INTERNATIONAL CENTRE FOR
ASSET RECOVERY

The Basel AML Index and financial crime data

Dr Kateryna Boguslavska | 4 December 2019

Basel Institute on Governance
Steinenring 60 | 4051 Basel, Switzerland | +41 61 205 55 11
info@baselgovernance.org | www.baselgovernance.org

Associated Institute of

Table of contents

About the author

Dr Kateryna Boguslavska is Project Manager for the Basel AML Index at the Basel Institute on Governance. She holds a PhD in Political Science from the National Academy of Science in Ukraine and a master's degree in Comparative and International Studies from ETH Zurich. Before joining the Basel Institute, Katya worked at Chatham House in London as an Academy Fellow for the Russia and Eurasia program.

1 Analysis of data on financial crimes and the Basel AML Index approach

1.1 Quality of data on financial crimes

The collection of data is an essential element of every methodology. For the Basel AML Index, the ability to collect and analyse data on issues related to money laundering and terrorist financing (ML/TF) is crucial to the assessment of ML/TF risks. However, the collection of accurate, comprehensive, comparable data on anti-money laundering and combating the financing of terrorism (AML/CFT) regimes worldwide remains a challenge. The quality of data is struggling in the following areas: regularly updates, country coverage, solid methodology for collection and data manipulation. There is a general recognition by all stakeholders that all data-related efforts in the AML field are not enough[1].

As the process of calculating the Basel AML Index reveals, the lack of useful data is a key impediment to comprehensive assessment of ML/TF risks. Low-quality data results in the following consequences in relation to measurements of ML/TF risks and comparability across countries:

- Misunderstanding of ML/TF patterns at the country level
- Inability to identify and measure specific vulnerabilities
- Inability to track countries' progress over time

1 https://www.osce.org/secretariat/96398?download=true

More high-quality data, regulatory reforms and new technologies are required in order to drive global improvements in the AML regime.

1.2 What is the Basel AML Index?

The Basel AML Index Expert Edition is an independent ranking of 203 countries in relation to ML/TF risks. It is based on a regularly updated dataset of 15 ML/TF risk indicators.

Developed by the Basel Institute and its expert team from the International Centre for Asset Recovery (ICAR), the Basel AML Index uses a composite methodology, which draws its components from a broad spectrum of data generated by third-party sources. In doing so, and in order to measure both the existence and quality of rules and procedures as well as their implementation in practice in the financial and public sectors, the Basel AML Index resorts to various data types such as expert assessments, surveys and other perception-based data.

The Basel AML Index does not measure the actual existence of ML/TF activity in a country. Instead it provides a basis for assessing the risk level, meaning the likelihood of such activities originating from a given country based on its adherence to AML/CFT standards and other risk categories. It is indeed important to note that money laundering and terrorist financing cannot be quantitatively measured.

In June 2018, the EU Commission mentioned the Basel AML Index in its methodology for identifying high-risk third countries under Directive (EU) 2015/849.[2]

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.

1.3 Why does the Basel AML Index use indirect ML/TF data?

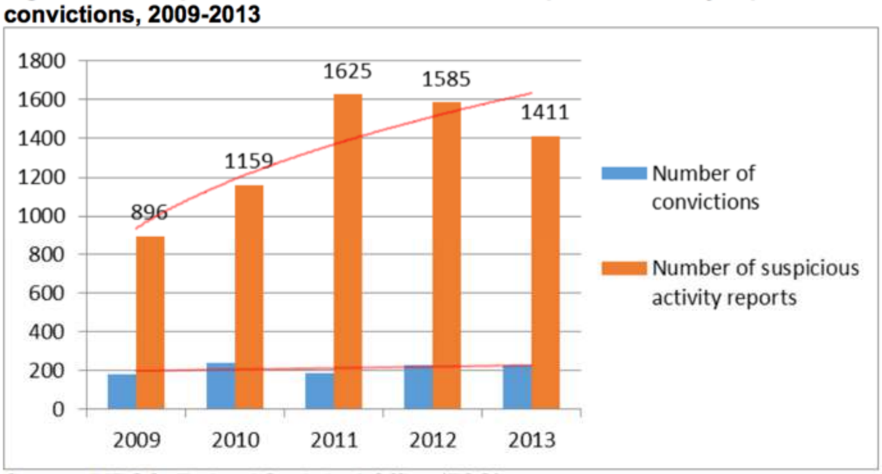
Since 2005, the European Commission has identified the lack of reliable and comparable statistical data from member states as an obstacle to the qualitative assessment of its policies. The issue is even more acute when the comparison needs to be conducted at the global level.

Currently available data on financial crimes has been facing criticisms relating to the quality of the data, its comparability across the world and its inability to offer insights into the efficiency of AML regimes in general. Efficiency of an AML regime is often understood as a ratio between the number of convictions and the number of Suspicious Activity Reports (SARs). Data from

2https://ec.europa.eu/info/sites/info/files/swd_2018_362_f1_staff_working_paper_en_v2_p1_984066.pdf

Swiss statistics shows that an increase in the number of SARs does not correlate with an increase in the number of convictions.[3]

Figure 10: Comparative trend of number of suspicious activity reports and money laundering convictions, 2009-2013



Source: MROS, Federal Statistical Office (FSO)

While analysing available data related to ML/TF measurements, the Basel AML Index team came to the following conclusions about the absence of direct data:

- The number of SARs is not an indicator of the efficiency of the AML regime in the country. Additionally, national data on SARs can't be compared globally.
- The relation between the number of SARs and the number of convictions for AML/CFT violations is not an indicator of the efficiency of the AML regime in the country.
- The number of convictions for ML/TF-related crimes is not an indicator of the efficiency of the AML regime in the country.

3 https://www.fedpol.admin.ch/dam/data/fedpol/kriminalitaet/geldwaescherei/nra-berichte/nra-bericht-juni-2015-e.pdf

- The number of recovered stolen assets is not an indicator of the efficiency of the AML regime in the country.
- There is no relevant data on the actual amount of laundered money circulating in a country.

These conclusions are based on the fact that the money-laundering process has a complex, global and non-linear nature.

The involvement of private- and public-sector actors (with different rationales) in the detection and investigation of the ML/TF threats adds additional complications to the processing of data and record-keeping. Moreover, differences in financial crime reporting systems across the globe possess additional obstacles for comparison.

The latest increase in investigative journalism around ML/TF, such as the publication of the Panama Papers and Paradise Papers, has raised public awareness of the issue. However, it has not changed the situation with regard to the quality and availability of case-related data on financial crimes.

The Basel Institute on Governance decided not to include case-based data on money laundering due to the following reasons:

- Time lags between real cases and detection: After a number of ML cases, national regulators increased the number of fines imposed on financial institutions for failing to enforce AML regulations. Penalties were handed out for transactions that took place a long time in the past. For example, in 2018 and 2019, ING paid penalties for failures in relation to ML that took place between 2000-2013 and 2010-2016. Penalties for other banks also came with a huge time lag between real cases of AML misconduct and detection.
- No regular updates: ML cases in the media appear without any predictable regularity. It is impossible to provide updates for the data and to change the positions of countries.

- Countries cannot demonstrate progress: Once a country is labelled a high-risk jurisdiction on the basis of its involvement in a ML media scandal, it is impossible for it to demonstrate progress in this area.

This is why the Basel AML Index uses indirect data from a wide range of sources as the basis for the country scores and ranking.

1.4 Risk-based assessment of ML/TF country risks in the Basel AML Index

In general, country risk refers to the risk of investing or lending money in a country, arising from possible changes in the business environment that may adversely affect operating profits or the value of assets. In other words, it is the risk that borrowers may be unable or unwilling to fulfil their foreign obligations for country-specific economic or political reasons beyond the usual counterparty-specific factors.

