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EQUITABLE GROWTH, FINANCE & INSTITUTIONS INSIGHT

Impact of the FATF Recommendations and their implementation on financial inclusion

Insights from mutual evaluations
and national risk assessments

Kuntay Celik



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Acronyms

AFI	Alliance for Financial Inclusion
AML/CFT	anti-money laundering/combating the financing of terrorism
AMLDD	Anti-Money Laundering Directive
APG	Asia/Pacific Group on Money Laundering
CDD	customer due diligence
CFATF	Caribbean Financial Action Task Force
CGAP	Consultative Group to Assist the Poor
CGD	Center for Global Development
DNFBPs	designated nonfinancial businesses and professions
EAG	Eurasian Group
EC	European Council
EEA	European Economic Area
e-KYC	electronic know your customer
EMDEs	emerging market and developing economies
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
EU	European Union
FATF	Financial Action Task Force
FI	financial inclusion
FIRAT	financial inclusion product risk assessment tool (previous name)
FIRM	financial inclusion product risk assessment tool (current name)
FIU	financial intelligence unit
FSRBs	FATF-style regional bodies
G-20	Group of Twenty
GAFILAT	Financial Action Task Force of Latin America
GDP	gross domestic product
GIABA	Inter-Governmental Action Group against Money Laundering in West Africa
Global Findex	Global Financial Inclusion Database (by WBG)
GPII	G-20 Global Partnership for Financial Inclusion
IMF	International Monetary Fund
IO	immediate outcome
KYC	know your customer
LE	low level of effectiveness

LICs	low-income countries
ME	moderate level of effectiveness
MENAFATF	Middle East and North Africa Financial Action Task Force
MER	mutual evaluation report
MFIs	microfinance institutions
ML/TF	money laundering/terrorist financing
MONEYVAL	Committee of Experts on the Evaluation of AML/CFT
NGO	nongovernmental organization
NRA	national risk assessment
RBA	risk-based approach
SACCO	saving and credit cooperative society
SAR	special administrative region
SDD	simplified customer due diligence
SSB	standard-setting body
WBG	World Bank Group



Executive Summary

Financial system safeguards against money laundering and terrorist financing are crucial for the integrity of the global financial system, but these safeguards need to be crafted in such a way that they do not negatively affect financial inclusion and disincentivize the use of the formal financial system by ordinary individuals and businesses.

This study examines the possible unintended consequences of the implementation of international standards on anti-money laundering/combating the financing of terrorism (AML/CFT) on financial inclusion objectives and proposes ways to address any such consequences. This examination focuses mainly on external AML/CFT compliance evaluations, so-called **mutual evaluations**, led by international organizations and the money laundering/terrorist financing (ML/TF) risk assessments undertaken by the countries themselves. The analysis is supplemented by interviews with officials and private sector representatives from three countries and by field experience and observations from experts.

The Financial Action Task Force (FATF), the international standard setter for AML/CFT, has been devoting increasing attention to financial inclusion over the past decade, but this is not yet fully reflected in country mutual evaluations. The FATF's increasing attention is evident in its guidance papers on financial inclusion and digital identification (ID), and in the recognition of the importance of financial inclusion in its 2019 mandate. However, coverage of financial inclusion in mutual evaluations is still uneven and mostly superficial and is not accompanied by concrete policy recommendations.

>> Recommendation:

The FATF could explicitly cover the potential adverse impacts of stringent AML/CFT rules on financial inclusion in its assessor training and, more importantly, in its assessment methodology for mutual evaluations.

The FATF Recommendations offer sufficient flexibility to support financial inclusion, but the very cautious tone about these flexibilities can be a disincentive for regulators. This finding is based on the views of experts from the World Bank, other international organizations, and nongovernmental organizations, and it can be further examined with a broader survey of experts, regulators, and the private sector.

>> Recommendation:

The FATF could reconsider its very cautious tone regarding customer due diligence (CDD) simplifications, and exemptions in its interpretive notes, guidance documents, and public statements. There could be more constructive and direct communication about these flexibilities, and more encouragement of their use in low-risk situations.

