Despite the positive improvements, most countries in the list of top improvers are still assessed as having middle or high risks of ML/TF and should continue to address the factors that are dragging them down.

3.7 Which countries have significantly worsened their scores and why

The top 10 decliners in 2018 are:

Country	Overall score 2017	Overall score 2018	Change 17/18
DENMARK*	2.98	4.11	+1.14
ICELAND*	3.52	4.59	+1.07
SLOVENIA*	2.78	3.75	+0.97
TAIWAN, CHINA	4.34	5.15	+0.81
FINLAND	1.78	2.57	+0.80
POLAND	3.62	4.38	+0.77
CYPRUS	4.26	5.01	+0.75
SOUTH AFRICA	4.59	5.34	+0.75
PORTUGAL*	3.95	4.66	+0.72
NETHERLANS	4.30	4.90	+0.60

*Countries accessed according to the new FATF methodology

Iceland, Denmark and Slovenia recorded a significantly higher risk rating in 2018 due to having been assessed using the new FATF evaluation methodology, which measures not only technical compliance but importantly emphasises effectiveness (see Key trends/Effectiveness lags behind technical compliance).

The recent Danske Bank scandal seems to confirm the observation that there are big issues with the effectiveness of money laundering supervision in countries generally regarded as low-risk.
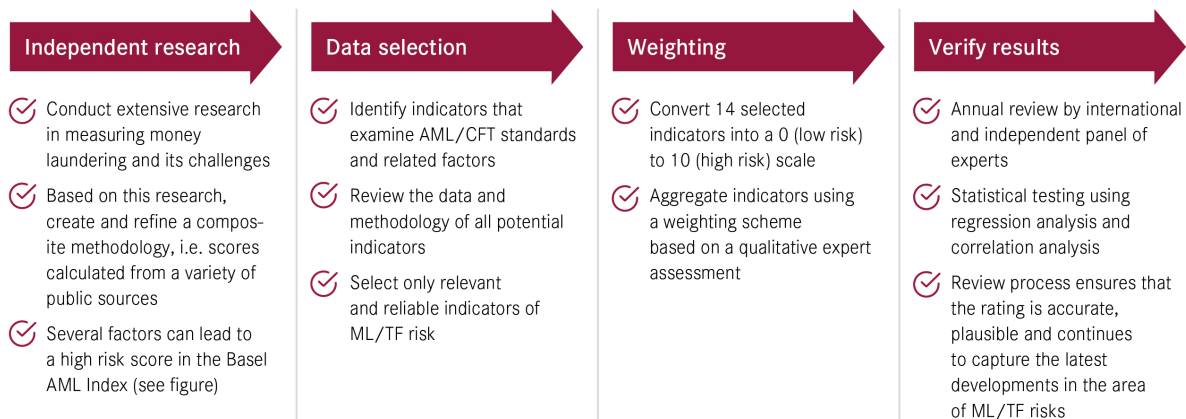
This phenomenon has been observed in previous years with other countries that underwent an FATF evaluation using the new evaluation methodology. The results illustrate that most countries are typically stronger on technical compliance and struggle with effective implementation of legal requirements. As more and more countries are assessed with the new methodology, the same phenomenon is likely to occur for a few years to come before it levels out.

The same two main factors behind improvements in ML/TF risk (see previous section) caused some countries to fall down the rankings. For example:

- Although still at the top of the list of low-risk countries, Finland saw a deterioration in its overall score due to changes in its Financial Secrecy Index rating, as well as other indicators of corruption and financial transparency.
- Poland demonstrated higher risks in such indicators as financial secrecy, corruption, financial transparency and political and legal risks.
- Cyprus saw increased financial secrecy scores and was also, crucially, included in the UN INCSR list of Jurisdictions of Primary Concern.

4 Methodology

Here is an overview of the methodological process behind the Basel AML Index:

Independent research	Data selection	Weighting	Verify results
☑ Conduct extensive research in measuring money laundering and its challenges	☑ Identify indicators that examine AML/CFT standards and related factors	☑ Convert 14 selected indicators into a 0 (low risk) to 10 (high risk) scale	☑ Annual review by international and independent panel of experts
☑ Based on this research, create and refine a composite methodology, i.e. scores calculated from a variety of public sources	☑ Review the data and methodology of all potential indicators	☑ Aggregate indicators using a weighting scheme based on a qualitative expert assessment	☑ Statistical testing using regression analysis and correlation analysis
☑ Several factors can lead to a high risk score in the Basel AML Index (see figure)	☑ Select only relevant and reliable indicators of ML/TF risk		☑ Review process ensures that the rating is accurate, plausible and continues to capture the latest developments in the area of ML/TF risks