When it comes to financial crime country risk, this reflects Financial Crime Compliance (FCC) country-specific factors that impact the assessment/due diligence of a customer. These include:

a) The nature and extent of ML, TF, BC, tax fraud, etc.
b) The legal AML/CFT framework
c) The quality and effectiveness of a country's AML/CFT measures
d) Political factors
e) The importance and structure of the financial sector
f) Geographical factors

Customer risk	Product risk	Transactional risk	Country risk

Industry Building Commodities Mining Arms trader	Savings account, mortgage	Non face-to-face onboarding	Domicile and nationality of a client of a bank a beneficial owner or individual with power of attorney
Legal structure	Credit business	International payments	Centre of activity
Ownership, transparency	Int. private banking, Correspondent banking	Highly structured Products.	Originator or recipient of payments or trade financing

By applying a risk-based approach (RBA), the Basel AML Index Expert Edition also serves as a useful risk assessment tool that helps users to identify and assess high-risk countries and thereby mitigate ML/TF risks. Thus, instead of waiting for perfect data on financial crimes to appear, users can resort to the Basel AML Index as a practical way to assess country risks related to ML/TF.

ML/TF threats at the country level are associated with:

- Lack of appropriate AML/CFT laws and regulations and their effective implementation
- Significant levels of corruption, or other crimes which are a predicate offence to ML

- Low level of public and financial transparency
- High political and legal risks
- Countries subject to sanctions, embargoes or similar.

The data for the Basel AML Index is collected from different reputable and internationally recognised sources, after a careful review of the methodology of the sources, country coverage, regularity of updates of the data, public availability, and low correlation (contamination) with other indices.

One major aspect before selecting the sources and applying the standardisation of data is to establish a framework that captures the related components of ML/TF, the measures that exist and the relationship between them.

In terms of the methodology, there is no objective standard in creating a composite index. This is why in the development of the Basel AML Index, choices and judgments were made regarding the variables and weightings. A regression analysis was not used for the selection and weighting. Instead, a qualitative expert weighting system as described on the Basel AML Index website[4] was used for the variables. Other experts or practitioners may disagree with the choices.

The Basel AML Index focuses on AML/CFT standards and considers related indicators that could raise or decrease the risk level. The conceptual framework has been discussed through an expert assessment using an RBA, which focuses on geographic risk factors. As a result of

[4] Basel AML Index Methodology: www.baselgovernance.org/basel-aml-index/methodology#7

this expert assessment, it was decided to pursue a multidimensional approach and to distinguish between five categories identified as key to a ML/TF risks. These five categories, set out below were chosen because, firstly, they represent distinctive components as well as critical aspects in assessing risks of ML/TF as a whole. Categorising 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 distinct issue areas.

Quality of AML/CFT framework (65%)

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

Corruption risk (10%)

- Corruption Perception Index (5%)
- Trace Bribery Matrix (5%)

Financial transparency and standards (15%)

- Extent of Corporate Transparency Index
- WEF Global Competitiveness Report – Strength of auditing and reporting standards
- WEF Global Competitiveness Report – Regulation of securities exchanges
- World Bank IDA Resource Allocation Index – Financial sector regulations

Public transparency and accountability (5%)

- Political Finance Database – Political disclosure
- Open Budget Index – Budget transparency score

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

Political and legal risk (5%)

- Freedom House: Freedom in the World and Freedom of the Press
- WEF Global Competitiveness Report – Institutional pillar
- Rule of Law Index

1.5 Methodological limitations of the Basel AML Index

By combining these various data sources, the overall risk score represents a holistic assessment addressing structural as well as functional elements in the AML/CFT framework. Each country's risk score is calculated from available data from well-established external sources and does not represent an opinion or subjective assessment by the Basel Institute. Where results may look implausible, rather than questioning the Basel Institute's sound judgement, users should look at the individual results of the underlying indicators.

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 ML/TF activity or as a specific policy recommendation for countries or institutions.

The Basel AML Index also faces certain limitations in relation to the fact that most underlying indicators, including the Transparency International Corruption Perceptions Index, the Financial Action Task Force (FATF) Mutual Evaluation Reports, and the data in relation to political and legal risks, are perception-based indicators. In contrast to financial risk models based purely on statistical calculations, the Basel AML Index evaluates structural factors by quantifying regulatory, legal, political and financial indicators which influence countries' proneness to ML/TF risks. Transforming qualitative data into quantitative data does not fully overcome such limitations. Unlike financial risk models, which they are not, country risk models do not have strong prediction abilities; neither can they provide a basis for calculating potential loss connected to ML/TF.

The Index does not disaggregate data on ML- and TF-related risks. This is due to a shortage of separate data related to FT risks, and where such data exists it is inconsistent and lacks regular updates. Current FATF MERs are still the most solid ground for evaluating both ML and TF, though as aggregated scores.

The FATF identifies three main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origins and integrating it into the formal economy.[5] The first is through the use of the financial system; the second involves the physical movement of money (e.g. through the use of cash couriers); and the third is through the physical movement of goods through the trade system. So far, the Basel AML Index has been mostly focused on the first two ways, with less coverage in relation to international trade.

Due to these limitations, we recommend that if using the Basel AML Index as source for building a solid risk-based compliance programme, consideration is given to complementing it with additional indicators that could take into consideration issues such as country borders with high-risk countries or historical and cultural influences between countries.

5 https://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-basedmoneylaundering.html

2 FATF data on financial crimes: opportunities and limitations

A core component and focus of the Basel AML Index is the use of FATF Mutual Evaluation Reports. The performance of countries in the Basel AML Index is largely driven by the FATF's data and the methodology of the FATF assessment of a particular country.

As part of the Basel AML Index Expert Edition Plus service, FATF scores (Compliant, Largely Compliant, Partially Compliant, No Compliant) are converted into numerical scores from 0 to 3. The scores are then re-scaled from 0 to 10.

Since the FATF introduced its fourth-round methodology in 2013, it has evaluated countries' performance in terms of two criteria: technical compliance with the FATF's 40 Recommendations (R) and effectiveness according to 11 Immediate Outcomes (IO). The previous methodology focused only on technical compliance.

FATF data in the Basel AML Index Expert Edition Plus has two levels:

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

2. Country level (separately for IOs and Rs) or vertical comparison

    - Total score per country
    - Average score per country
    - Performance per country (proportion of the potential achievements and real results)

Updates are provided on a quarterly basis. The data is presented in Excel format, along with graphics and an analysis of the main achievements and trends. The Excel table includes regional indexation and information about the review authority and the date of review to allow sorting by these criteria.