Paradoxically, the countries that most need the AML/CFT flexibilities use them least. The use of CDD simplifications and exemptions declines with the income level of a country. Most low-income countries have severe problems related to financial exclusion and informal financial market, and therefore have the highest need to employ appropriate exemptions and simplification to tackle these problems. However, they are reluctant to use these policy options.

Policy makers in many developing countries are reluctant to use CDD simplifications and exemptions mainly for: (a) fear of negative ratings in mutual evaluations, and (b) challenges related to regulatory and supervisory capacity. Financial regulatory and supervisory agencies in these countries are concerned that any simplifications or exemptions might not be condoned by FATF assessors. Our analysis shows that simplifications or exemptions are indeed criticized in mutual evaluations, though frequently only for not being based on reliable risk assessments. However, this deficiency usually is not seen as substantial and does not lead to a downgrading of relevant ratings. The study did not find any evidence of assessors criticizing a simplification that is based on a robust risk assessment. These concerns of regulators and supervisors are therefore not justified based on the reports studied in this project.

Raising awareness and building regulatory and supervisory capacity for a risk-based approach must be a priority for technical assistance providers. Regulatory and supervisory agencies in developing countries face capacity constraints in implementing a risk-based approach to AML/CFT. The agencies of such countries lack the training, experience, and self-confidence to apply a risk-based approach, and they tend to be too stringent about AML/CFT requirements. Lack of

proper legal protection for supervisors may also be a reason for a risk-averse stance. These problems are further aggravated by the weak cooperation between financial supervisors and financial inclusion policy makers. Developing countries are lagging behind developed countries in implementing a risk-based approach to AML/CFT.

>> Recommendation:

Lower-income countries require more support for awareness raising and capacity building for regulators and supervisors to help them implement a risk-based approach to AML/CFT. The World Bank, the International Monetary Fund, and the Alliance for Financial Inclusion already have technical assistance programs on these topics, which could be prioritized and better resourced, if and as needed. The FATF Training and Research Institute and other stakeholders may also prioritize such capacity building.

Countries' self-assessment and awareness can guide a better understanding of the interrelation between financial exclusion and ML/TF risks. The relationships among ML/TF risks, AML/CFT measures, financial exclusion, and informal economies have not always been fully analyzed and understood by the countries themselves. Most countries need to identify and monitor these relationships better and collect data to monitor changes, which eventually can facilitate appropriate policy responses. Mutual evaluation assessors should consider the country's understanding and management of these relationships.

>> Recommendation:

Countries are encouraged to deepen their understanding of the relationships among ML/TF risks, AML/CFT measures, financial exclusion, and informal economies, by conducting a specific risk assessment focused on financial exclusion problems, and financial inclusion products and services.



Introduction

1.1. FATF Recommendations and Financial Inclusion

The risk-based approach (RBA) has emerged as a significant strategy in tackling regulatory challenges, which are becoming more complicated in a rapidly growing and evolving financial landscape and global economy. For governments and businesses, the RBA promises more dynamic and effective responses and solutions, not only to financial and economic risks but also to other internal or external risks, including those posed by crimes and criminals. Since 2012, the Financial Action Task Force (FATF) has also incorporated mandatory RBA in the International Standards on Combatting Money Laundering (ML) and Financing of Terrorism (TF) and Proliferation (PF)—namely, the FATF 40 Recommendations¹—as the foundation of a more effective global fight against these crimes.

Informal or so-called shadow economies and financial markets create an ideal environment for criminal and terrorist organizations, where they can generate, conceal, launder, and mobilize their funds and where they can easily undermine the efforts of any country on anti-money laundering and combating the financing of terrorism (AML/CFT). Expanding financial inclusion is essential for preventing and reducing the informal economy and reducing the use of cash, thereby reducing vulnerabilities to money laundering and terrorist financing (ML/TF) and eventually enhancing the effectiveness of AML/CFT measures. In response to this need, the FATF, in its 2019 mandate, formally articulated its commitment to promoting financial inclusion and encouraging countries' proportionate and effective implementation of the FATF standards in line with the RBA.² When appropriately implemented, the RBA that is required by FATF Recommendation 1 and woven into other FATF recommendations can be key to building an effective AML/CFT regime that prevents financial exclusion and informality while mitigating ML/TF risks in the formal financial sector.