4.1 What factors impact a country's risk score in the Basel AML Index?

Complex factors contribute to a high risk of money laundering and terrorist financing (see Key trends > ML/TF is not a standalone risk). However, the main areas are summarised below:
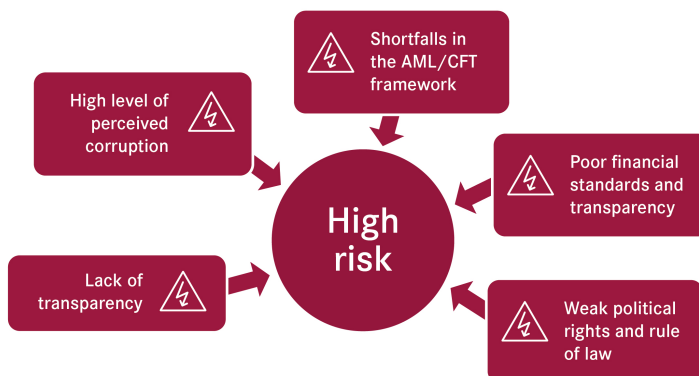
4.2 Sources

Basel AML Index scores are based on 14 indicators from publicly available sources. These indicators, and their weighting in the composite index, are:

- **Quality of AML/CFT framework (65%)**
  - o FATF Mutual Evaluation Reports
  - o Financial Secrecy Index
  - o US State Department International Narcotics Control Strategy Report (INCSR)
- **Corruption risk (10%)**
  - o Corruption Perception Index
- **Financial transparency and standards (15%)**
  - o Extent of Corporate Transparency Index
  - o WEF Global Competitiveness Report – Strength of auditing and reporting standards
  - o WEF Global Competitiveness Report – Regulation of securities exchanges
  - o World Bank IDA Resource Allocation Index – Financial sector regulations
- **Public transparency and accountability (5%)**
  - o Political Finance Database – Political disclosure
  - o Open Budget Index – Budget transparency score
  - o World Bank IDA Resource Allocation Index – Transparency, accountability and corruption in the public sector
- **Political and legal risk (5%)**
  - o Freedom House: Freedom in the World and Freedom of the Press
  - o WEF Global Competitiveness Report – Institutional pillar
  - o Rule of Law Index

For full details of all 14 indicators used, and why, see Annex 1.

4.3 Weighting

The expert weighting system used places greater emphasis on indicators reflecting AML/CTF assessments and financial standards.

The FATF Mutual Evaluation Reports, Financial Secrecy Index and US INCSR therefore have a significant effect on the country's final risk score.
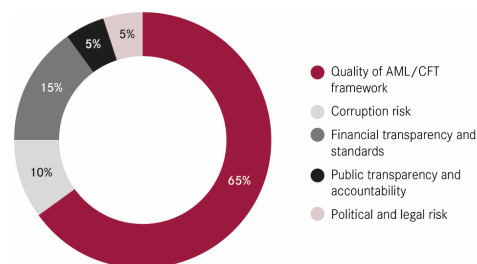
4.4 Changes in 2018

The seventh edition of the Basel AML Index has seen two significant changes. To keep the comparability, the results of the 2017 Index have been recalculated using the 2018 methodology and are listed in the Annex.

4.4.1 Approach to missing data

A country's overall score is calculated based on available data only. Missing values are not replaced.

In previous Public Editions of the Basel AML Index, only countries for which data were available for a minimum of 8 out of 14 indicators were included in the ranking. However, such an approach has led to biases in assigning country scores. This can happen when, for example, only one indicator from the ML/TF risk category is available, so this indicator has a disproportionate impact on the country's overall score.

To deal more effectively with this challenge in future, it was decided that from now on, only countries with data for two out of the three indicators in the ML/TF category will be included in the ranking. This has resulted in 17 more countries being removed from the ranking.

4.4.2 Adjusting the Financial Secrecy Index impact

In 2016, the FSI underwent sweeping methodological changes to reflect evolutions in several aspects of financial secrecy.[7] In 2018, the FSI also increased its country coverage to 112 jurisdictions from a previous shortlist of 60 in 2009.

The original procedure to normalise the FSI score for the Basel AML Index involved giving each country on the list an automatic score of 5 out of 10, based on the assumption that every country on the list was considered a "secrecy jurisdiction". Due to the FSI's methodological changes, in 2018 it was decided to rescale the FSI in the same way as the other indicators in the Basel AML Index – from 0 to 10 – and to decrease the weight of the FSI from 25% to 20% in order to reduce the impact of the changes on the overall score. In turn, the weight of the FATF indicator increased from 30% to 35%.

5 Expert Edition & Expert Edition Plus

The Basel AML Index offers a subscription-based **Expert Edition,** which is a more comprehensive and customisable country risk assessment tool. It is used worldwide by financial institutions, researchers, policymakers, compliance officers and other stakeholders to fulfil their regulatory and compliance requirements.