			Effectiveness						Technical Compliance						Overall scores	
Jurisdiction	Geographic region (World Bank)	Assessment body/bodies	IO1	IO7	IO8	IO11	Effectiveness Scaled	Performance*	R.4	R.6	R.7	Technical Compliance Scaled	Sum of Technical Compliance Scores	Performance* in Technical Comliance	FATF Score 1:1 Scaled	FATF Score 2:1 Scaled
Albania	Europe & Central Asia	MONEYVAL	1	1	1	0	6.67	33%	2	1	0	4.19	68	57%	5.43	5.84
Andorra	Europe & Central Asia	MONEYVAL	2	1	1	1	5.45	45%	3	2	3	3.00	84	70%	4.23	4.64
Antigua & Barbuda	Latin America & Caribbean	3FATF	1	0	1	0	7.88	21%	2	1	0	3.42	79	66%	5.65	6.39
Armenia	Europe & Central Asia	MONEYVAL	1	0	0	2	5.45	45%	2	2	2	2.00	96	80%	3.73	4.30
Australia	East Asia & Pacific	FATF/APG	2	1	1	2	4.85	52%	3	3	3	3.50	78	65%	4.17	4.40
Austria	Europe & Central Asia	FATF	1	0	1	2	6.36	36%	3	1	1	2.17	94	78%	4.27	4.96
Bahamas	Latin America & Caribbean	3FATF	0	0	0	0	8.48	15%	3	1	1	3.08	83	69%	5.78	6.68
Bahrain	Middle East & North Africa	FATF/1NAFATF	1	1	1	1	5.76	42%	3	1	1	3.17	82	68%	4.46	4.89
Bangladesh	South Asia	APG	1	0	0	2	6.97	30%	2	3	2	3.75	75	63%	5.36	5.90
Barbados	Latin America & Caribbean	3FATF	0	0	0	0	8.79	12%	1	2	0	4.33	68	57%	6.56	7.30
Belgium	Europe & Central Asia	FATF	2	1	1	1	5.45	45%	3	1	1	1.83	98	82%	3.64	4.25
Bhutan	South Asia	APG	0	0	0	0	9.39	6%	1	1	1	4.08	71	59%	6.74	7.62
Botswana	Sub-Saharan Africa	ESAAMLG	0	0	0	0	9.39	6%	1	0	0	8.46	18	15%	8.93	9.08
Cambodia	East Asia & Pacific	APG	1	0	0	0	8.48	15%	2	2	0	4.75	63	53%	6.62	7.24
Canada	North America	IMF/FATF/APG	2	1	1	1	5.45	45%	2	2	2	3.75	75	63%	4.60	4.89
Cayman Islands	Latin America & Caribbean	3FATF	1	0	1	1	8.18	18%	2	2	2	3.42	79	66%	5.80	6.59
China	East Asia & Pacific	FATF/IMF/APG/E	2	1	2	0	6.97	30%	3	1	0	4.75	63	53%	5.86	6.23
Colombia	Latin America & Caribbean	GAFILAT	2	0	2	0	6.36	36%	3	1	0	4.02	70	58%	5.19	5.58
Cook Islands	East Asia & Pacific	APG	2	0	0	1	5.76	42%	2	2	1	3.08	83	69%	4.42	4.87
Costa Rica	Latin America & Caribbean	GAFILAT	1	1	1	0	7.27	27%	2	2	3	2.42	91	76%	4.84	5.65
Cuba	Latin America & Caribbean	GAFILAT	1	1	2	1	5.15	48%	2	3	2	2.25	93	78%	3.70	4.18
Czech Republic	Europe & Central Asia	MONEYVAL	1	1	2	1	5.76	42%	3	1	1	4.08	71	59%	4.92	5.20
Denmark	Europe & Central Asia	FATF	1	1	1	2	6.36	36%	2	1	1	3.67	76	63%	5.02	5.46
Dominican Republ	Latin America & Caribbean	GAFILAT	1	1	1	1	6.36	36%	3	2	2	2.75	87	73%	4.56	5.16
Ethiopia	Sub-Saharan Africa	ESAAMLG/WB	0	0	0	0	9.39	6%	2	2	0	3.33	78	65%	6.36	7.37
Fiji	East Asia & Pacific	APG	1	1	0	0	8.18	18%	3	1	1	2.92	85	71%	5.55	6.43
Finland	Europe & Central Asia	FATF	2	2	1	1	5.45	45%	2	2	2	3.42	79	66%	4.44	4.78
Ghana	Sub-Saharan Africa	GIABA	1	1	0	0	8.18	18%	2	2	2	2.75	87	73%	5.47	6.37
Guatemala	Latin America & Caribbean	3FATF/ GAFILAT	1	2	2	1	5.45	45%	2	1	1	2.75	87	73%	4.10	4.55
Honduras	Latin America & Caribbean	GAFILAT	1	1	3	0	6.06	39%	3	2	1	3.25	81	68%	4.66	5.12
Hungary	Europe & Central Asia	MONEYVAL	0	0	0	1	7.27	27%	3	2	2	3.42	79	66%	5.34	5.99

Figure 1: FATF data in the Basel AML Index Expert Edition

2.1 FATF data: opportunities

As shown by the Basel AML Index results 2012-2019, countries that have not been subjected to the FATF's fourth-round evaluation methodology usually demonstrate better scores in comparison to those assessed with the old methodology. This is because countries usually fall down when the effectiveness of their AML/CFT systems is assessed.

As of December 2019, the FATF has conducted and published 90 MERs with the fourth-round methodology. These are shown in the overview table below. The table is organised according to the performance of countries in the FATF MERs, starting from the best-performing countries with the lowest risks of ML/TF. The scores are scaled from 0 (min risk) to 10 (max risk). The table includes results of countries in effectiveness and technical compliance assessment as to 1:1 and with double weight for effectiveness as 2:1. The latest is used for the calculations in the Basel AML Index for the overall score of countries.

	Country	FATF1:1	FATF 2:1
1.	Albania	5.43	5.84
2.	Andorra	4.23	4.64
3.	Antigua & Barbuda	5.65	6.39
4.	Armenia	3.73	4.30
5.	Australia	4.17	4.40
6.	Austria	4.27	4.96
7.	Bahamas	5.78	6.68
8.	Bahrain	4.46	4.89
9.	Bangladesh	5.07	5.70
10.	Barbados	6.56	7.30
11.	Belgium	3.64	4.25
12.	Bhutan	6.74	7.62
13.	Botswana	7.13	7.89
14.	Burkina Faso	6.61	7.54
15.	Cabo Verde	6.96	7.97
16.	Cambodia	6.58	7.21
17.	Canada	4.60	4.89
18.	Cayman Islands	5.80	6.59
19.	China	5.86	6.23
20.	Colombia	5.19	5.58

21.	Cook Islands	4.42	4.87
22.	Costa Rica	4.84	5.65
23.	Cuba	3.70	4.18
24.	Czech Republic	4.92	5.20
25.	Denmark	4.85	5.35
26.	Dominican Republic	4.52	5.13
27.	Ethiopia	6.15	7.23
28.	Fiji	5.51	6.40
29.	Finland	4.44	4.78
30.	Ghana	5.47	6.37
31.	Greece	3.74	4.21
32.	Guatemala	4.10	4.55
33.	Haiti	9.00	9.33
34.	Honduras	4.66	5.12
35.	Hong Kong, China	3.80	4.15
36.	Hungary	5.34	5.99
37.	Iceland	5.72	6.54
38.	Indonesia	4.39	4.75
39.	Ireland	3.83	4.27
40.	Isle of Man	4.57	5.37
41.	Israel	2.82	2.99
42.	Italy	3.12	3.49
43.	Jamaica	6.55	7.09
44.	Kyrgyzstan	5.93	6.38

45.	Latvia	5.32	5.87
46.	Lithuania	4.81	5.33
47.	Macao, China	3.48	4.14
48.	Madagascar	7.97	8.55
49.	Malawi	5.40	6.22
50.	Malaysia	3.64	4.25
51.	Malta	5.11	5.73
52.	Mauritania	8.54	9.03
53.	Mauritius	6.64	7.36
54.	Mexico	5.35	5.69
55.	Moldova	4.78	5.21
56.	Mongolia	6.28	7.32
57.	Morocco	6.55	6.79
58.	Myanmar	7.39	8.16
59.	Nicaragua	5.76	6.27
60.	Norway	4.20	4.82
61.	Pakistan	7.89	8.49
62.	Palau	6.22	6.57
63.	Panama	4.61	5.40
64.	Peru	4.28	4.87
65.	Philippines	5.97	6.70
66.	Portugal	3.84	4.18
67.	Samoa	6.16	6.63
68.	Saudi Arabia	4.22	4.94

69.	Senegal	7.68	8.35
70.	Serbia	5.58	6.24
71.	Seychelles	7.10	7.96
72.	Singapore	3.84	4.48
73.	Slovenia	4.81	5.33
74.	Solomon Islands	7.67	8.14
75.	Spain	2.55	3.02
76.	Sri Lanka	6.71	7.51
77.	Sweden	3.63	4.04
78.	Switzerland	4.06	4.22
79.	Chinese Taipei	3.69	3.97
80.	Tajikistan	5.10	5.52
81.	Thailand	5.31	5.66
82.	Trinidad and Tobago	4.88	5.98
83.	Tunisia	6.03	6.85
84.	Uganda	7.67	8.44
85.	Ukraine	4.68	5.24
86.	United Kingdom	2.31	2.55
87.	United States	3.54	3.47
88.	Vanuatu	5.96	7.31
89.	Zambia	5.39	6.02
90.	Zimbabwe	5.82	7.01

Table 1: Countries assessed with the fourth-round FATF evaluation methodology

During the first years of implementing the new methodology, there were occasionally concerns about the comparability of data and of the presentation of findings. However, we have noticed a significant improvement in this respect, which has a positive effect on the validity of the Basel AML Index too. Harmonisation of the reporting methodology and regular updates of consolidated FATF assessments provide a greater opportunity for enhanced analysis. In addition, the Basel AML Index team has in 2019 introduced an automatic system for entering FATF data into the Basel AML Index dataset, which further solidifies the reliability of data.