However, it is not easy to strike this delicate balance. Mutual evaluations undertaken by FATF and FATF-style regional bodies (FSRBs), along with independent research and studies (such as GIABA 2014 and 2018), show that many countries have yet to implement a successful RBA.

¹ International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, February 2012, Financial Action Task Force.

² See <https://www.fatf-gafi.org/media/fatf/content/images/FATF-Ministerial-Declaration-Mandate.pdf>.

While progress in global financial inclusion targets is slower than expected,³ available research, plus field experiences of World Bank experts, shows that the FATF Recommendations or their implementation have visible unintended consequences for financial inclusion objectives. Concerns about these unintended consequences have been further aggravated by the significant incidence of financial institutions refusing to provide formal financial services in recent years, a practice commonly known as de-risking.⁴

1.2. Objective of the Report

The objective of this report is to examine FATF and FSRB mutual evaluation reports (MERs), and national ML/TF risk assessments done by the countries themselves, to understand possible unintended consequences of the FATF Recommendations or their implementation, on financial inclusion. The report also aims to provide policy recommendations based on the results of the analysis.

The topic is not novel; it has been studied in the past, in some cases with World Bank involvement. This study aims to deepen the analysis and understanding of the possible issues by using new information and data not available or fully covered in earlier studies. The project was sponsored by the Bill & Melinda Gates Foundation, and the concept for this research project was developed jointly by the World Bank and the Bill & Melinda Gates Foundation.

1.3. Scope and Methodology

Our research focused mainly on gathering and collating information related to financial inclusion contained in FATF and FSRB mutual evaluation reports (MERs). The study covered 107 MERs that are based on FATF's 2013

assessment methodology (FATF 2013) for the fourth round of mutual evaluations and were published between December 2014 and April 2021 (appendix A). Using a list of questions and indicators, data were extracted from these reports and accumulated in a database (appendix B). We reviewed and studied how MERs covered financial inclusion/exclusion and the informal economy landscapes of the assessed countries and reacted to *simplified customer due diligence* (SDD) applications by the countries or use of AML/CFT-related exemptions, which are possible in proven low-risk scenarios.

The database has also been expanded with some additional data on these 107 jurisdictions, such as the figures on income, financial exclusion, and shadow economy for each study jurisdiction. The analysis of MERs was supported with further information from

- National ML/TF risk assessments undertaken by countries (with or without World Bank support)
- Experiences and inputs of the subject matter experts, mainly those in international organizations
- Surveys, interviews, and meetings with representatives from public and private sectors of selected countries.

To facilitate consultation and to incorporate inputs from subject matter experts and other stakeholders, the WB organized a workshop on September 29, 2020, and coordinated bilaterally with the FATF Secretariat and other stakeholders. The feedback from these interactions was used to further expand, refine, and better focus the research. We also surveyed 39 experts from various stakeholders who had intensive involvement and practical experience on financial inclusion.

The research project focuses on what can be inferred from MERs, national risk assessments, and the experience of the experts who work in the field, by concentrating on the issues we deemed relevant to the aim of the project. The project is not about a comprehensive review of all the relevant laws and regulations of the study jurisdictions, which would be a resource-intensive exercise beyond the scope of this project.

3 The World Bank Group's target was achieving universal financial access by 2020. However, despite the progress made, that does not seem possible in the near future.

4 FATF defines *de-risking* as the "phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF's risk-based approach." De-risking is most prominent in provision of correspondent banking services by global banks. See <https://www.fatf-gafi.org/documents/documents/rba-and-de-risking.html>.

1.4. Literature Review

Attention to the alignment of financial integrity and financial inclusion policy objectives has been increasing since the early 2000s. In 2006, for example, the World Bank supported a study that produced evidence and recommendations on the impact of AML/CFT measures on access to financial inclusion, and in 2014 it led a fact-finding study outlining the extent of de-risking, conducted by the G-20, Financial Stability Board, and Committee on Payments and Market Infrastructures (World Bank 2015). The Bank also supported inclusion-sensitive national risk assessments (NRAs) by providing a complementary financial inclusion module and by making recommendations regarding a more inclusion-sensitive MER methodology for the fourth round (Chatain et al. 2011).