The tools can be used as a standalone solution to satisfy regulatory requirements or as an independent benchmarking tool to validate in-house risk assessments.

Expert Edition Plus also contains 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.

A demo account provides partial access to the Expert Edition with a sample of countries to test all the functions.

Visit index.baselgovernance.org/expert-edition-intro for full information and to request a demo account.

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[7] https://www.financialsecrecyindex.com/faq/why-did-we-change

Compare Editions

	Public Edition	Expert Edition	Expert Edition Plus
Countries covered	129	203	203
Updated annually	✓	✓	✓
Regular updates		✓	✓
14 sub-indicators and sanctions list		✓	✓
Downloadable data set		✓	✓
Expert advice and tailor-made solutions upon request		✓	✓
Complete FATF data set, including small jurisdictions			✓
Annual subscription	Free	Free for academics, public/supervisory institutions and non-profits; CHF 2,000 for businesses	Free for academics, public/supervisory institutions and non-profits; CHF 4,000 for businesses

The Basel AML Index is increasingly used as a data source for other indices. For example, The Wolfsberg Group highlights it as one of the indices to be considered for country risk factors. The Economist Intelligence Unit uses the numerical FATF data and analysis available in the Expert Edition Plus as a data source for the new Global Illicit Trade Environment Index.

6 About us

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

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

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

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

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7 Annex 1: Key indicators

7.1 Quality of AML/CFT framework

7.1.1 FATF Mutual Evaluation Reports

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

What does it measure?

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

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

Why is it important?

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

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

7.1.2 Financial Secrecy Index

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

What does it measure?

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

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

The FSI underwent a critical methodological review in 2016 and increased its country coverage to 112 countries in 2018[8].

To learn how we handled these changes in calculating **the Basel AML Index in 2018, see** Methodology > Changes in 2018.

Why is it important?

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

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

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

- *Type:* Expert assessment (List of jurisdictions according to level of concern)
- *2017 report:* www.state.gov/documents/organization/268024.pdf

What does it measure?

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

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

The Index uses data from Volume II, which covers money laundering and financial crimes. This includes a list of Jurisdictions of Primary Concern, assessed to be "major money laundering countries".

Why is it important?

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

7.2 Corruption

7.2.1 Transparency International Corruption Perception Index

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

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[8] See www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf for full details.

What does it measure?

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

Why is it important?

Corruption (bribery) is a common predicate offence to money laundering[9], 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.

7.3 Financial transparency and standards

7.3.1 World Bank Extent of Corporate Transparency Index

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

What does it measure?

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

Why is it important?

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

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

- *Type:* Expert survey
- *Website:* www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1

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[9] FATF Report, Laundering the Proceeds of Corruption, 2011

What does it measure?

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

Why is it important?

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

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

7.3.3 WEF Global Competitiveness Report – Regulation of securities exchanges

- *Type:* Expert survey
- *Website:* www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1

What does it measure?

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

Why is it important?

According to the FATF, "the securities industry, along with banking and insurance, is one of the core industries through which persons and entities can access the financial system. This access provides opportunities for criminals to misuse the financial system to engage in money laundering and terrorist financing. The securities industry is evolving rapidly and is global in nature. It provides opportunities to quickly carry out transactions across borders with a relative degree of anonymity. It is thus imperative to highlight and share current information about potential vulnerabilities."[10]

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

7.3.4 World Bank IDA Resource Allocation Index – Financial sector regulations

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

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[10] FATF Report, Money Laundering and Terrorist Financing in the Securities Sector, 2009.

What does it measure?

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

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

Why is it important?

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

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

7.4 Public transparency and accountability

7.4.1 International IDEA Political Finance Database – Political disclosure

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

What does it measure?

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

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

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

Why it is important?

Campaign financing may provide avenues for illicit funding and spending as well as opportunities for the misuse of public money. Money laundering may occur in the financing of political parties and election campaigns for the purposes of bribe payments and contributions made in return for advantages, and

the misuse of state resources for electoral purposes. Regulations and disclosure in political financial provisions may prevent the abuse of public funds.

7.4.2 Open Budget Index – Budget transparency score

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

What does it measure?

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

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

Why is it important?

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

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

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

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

What does it measure?

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

Why is it important?

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

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

7.5 Political risk

7.5.1 Freedom House: Freedom in the World and Freedom of the Press

- *Type:* Expert survey
- *Website:* https://freedomhouse.org/report/freedom-world/freedom-world-2018 and https://freedomhouse.org/report/freedom-press/freedom-press-2017

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.

7.5.2 WEF Global Competitiveness Report – Institutional pillar

- *Type:* Expert survey
- Website: www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.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. Nations with strong institutions, on the other hand, are better able to deter, detect and prosecute money laundering offences.

7.5.3 Rule of Law Index

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

What does it measure?

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

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

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

Why is it important?

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

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