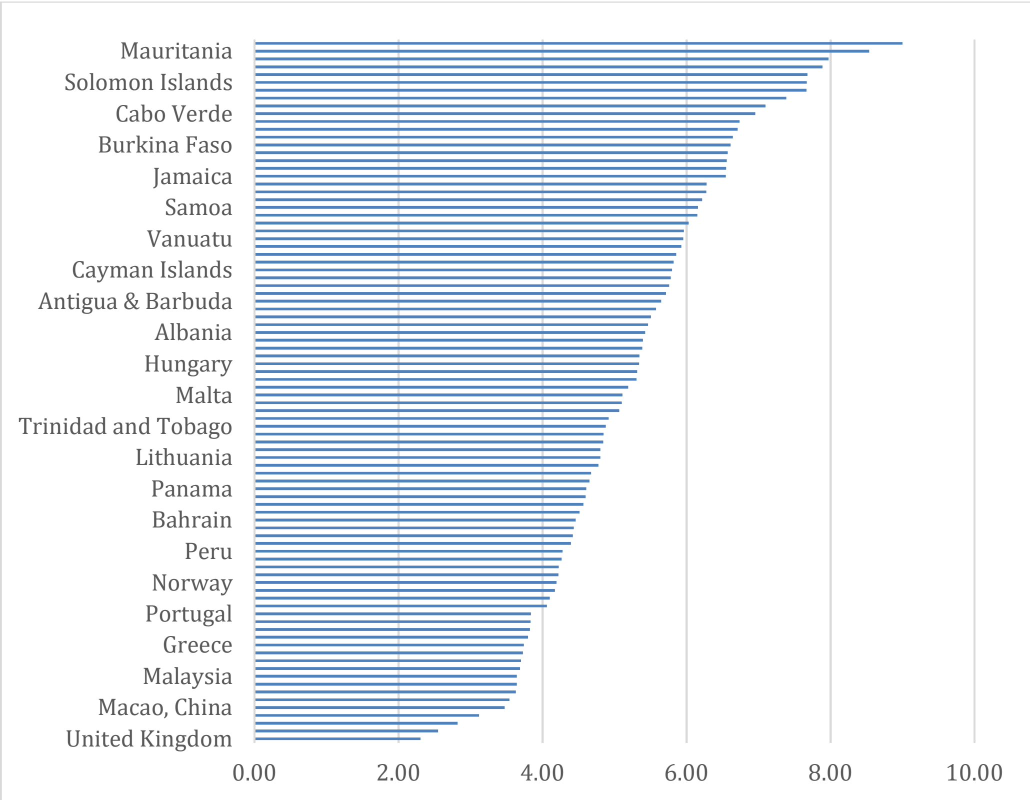


Table 2. Distribution of ML/TF risks across 90 countries, assessed with the fourth-round FATF methodology

2.2 Analysis of effectiveness criteria

In general, effectiveness is the capability of producing a desired result or output. When something is deemed effective, it means it has produced the intended or expected outcome. Measurements of effectiveness indicate the degree to which objectives are achieved and the extent to which particular problems are solved. Effectiveness should not be confused with efficiency, which means doing something at low cost or with little waste.

In the AML/CFT context, effectiveness is the extent to which financial systems and economies mitigate the risks and threats of ML/TF. This could be in relation to the intended result of a given:

(a) policy, law, or enforceable means;

(b) programme of law enforcement, supervision, or intelligence activity; or

(c) implementation of a specific set of measures to mitigate the money laundering and financing of terrorism risks, and combat the financing of proliferation.

FATF clearly states its 11 effectiveness criteria[6] or IOs:

- Money laundering and terrorist financing risks are understood and, where appropriate, actions co-ordinated domestically to combat money laundering and the financing of terrorism and proliferation.
- International co-operation delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.

[6] http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%2022%20Feb%202013.pdf

- Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks.
- Financial institutions and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions.
- Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments.
- Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.
- Money laundering offences and activities are investigated and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.
- Proceeds and instrumentalities of crime are confiscated.
- Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.
- Terrorists, terrorist organisations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector.
- Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant UNSCRs.

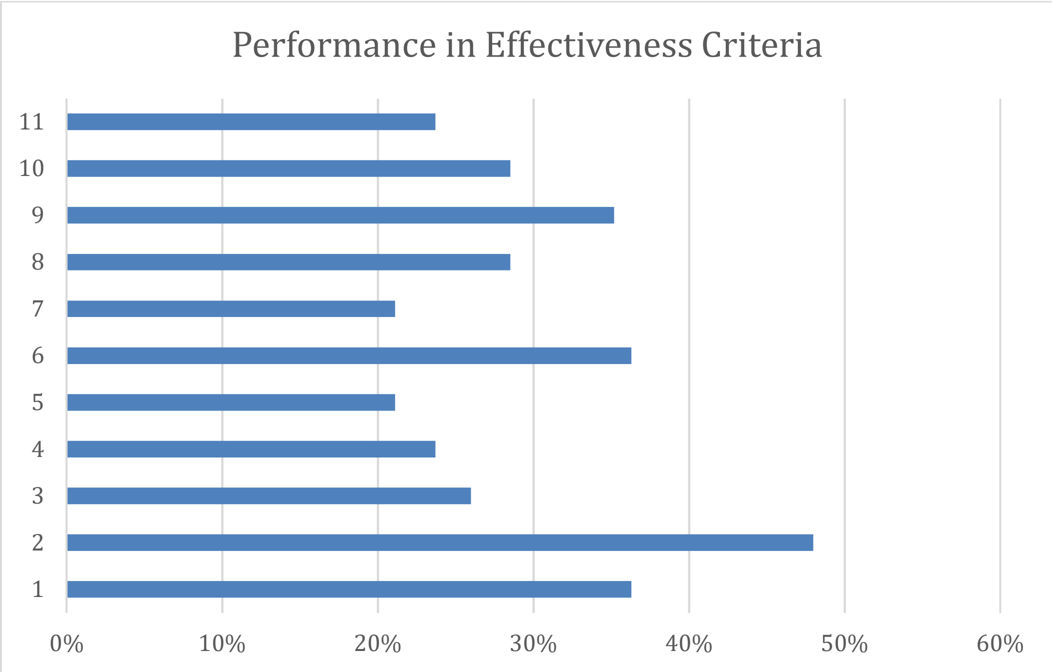
Ratings in relation to the effectiveness criteria reflect the extent to which a country's measures are effective. The assessment is conducted on the basis of 11 immediate outcomes (IO), which represent key goals that an effective AML/CFT system should achieve.

As is shown on the graph, countries' effectiveness in relation to the 11 IOs is quite low. The graph is based on a calculation of performance as a proportion of the potential achievements and actual results. The performance of all countries across all the 11 indicators ranges between 21% (lowest) and 48% (highest). Countries demonstrate the best performance in relation to IO2 on international cooperation and facilitation (48% effectiveness). In comparison to the September data, no significant changes in data are visible. The minimum performance was 22% and the maximum was 47%.

All countries together achieve an effectiveness of 36% in IO1, which relates to understanding the risks of ML/TF and domestic coordination of efforts to combat ML/TF. Countries also fare relatively well (also 36%) when it comes to the use of financial intelligence (IO6) and in relation to the investigation of terrorist finance offences (IO9, 35%). The prevention of terrorist organisations from raising or moving funds from the non-profit organisation (NPO) sector reveals lower performance (only 29%).