Since 2009, the FATF has acknowledged that financial inclusion and AML/CFT are complementary policy objectives (Vlaanderen 2009). The FATF initially clarified its views on inclusion in its June 2011 guidance paper “Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion,” produced jointly with the World Bank and the Asia-Pacific Group. This guidance was revised in 2013 and further expanded by the addition of examples of simplified due diligence measures in 2017 (FATF 2017). The FATF embedded elements of regulation to support inclusion in its revised standards in 2012 and in its mutual evaluation methodology in 2013. Promotion of financial inclusion also features in the 2019 continuing mandate of the FATF. The FATF acknowledges, for example, that “applying an overly cautious approach to AML/CFT safeguards can have the unintended consequence of excluding legitimate businesses and consumers from the formal financial system” (FATF 2017, 34).

The unintended consequences of the FATF Recommendations and other global standards on financial inclusion are therefore not a new topic.⁵ Various studies have already examined and discussed possible unintended consequences. A summary of a selection of more recent studies is provided in the following paragraphs. Our research aims to add value by analyzing data and information that were not available or not analyzed in previous studies, such as the data pulled from all the MERs done to date in the fourth-round methodology and the information in NRA reports.

The G-20 Global Partnership for Financial Inclusion’s (GPGI 2011) first white paper, “Global Standard-Setting Bodies

and Financial Inclusion for the Poor—Toward Proportionate Standards and Guidance,” identified some challenges specific to each standard-setting body (SSB) and also joint challenges for all SSBs, and it made recommendations to be considered by all SSBs to encourage financial inclusion efforts globally. The paper introduced the proportionality principle for regulation and supervision, particularly when SRBs are addressing three themes: (a) financial exclusion risks, (b) the risks resulting from increasing financial inclusion, and (c) country context. The report contains a range of recommendations, including that the FATF should incorporate principles relating to financial inclusion, where relevant, into its new or updated guidance and its mutual evaluation methodology (GPGI 2011, 45).

The GPGI’s second white paper, “Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape,” aims “to integrate financial inclusion objectives into standards and guidance that can be applied effectively at the country level” (GPGI 2016, 2). The paper welcomes FATF efforts in revising the financial inclusion guidance, introducing risk-based assessment in the revised recommendations, and integrating effectiveness of RBAs into the FATF methodology. It also emphasizes the importance of the MERs by highlighting the Ethiopian report as an example. The paper also draws attention to some challenges faced—notably, financial integrity risks stemming from financial exclusion. Importantly, the paper recommends that standard-setting bodies should work toward developing a common understanding of the risks of financial exclusion and should explore the development of a framework to assess the impact of financial sector regulation, supervision, enforcement, and institutional compliance practices on financial exclusion risks and their mitigation (GPGI 2016, 94).

Another study by the World Bank, “Making Remittances Work: Balancing Financial Inclusion and Integrity” (Todoroki et al. 2014), compiles insights from 15 bilateral remittance corridor analyses that were conducted earlier and a survey of remittance regulators. It highlights the potential role of the risk-based approach in balancing financial inclusion and integrity and in supporting a continuous flow of low-risk remittances.

The Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) published “Know Your Customer/Customer Due Diligence Measures and Financial Inclusion in West Africa, An Assessment Report” in 2018. The

⁵ Some of the earliest studies include de Koker (2006) and Isern and de Koker (2009).

report includes valuable insights about the implementation of RBA strategy in relation to financial inclusion and SDD measures, de-risking cases, and regulatory and supervisory agency responses to customer due diligence (CDD) measures regarding financial inclusion in West Africa. The report analyzes financial inclusion on the basis of technical compliance of related recommendations and effectiveness assessment of relevant immediate outcomes and presents recommendations as guidance to countries in the region.