All assessed countries have been facing significant issues when it comes to the supervision, monitoring and regulation of financial institutions (IO3), with an average performance of only 26%. The situation is even worse when it comes to IO4, which relates to preventive measures in ML/TF; here all countries together on average reach only 24%. The same applies to IO11 (persons involved in proliferation of weapon mass destruction are prevented from raising and moving funds).

Analysis of FATF data further shows that countries demonstrate the lowest performance in dealing with beneficial ownership information (IO5) and prosecution of money laundering (IO7). Information on ownership structures is largely unavailable for competent authorities. On average countries achieve only 21% of effectiveness in both categories.



Graph 1: Average performance against 11 effectiveness criteria of FATF MER

The highest--performing countries against all 11 IOs:		The lowest-performing countries against all 11 IOs:	
United Kingdom	70%	Cabo Verde	0%
Israel	67%	Haiti	0%
United States	67%	Mauritania	0%
Spain	61%	Uganda	0%
Italy	58%	Vanuatu	0%

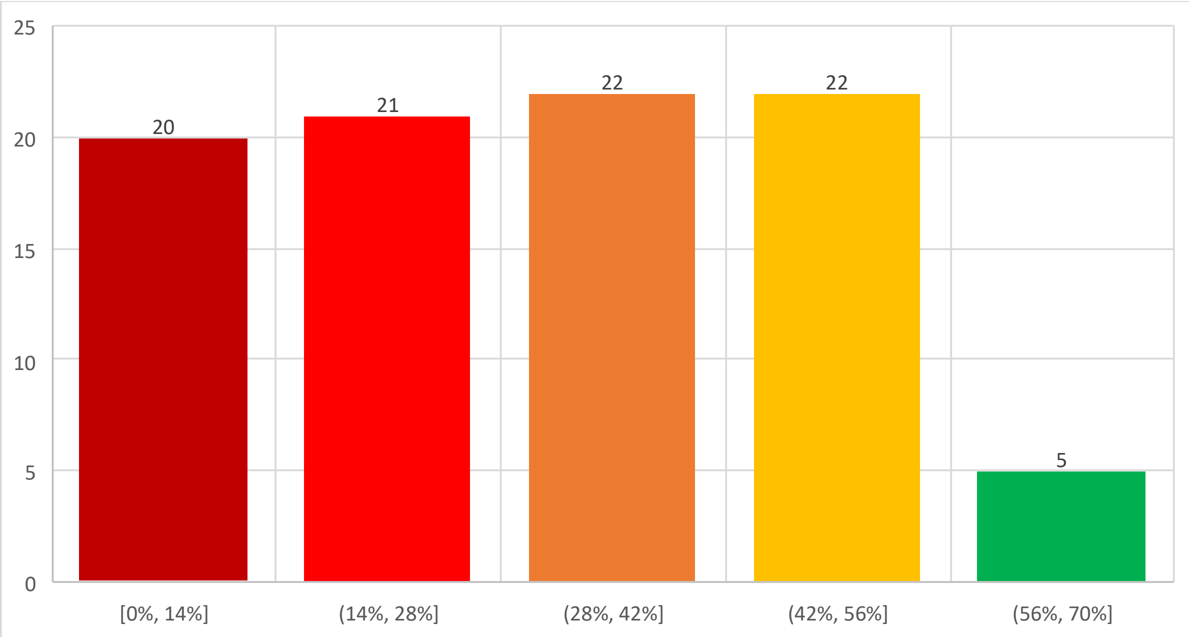
Switzerland	55%	Madagascar	3%
Chinese Taipei	55%	Myanmar	3%
Portugal	52%	Pakistan	3%
Australia	52%	Senegal	3%

Table 2: High-performers and Low-performers against 11 effectiveness criteria of FATF MER

Graph 2 shows the average performance in effectiveness for all countries across 11 indicators. In total, only 9 countries demonstrate effectiveness higher than 50%. The highest level of performance in effectiveness (70%) is shown by the United Kingdom, followed by Israel, United States, Spain, Italy, Switzerland, Australia, Chinese Taipei and Portugal.

41 countries (or almost half of all countries assessed with the fourth-round FATF assessment method) achieve average results below 30% in the IOs.

However, there are many outsiders with an average effectiveness rating below 15%. Cabo Verde, Haiti, Mauritania, Uganda, and Vanuatu show 0% performance in all 11 IOs, and 15 additional countries score less than 15%. 11 countries demonstrate performance lower than 20%: Barbados, Mauritius, Bahamas, Cambodia, Tunisia, Cayman Islands, Fiji, Ghana, Iceland, Jamaica, and Trinidad and Tobago. There only 5 countries with an average performance higher than 56%.



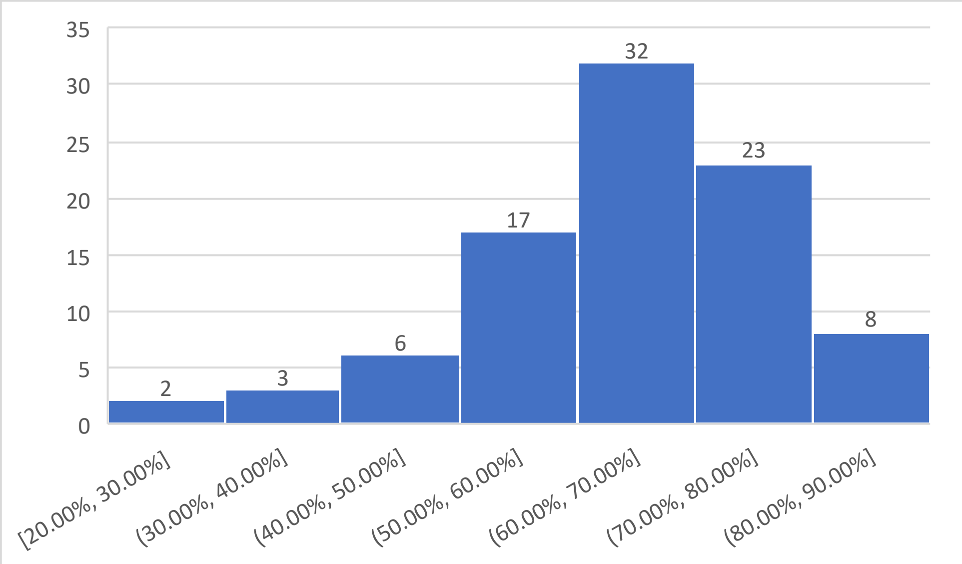
Graph 2: Performance in effectiveness across countries in %

2.3 Analysis of technical compliance

Countries' performance in technical compliance is much better in comparison to the effectiveness criteria.

Only 5 countries (Mauritania, Mauritius, Haiti, Solomon Islands and Madagascar) show a performance that is below 40%; this is mirrored by the same countries also demonstrating low performance in IOs. In general, 10 countries, or 9% of all assessed, demonstrate performance lower than 50%.

Eight countries stand out with a particularly high performance (above 80%) when it comes to technical compliance. These are Spain, the United Kingdom, Belgium, Macao, Trinidad and Tobago, Malaysia, Singapore and Vanuatu. Spain and the United Kingdom also demonstrate a comparatively strong performance in relation to the IOs. The situation of Vanuatu is rather an exception, as it has one of the highest performances in technical compliance and at the same time scores 0% in relation to the IOs.

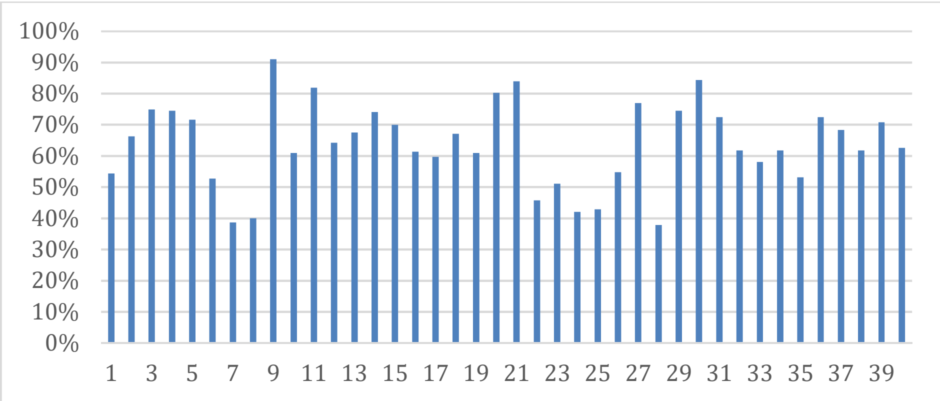


Graph 3: Performance in technical compliance across countries in %

Countries performed best in the following recommendations: R9 (92%) - Financial institution secrecy laws; R30 (86%) - Responsibilities of law enforcement and investigative authorities; R 21 (86%) - Tipping-off and confidentiality; R 11 (82%) - Record keeping; R20 (81%) – Reporting of suspicious transactions.