The Center for Global Development's "Unintended Consequences of Anti-Money Laundering Policies for Poor Countries" (CGD 2015) tries to determine unintended consequences of de-risking and analyzes the effects of de-risking on money transfer entities, correspondent banking, and nonprofit organizations that are used by different underserved clients and businesses. The report recommends that countries "rigorously assess the unintended consequences, generate better data and share data, strengthen the risk-based approach, improve compliance and clarify indicators of lower risk, facilitate identification and lower the costs of compliance" (p. 41). It discusses some key problems and makes some recommendations. Another CGD report, "Does the Financial Action Task Force (FATF) Help or Hinder Financial Inclusion? A Study of FATF Mutual Evaluation Reports," reviews MERs of 33 developing countries (Pisa 2019). The report aims to find out how and to what extent the MERs take financial inclusion and exclusion into account during the evaluation process and how assessors evaluate countries' SDD measures and the effects of the flexibility FATF provides to countries. The report's three recommendations are "(i) Develop a structured framework

for measuring and understanding financial exclusion risk, (ii) Strengthen assessor training and expand staffing to take financial exclusion risks into account more consistently, (iii) Require assessors to encourage the use of SDD measures unless there is a good reason not to" (Pisa 2019, 27).

The Consultative Group to Assist the Poor's (CGAP's) focus note, "AML/CFT and Financial Inclusion: New Opportunities Emerge from Recent FATF Action," presents an overview of FATF actions to promote financial inclusion while maintaining financial integrity and financial stability (Lyman and Noor 2014). The note discusses the opportunities and challenges for the future of financial inclusion while crafting AML/CFT policies at the country level. A CGAP technical note, "Risk-Based Customer Due Diligence Regulatory Approaches" (Meagher 2019), classifies risk-based regulatory CDD approaches as a principle-based, single lower-risk-threshold, multitiered system and discusses the advantages and disadvantages of these approaches. Finally, a CGAP briefing paper on collaborative CDD that supports inclusion by lowering compliance costs provides a typology to evaluate different collaborative approaches (Lyman et al. 2019).

The Alliance for Financial Inclusion (AFI) Global Standards Proportionality Working Group has several recent publications relevant to the scope of this report. These include "Inclusive Financial Integrity: A Toolkit for Policymakers" (2020a); "Proportionality in Practice Case Studies, vol. 1" (2018b); "Gender Considerations in Balancing Financial Inclusion and AML/CFT" (2018a); and Risk-Based Approaches to AML/CFT: Balancing Financial Integrity and Inclusion" (2013).



The Analysis

2.1. Analysis of the Information in Mutual Evaluation Reports

The analysis covered 107 jurisdictions' mutual evaluation reports prepared by FATF and FSRBs that are based on FATF's 2013 assessment methodology and were published between December 2014 and April 2021. We focused on the information related to financial inclusion only in the MERs; follow-up reports were not included in the analysis. Although all MERs were included in the data analysis, the review of MERs in Spanish and French was more limited than the review of reports available in English.

Open data on these 107 jurisdictions were used to cross-support some of the analyses. The analysis about the level of financial inclusion is also limited to the same pool of jurisdictions. Therefore, if a figure says, for example, that 60 percent of the jurisdictions have some CDD simplifications, it is referring to the sample (107 study jurisdictions), not the broader universe of countries.

An analysis such as this was possible because FATF and FSRB mutual evaluations are based on a standard assessment methodology and process. The process, which includes quality and consistency reviews, generates public reports that are generally of good quality, even though they have some inherent limitations of being an external assessment conducted in a limited time frame. FATF also improves these processes through feedback and self-review mechanisms.

Analyses in this report are mostly descriptive and do not aim to test causality. For the analysis of the factors related to financial inclusion, the study uses the World Bank's Global Findex data on "account holding % by +15 age group." In Global Findex methodology, this ratio denotes "the percentage of respondents who report having an account (by themselves or together with someone else) at a bank or another type of financial institution or report personally using a mobile money service in the past 12 months."⁶ For each study jurisdiction, financial exclusion is defined as the transposition of this financial inclusion ratio (by subtracting it from 100 percent).

Many individuals do not use their accounts actively, although they own one or more. Therefore, when the lack of usage is considered, financial inclusion ratios in all countries decline, and financial exclusion ratios increase. This study adopted a conservative approach and used the account ownership data as the indicator of financial inclusion/exclusion levels and did not include usage data.

6 World Bank, "2017 Global Findex Glossary," 1.

In the analysis, implementation of SDD is divided into two main categories, referred to in this study as predefined SDD and discretionary SDD.

- **PREDEFINED SDD:** In this scenario, the lower-risk situations that justify simplifications in CDD, and the way of application of SDD (for example, tier-based CDD) are defined in the law and regulations of the country. This kind of SDD corresponds to criterion 1.8 in the 2012 FATF assessment methodology, under “Obligations and Decisions for Countries”.
- **DISCRETIONARY SDD:** The country gives discretion to the private sector to decide how to design and apply SDD in lower-risk situations. The regulatory authorities may or may not have predefined SDD in parallel. Discretionary SDD is related to criterion 1.12 of the methodology, under “Obligations and Decisions for Financial Institutions and DNFBPs [designated nonfinancial businesses and professions].”

A list of data collection points and research questions was used as a basis to guide the extraction of the data from MERs. The following sections summarize the findings about the research questions that yielded meaningful results.

2.1.1. Do the MERs cover the state of financial inclusion in the jurisdictions?

The FATF assessment methodology states that the informal sector or shadow economy should be considered as part of the evaluation process when evaluating the country context and planning the structural elements of the evaluation. Although financial inclusion or exclusion is not covered by the core issues to be assessed under Intermediate Outcome 1 or the others, the methodology advises the consideration of financial inclusion or exclusion, in the overview of country risk and context, and AML/CFT strategy. Also, in Intermediate Outcome 4, financial inclusion and informal sector are mentioned in the examples of information that can support the conclusions on core issues. But these references to financial inclusion or exclusion are more advisory in nature.

During mutual evaluations, assessors are expected to form an understanding of the ML/TF risk context of the country before carrying out the mutual evaluation to assess noncompliance and effectiveness issues. This understanding should be based on the country’s national risk assessment and the assessor’s own research and analysis, as needed. If a country has significant levels of financial exclusion and informal economy activity, these are expected to be covered in MERs because

of their ML/TF risk implications. Using the pool of 107 jurisdictions, we examined MERs to see if this was indeed the case.

In general, 44 percent of the MERs contain at least some information on the state of financial inclusion in the jurisdiction. We also analyzed whether financial exclusion was quoted or mentioned in the reports as an ML/TF risk factor. This was the case in 38 percent of the reports. Thus, 6 percent of the reports contain references to financial inclusion but do not cite it as an ML/TF risk.

Almost 37 percent of the reports mention that the jurisdiction has some financial inclusion products and services, 36 percent of the reports have references to the jurisdiction’s financial inclusion strategy or policy, and 17 percent of the reports contain recommendations related to financial inclusion. Although 41 MERs cited financial exclusion as a risk factor, only 18 reports made relevant recommendations.

The jurisdictions were almost never criticized in the MERs for having overly restrictive AML/CFT laws and regulations that might impede financial inclusion. The only exception to this is in Albania’s MER, in which the assessors stated: *“In devising further policies to promote financial inclusion, the assessment team encourages authorities to pay particular attention to ensuring that AML/CFT requirements do not have an overly restrictive effect on access to the formal financial system”* (MONEYVAL 2018). According to the MER, Albania does not apply predefined or discretionary SDD or any exemptions.⁷ However, assessors did not regard these as reasons to downgrade ratings when assessing the relevant recommendations. Although not as direct as Albania’s MER, a finding in Pakistan’s MER is another example: The section on Immediate Outcome⁸ (IO) 1 criticizes very limited implementation of risk-based approach in lower risk activities. (See notes in table 2.1.)

The above analysis includes all 107 MERs regardless of the state of financial exclusion in the jurisdictions. The following analyses consider the financial exclusion level.