The performance below 50% has been demonstrated by countries in R7, R8, R22, R.24, R25, R.28. The low performance of non-financial sector in relation to ML/TF risks. For instance, recommendation R22, R28 and R8 reflects the issues related to regulation, supervision of Designated non-financial Businesses and Professions (DNFBPS), customer due diligence of DNFPS, as well as situation with ML/TF risks related to non-profit organization.

Additionally, low performance has been demonstrated by all countries in transparency of beneficial ownership of legal persons and legal arrangements. The poor performance in relation to the beneficial ownership IO (IO5, described above) is repeated with respect to the relevant technical recommendation, under which countries' performance on average is the poorest. The level of compliance in R 24 "Transparency and beneficial ownership of legal persons" is 44%, and in R 25 "Transparency and beneficial ownership of legal arrangements" it is 44%.



Graph 4: Countries overall performance against the 40 FATF recommendations

The table below depicts the highest- and lowest-performing countries when their performance is calculated against all 40 FATF Recommendations.

Highest performers against all 40 FATF Recommendations		Lowest performers against all 40 FATF Recommendations	
Spain	88%	Haiti	20%
Macao China	85%	Mauritania	29%
United Kingdom	84%	Solomon Islands	38%
Trinidad and Tobago	84%	Madagascar	38%

Malaysia	82%	Pakistan	39%
Belgium	82%	Morocco	42%
Vanuatu	81%	Senegal	43%
Singapore	81%	Uganda	47%
Italy	80%	Palau	48%
Armenia	80%	Myanmar	49%

Table 3: High performers and low performers against all 40 FATF recommendations

2.3.1 Jurisdictions with strategic deficiencies

Currently, the FATF lists the following jurisdictions with strategic deficiencies: the Bahamas, Botswana, Cambodia, Ghana, Iceland, Mongolia, Pakistan, Panama, Syria, Trinidad and Tobago, Yemen and Zimbabwe. Iceland and Mongolia were included in the list in October 2019. The reason for the inclusion of Iceland is not fully clear. According to the FATF follow-up report, issued in September 2019, the country made progress in more than 10 technical recommendations.

In October 2019, Iceland a made high-level commitment to improve the country's position in relating to ensuring access to accurate beneficial ownership information for legal persons by competent authorities in a timely manner; introducing an automated system for SAR filings and enhancing the Financial Intelligence Unit (FIU)'s capacity to perform strategic and operational analysis; ensuring implementation of the Targeted Financial Sanctions (TFS) requirements among Financial Institutions (FIs) and Designated Non-Financial Business or Professions (DNFBPs) through effective supervision, and enabling effective oversight and monitoring of NPOs with adequate resources and in line with the identified TF risks.

In October 2019, Mongolia committed to work on improving sectoral ML/TF risk understanding by DNFBP supervisors, increasing investigations and prosecutions of different types of ML activity in line with identified risks; demonstrating further seizure and confiscation of falsely/non-declared currency and applying effective, proportionate and dissuasive sanctions; demonstrating cooperation and coordination between authorities to prevent sanctions evasion; and monitoring compliance by FIs and DNFBPs with their proliferation of financing (PF)-related TFS obligations, including the application of proportionate and dissuasive sanctions.

Based on the latest decision in October 2019, FATF delisted Ethiopia, Sri Lanka and Tunisia from the "grey list" and currently these jurisdictions are no longer subject to monitoring.

North Korea and Iran remain on the FATF "black" list, being identified as jurisdictions subject to an FATF call on its members and other jurisdictions to apply counter-measures to protect the international financial system from the ongoing and substantial ML/TF risks.

2.3.2 Recent follow-up reports

Since the latest FATF updates issued in mid-November 2019, the following countries had undergone follow-up evaluations: Denmark, Ireland, Mongolia, Singapore and Sri Lanka. All countries managed to improve their scores. The strongest improvements were demonstrated by Mongolia (improved scores in 16 Recommendations), and Ireland (improved scores in 11 Recommendations). Sri Lanka increased its performance in 5 recommendations, Singapore in 4 recommendations and Denmark in 3 recommendations. For Sri Lanka, whose Mutual Evaluation Report was issued in 2015, this was already a third follow-up evaluation, while for Singapore it was the first follow-up report. However, comparison of countries through progress in follow-up reports is rather inaccurate due to the countries' different evaluation results in the MERs.

2.4 Limitations of the FATF data

Many countries included in the Basel AML Index Public Edition and demonstrating good performance have not been evaluated by the FATF in the last few years, including Estonia (last evaluated in 2014), Bulgaria (2013), Macedonia (2014), Croatia (2013), Montenegro (2015), Uruguay (2009), Dominica (2014), and New Zealand (2013). There are no scheduled onsite missions for Estonia and Bulgaria for the next three years. Consequently, these countries will not drastically change their position in the Basel AML Index before the new FATF data appears.

Even though FATF data is one of the most important sources for covering ML/TF risks, there are still a long list of countries assessed with the old methodology. In the absence of fourth-round evaluations, assessment of countries under third-round evaluations might be questioned for inconsistent or non-systematic coverage. These obstacles reduce comparability of FATF data across countries with different methodologies of assessments.

This means that most of the countries included in the Basel AML Index Expert Edition (around 120 out of 203) are assessed largely based on the third-round evaluations, which has inconsistences in methodologies across regional bodies and does not cover effectiveness.

The table below contains a list of countries that have not had new FATF evaluations since 2008:

Country	Last Evaluation	Possible onsite mission	Possible plenary mission
Algeria	Nov 2010	Jan 2022	Nov 2022
Anguilla	Jul 2010	Jan 2022	Nov 2022

Argentina	Oct 2010	Oct/Nov 2021	Jun 2022
Aruba	Oct 2009	Jan 2021	Nov 2021
Brazil	Jun 2010	Jun/Jul 2021	Feb 2022
Brunei	Aug 2010	Oct 2020	Jul 2021
Comoros	Aug 2010	Sep 2022	May 2023
Egypt	May 2009	Jan 2020	Nov 2020
El Salvatore	Sep 2010	Apr 2022	May 2023
Gambia	Dec 2008	Feb 2021	Nov 2021
Germany	Feb 2010	Oct/Nov 2010	Jun 2021
Greece	Jun 2007	Oct/Nov 2018	Jun 2019
Grenada	Jun 2009	Sep 2020	May 2011
Guinea Bissau	Sep 2009	Oct 2020	May 2021
India	Jun 2010	Feb/Mar 2021	Oct 2021
Japan	Oct 2008	Oct/Nov 2019	Jun 2020

Korea	Jun 2009	Jun/Jul 2019	Feb 2020
Lebanon	Nov 2009	Jan 2021	Nov 2021
Luxembourg	Feb 2010	Oct/Nov 2020	Jun 2021
New Zealand	Oct 2009	Feb/Mar 2020	Oct 2020
Russian Federation	Jun 2008	April 2019	Oct 2019
Qatar	Jun 2008	Jun/Jul 2010	Feb 2021
United Arab Emirates	Jun 2008	Jun/Jul 2019	Feb 2020
Venezuela	Sep 2009	Apr 2019	May 2020
Vietnam	Aug 2009	Oct 2019	Jul 2020
Virgin Islands	Dec 2008	Jan 2019	Nov 2019

Table 3. Countries with the latest FATF assessment dated to 2007-2010

Since countries' scores in the Basel AML Index are strongly influenced by FAFT data, it may be useful to examine only countries that have undergone fourth-round FATF evaluations. In this case, the scores of countries in the Basel AML Index Public Edition, based on the calculation of the 15 indicators, would be:

Country	Score
MYANMAR	7.97
ZIMBABWE	6.92
CAMBODIA	6.67
MONGOLIA	6.62
CHINA	6.61
NICARAGUA	6.54
SERBIA	6.38
TAJIKISTAN	6.34
THAILAND	6.29
JAMAICA	6.23
PANAMA	6.21
ALBANIA	6.05
UKRAINE	6.05

VANUATU	5.95
KYRGYZSTAN	5.92
COLOMBIA	5.87
BANGLADESH	5.80
HONDURAS	5.77
BAHRAIN	5.64
BOTSWANA	5.46
DOMINICAN REPUBLIC	5.44
PERU	5.37
MALAYSIA	5.35
GHANA	5.33
SAUDI ARABIA	5.31
TRINIDAD AND TOBAGO	5.24
COSTA RICA	5.23

MEXICO	5.18
INDONESIA	5.16
ARMENIA	5.15
UNITED STATES	5.04
ITALY	4.97
SWITZERLAND	4.96
LATVIA	4.95
CANADA	4.93
HUNGARY	4.91
GUATEMALA	4.80
ICELAND	4.70
AUSTRIA	4.65
SINGAPORE	4.64
IRELAND	4.58

SPAIN	4.44
BELGIUM	4.29
CZECH REPUBLIC	4.19
UNITED KINGDOM	4.17
PORTUGAL	4.16
DENMARK	3.99
AUSTRALIA	3.98
NORWAY	3.95
ISRAEL	3.78
SLOVENIA	3.72
LITHUANIA	3.64
SWEDEN	3.54
FINLAND	3.20

Table 4: Basel AML scoring for countries assessed with the fourth-round FATF methodology

An additional concern about FATF data relates to unclear reasons for listing/delisting countries as jurisdictions with strategic deficiencies. There is no clear correlation between the MERs, follow-up reports and the addition or removal of countries to the FATF "grey list".

3 Case studies

3.1 Estonia in the Basel AML Index

Estonia is a country with serious problems in relation to illicit financial flows and associated money laundering that have recently resulted in a number of ML cases. However, Estonia's overall score is extremely good: 2.68. Why is this?

Estonia scored 2.95 in the indicator for quality of the ML/TF framework. The low risk score is largely driven by its good performance in the latest FATF country report (3.61). However, it must be noted that the FATF's latest report on Estonia was issued in September 2014 and the assessment was not conducted according to the 4th round methodology. Consequently, the country's level of effectiveness according to the IOs has not been assessed. Based on the experience with other fourth-round assessments, we would expect a deterioration in Estonia's overall rating once it has been subjected to a review of its effectiveness.

Nonetheless, the 2014 report states that preventive measures are "rather in place", Estonia's supervisory framework is "broadly sound", and the authorities "have been effective in confiscating and seizing property in ML and drug related cases".[7] Surprisingly, the calendar of FATF planned events for the next three-year Moneyval (European FATF regional body) has not yet listed any future offsite missions to Estonia despite recent criticism of the countries effectiveness in preventing AML.

The FSI also ranked Estonia as a low risk country, listing it 93rd out of 112.[8] The few identified ML/TF issues related to legal entity transparency (public company ownership and corporate tax disclosure, as well as recorded company ownership).

Estonia is not listed in the US INCSR list of major money laundering jurisdictions.

Estonia also displayed good results in the Domain 2 (Corruption and Bribery) scoring 2.54. Indeed, in January 2019, the TI CPI named Estonia as the least corrupt country in emerging Europe.[9] The country also achieved a score of 2.77 for financial transparency, demonstrating a low risk in this area. There were no estimated risks in relation to public transparency, and additionally Domain 5 (Political and Legal Risks) scored a comparatively low 2.04.

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

[7] https://rm.coe.int/report-on-fourth-assessment-visit-executive-summary-anti-money-launder/168071600b

[8] https://www.financialsecrecyindex.com/en/introduction/fsi-2018-results

[9] https://emerging-europe.com/news/estonia-is-emerging-europes-least-corrupt-country/

3.2 Malta in the Basel AML Index

A new Mutual Evaluation Report for Malta was issued by the FATF after the collection of data for the 8th Public Edition of the Basel AML Index was finalised in August 2019.

The new data has therefore had a tremendous impact on the position of Malta in the Basel AML Index. The overall risk score of the country has jumped up from 3.94 to 5.38 out of 10, where 10 is the highest possible risk. Risks related to the quality of the money laundering and terrorist financing (ML/TF) framework in the country also jumped up from 4.48 to 6.70. The new FATF assessment is the main cause for such dramatic changes.

This does not necessarily indicate a sudden and dramatic deterioration in Malta's ML/TF risks. It is more likely that it points to longstanding gaps in relation to the effectiveness of the country's AML/CFT framework that have only just been highlighted by the FATF. A brief analysis of the new FATF report for Malta (see below) supports this conclusion.

The case of Malta illustrates the challenge in obtaining quality, up-to-date data to calculate country risk scores for ML/TF. While FATF reports are the most relevant and comprehensive data sets we have for this, they are issued too infrequently.

The FATF has taken positive steps by increasing the frequency of FATF updates and harmonising the methodology between different regional bodies. It is hoped that with a continuously increased frequency of evaluations by FATF and its regional bodies, we can soon achieve full coverage and as such avoid skewed data due to outdated reports.

The impact goes far beyond the Basel AML Index as the reports themselves, and the Basel AML Index, directly impact on the due diligence systems implemented by financial institutions and investors.

Besides FATF data, other important sources in calculating ML/TF risks scores are Financial Secrecy Index (FSI) and US State Department International Narcotics Control Strategy Report

(INCSR) data. The FSI evaluates Malta as a high-risk country in relation to financial secrecy. However, the US INCSR does not label it a major money laundering country.

The country has also a medium level of risks when it comes to corruption and bribery, based on Transparency International's Corruption Perceptions Index and TRACE Bribery Risk Matrix Matrix.

It has low level of risks in public and financial transparency and accountability, as well as political and legal risks.

3.2.1 Analysis of Malta's latest Mutual Evaluation Report

Technical compliance

This measures the technical compliance of AML/CFT systems according to the FATF's 40 Recommendations (R). Malta's overall performance in technical compliance is 68%.

The country is partially compliant with R8, R13, R15, R20, R26, R28, R36 and R38. This reflects moderate shortcomings in relation to preventive measures (correspondent banking, new technologies, reporting suspicious transactions) as well as to regulation and supervision of financial institutions and international cooperation (mutual legal assistance and international instruments).

Effectiveness

This measures the effectiveness of AML/CFT systems according to 11 "immediate outcomes" (IOs). Overall, the effectiveness of Malta's AML/CFT systems was assessed at only 30%. It was not assessed as having a high level of effectiveness in any of the 11 IOs.

Malta has demonstrated a particularly low level of effectiveness in relation to IO3, IO7 and IO8. Such results reflect low effectiveness in understanding ML/TF risks and coordinating actions to combat money laundering, as well as issues related to the investigation and prosecution of ML offences and activities, and confiscation of proceeds of crime. The country needs substantial improvements to cover these issues.

It was assessed as having a substantial level of effectiveness in relation to IO2 and IO11. Such results reflect that international cooperation delivers appropriate financial intelligence and that persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds.

4 Latest FATF reports: Malawi and Pakistan

4.1 Malawi

Malawi's overall risk score in the Basel AML Index has risen from 5.93 to 6.15 out of 10, where 10 equals the highest assessed risk of ML/TF.

The reason for this increase is a new Mutual Evaluation Report for Malawi, published in September 2019 by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a regional body of the Financial Action Task Force (FATF).