2.1.2. Do assessors consistently see financial exclusion as an ML/TF risk?

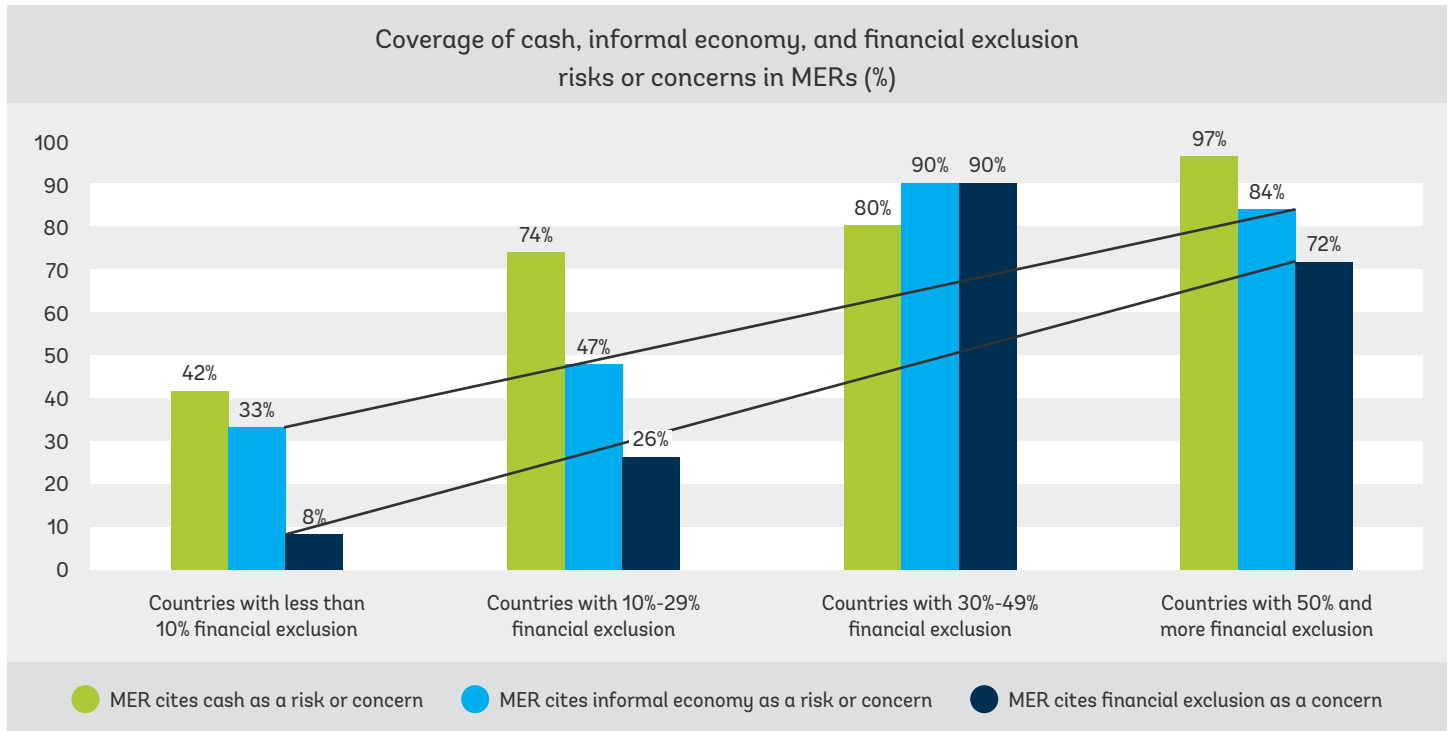
Our analysis found that the MER assessors are more likely to cite exclusion as a risk when the financial exclusion rate is more than 32 percent (or the financial inclusion rate is less than 68 percent).

⁷ With the amendments to its AML/CFT Act in 2019, Albania regulated SDD in its legislation, giving rise to both kinds of SDD.
⁸ Immediate Outcomes are the 11 categories for the assessment of the effectiveness in FATF’s 2013 assessment methodology.

In the first stage of the analysis, the jurisdictions were divided into four groups based on their financial exclusion levels, and the coverage of financial exclusion in MERs was analyzed for each group. Given the potential links among financial exclusion, the informal economy, and the use of cash, the attention the assessors gave to these three concepts was also analyzed and compared (see figure 2.1).