FATF Mutual Evaluation Report

FATF MERs are a primary data source for assessing the quality of a country's legal and institutional framework for AML/CFT and its application in practice. However, the evaluations are conducted infrequently and the methodology has evolved over time, making comparability among countries with old and new FATF evaluations more difficult.

In Malawi's case, the previous MER was issued in 2008 and based on the 2004 assessment methodology, which measured only the technical compliance of Malawi's AML/CFT framework with the FATF 40 Recommendations. The 2019 report is based on the fourth-round methodology, which assesses not just the technical compliance of the framework but its effectiveness in real life.

This new focus on effectiveness is a major reason for the country's FATF sub-score in the Basel AML Index jumping from 5.90 to 6.22 out of 10. Since FATF scores have a 35% weighting in the Index, this led to the slight increase in Malawi's overall risk score.

Is there progress?

Malawi has shown the most progress in improving its legal AML/CFT framework. According to the FATF, since its last evaluation in 2008, Malawi developed its institutional framework with the aim of creating a more robust and effective AML/CFT system. Fundamental institutional changes to effectively implement AML/CFT/CPF legal frameworks include re-establishing the Fiscal and Fraud Unit within the Malawi Police Service, strengthening the powers of the Financial Intelligence Authority, and establishing a National Counter-Terrorism Panel and Asset Forfeiture Unit.

What do the numbers tell us?

Of the 40 Recommendations, the FATF report assessed that Malawi is fully compliant with 17 Recommendations, largely compliant with 12 Recommendations, partially compliant with 10 Recommendations and non-compliant with only one Recommendation. In total, Malawi demonstrates 71% performance in technical compliance criteria, which is above average across the world.

The effectiveness of Malawi's AML/CFT measures according to the FATF's 11 IOs is 21%, which is lower than the average (30%) but better than 29 other countries with effectiveness ranging from 0% to 20%.

How does Malawi fare in comparison with other countries?

An increase in ML/TF risk scores after the fourth-round MER is nothing surprising. While Malawi worsened its position by 5.15%, Pakistan's score dropped by 27% after its recent fourth-round assessment and Hong Kong's by 4.8%. The situation is similar for other countries undergoing a fourth-round evaluation like Belgium, which fell by 10.5%, Iceland by 21.5%, Denmark by 7.8%.

However, after these MERs, all of these countries have slightly improved their positions based on the FATF follow-up reports, which are used to evaluate countries' progress in addressing the weaknesses identified.

Where are the main achievements?

The country shows good results for the FATF Recommendations related to "Powers and responsibilities of competent authorities" (full compliance with 50% of related Recommendations), as well as in "International cooperation" (full compliance with 40% of related recommendations) and in "Preventive measures" (53% of related recommendations). According to the FATF assessment report:

"Malawi has a relatively a good understanding of the ML risks and its major ML risks are mostly identified and assessed. There is an AML cooperation and coordination among the competent authorities. The financial intelligence generated by the Financial Intelligence Authority (FIA) is to some extent used by the Law Enforcement Agencies (LEAs) both in ML and predicate offences investigations. The quality of FIA's financial intelligence and analysis reports is considered good and useful to effectively support the operational needs of LEAs."

Concerning international cooperation, the report says that:

"Malawi has in place a good legal and institutional framework to cooperate and exchange information with foreign counterparts in respect of mutual legal assistance (MLA) and other forms of international cooperation. However, the effectiveness of cooperation is hindered by lack of an effective case management system that enables effective monitoring of cases".

Thus, having reached good results in technical compliance, the country should improve its performance when it comes to the effective implementation of existing measures and legal frameworks.

Where are the main problems?

Corruption, tax crime, illegal externalisation of foreign currency, fraud and the smuggling of goods generate the bulk of money laundering threats in the country, followed by wildlife crimes, drug trafficking and human trafficking.

The FATF MER indicates that Malawi demonstrates the lowest performance in effectiveness criteria in IO5, IO9, IO10 and IO11. This reflects the issues that the country has been facing with non-transparent information on legal persons (beneficial ownership). It also signalised that the country is non-compliant when it comes to investigation and prosecution of terrorism financing offences as well as prevention of abuse of the NPO sector.

Additionally, according to the FATF report, Malawi has demonstrated a limited ability to recover assets in a range of ML/TF and predicate cases.

What needs to be done?

Despite the significant legal and institutional changes in the AML/CFT regime, Malawi still needs to pay more attention to improving the effectiveness of the existing measures. Additional steps are also needed concerning oversight of NPOs, cross-border wire transfers, and transparency of legal persons.

The progress of the country in these and other areas will be evaluated additionally through the mechanism of the follow-up report.

4.2 Pakistan

In October 2019, the FATF published a new MER on Pakistan. Based on the fourth-round evaluation methodology, the MER summarises and analyses Pakistan's level of compliance with the FATF 40 Recommendations and the level of effectiveness of Pakistan's AML/CFT system. The assessment is based on the results of an on-site visit from 8 to 19 October 2018.

Pakistan's last MER was conducted in 2009 by the World Bank with the participation of the regional FATF body, Asia/Pacific Group on Money Laundering. This previous report was produced under the 2004 FATF assessment methodology.

What do the numbers tell us?

Of the 40 Recommendations, Pakistan fully complied with only one, largely complied with nine, partially complied with 26, and missed four parameters.

Pakistan scored only 3% in relation to the 11 Immediate Outcomes, which measure the effectiveness of its AML/CFT system. This puts it on a par with other low-performing countries such as Madagascar, Myanmar, Senegal and Seychelles.

The country's performance in technical compliance is also low at 39%. Only Haiti, Mauritania and Madagascar (out of all the countries assessed with the FATF fourth or fifth round methodology) have lower results.

The new MER influences the country's score in the Basel AML Index. The old FATF score (based on the report from 2009) for the country was equal to 6.12 (0-min, 10-max). The new FATF score, based on the latest report, jumped to 8.50. As the FATF data has a 35% weighting in the Basel AML Index, the overall score for the country has also drastically changed from 6.45 to 7.66.

Where are the main problems?

The principal risks areas of the country are associated with TF. The risks are driven not only by internal weak regulations and supervision in the field of TF risks but also by geographical links to Afghanistan and Iran.

According to the FATF report, *"Corruption, drug trafficking, fraud, tax evasion, smuggling (including currency), human trafficking and organised crimes are major predicate offences to money laundering"*. Another issue is hawala and informal economy. According to the FATF assessment, *"Pakistan has made some efforts to close down hawala and hundi operators, but the challenge remains to address issues associated with the informal economy"*.

Additionally, Pakistan has not assessed the risks of ML and TF concerning all type of legal persons. There is little public information available on establishing cooperatives in Pakistan. Moreover, Pakistan has no information on the number of trusts. Pakistan authorities also do not provide an estimate of the number of *waqfs*, which are a form of Islamic charitable trust, that operate in Pakistan.

To address the issues, Pakistan does not use all available instruments. According to the FATF report, Pakistan is using financial intelligence to combat ML and TF only to a minimal extent. Moreover, Pakistan's law enforcement efforts to address ML and TF issues are not consistent with its risks.

In FATF grey list

Currently, Pakistan is on the FATF list of "jurisdictions with strategic deficiencies", also known as the "grey list". FATF included Pakistan on its "grey list" in June 2018. The country was listed by FATF also in 2008 and from 2012 to 2015.

During the last October plenary mission in Paris, the FATF expressed severe concerns with the overall lack of progress by Pakistan to address its TF risks. The FATF strongly urges Pakistan to complete its full action plan by February 2020.

What are the possible consequences?

According to the latest FATF assessment, Pakistan's financial system continues to pose a risk to the international financial system because of "strategic deficiencies" in its ability to prevent terrorist financing and money laundering.

Being on the FATF grey list may have a negative influence on the country's ability to access international lending instruments and decrease the attractiveness of the country for foreign investments. Lending instruments may be more expensive than for countries not listed by the FATF. Additionally, international financial institutions may apply enhanced due diligence for doing business with Pakistan and enhanced checking of transactions.