> > >

FIGURE 2.1 - MERs coverage of the use of cash, informal economy, and financial exclusion as risk or concerns



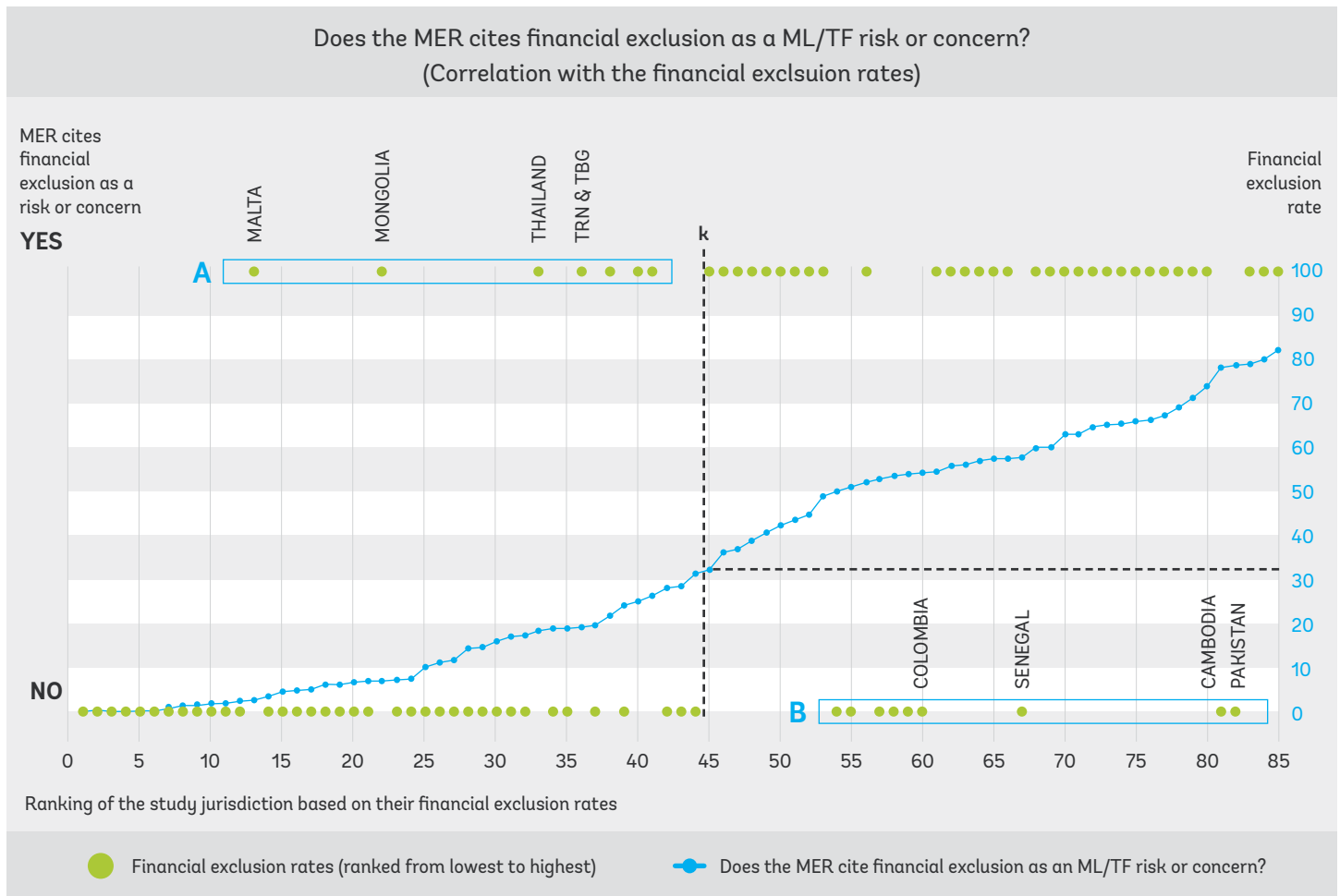
In general, the analysis shows that the coverage of the use of cash, informal economy, and financial exclusion as an ML/TF risk or concern increases with the financial exclusion levels of the countries. The higher the financial exclusion level, the higher the possibility of an MER citing the informal economy, the use of cash, or financial exclusion as an ML/TF risk or a concern. This, we submit, is a reasonable pattern. On a positive note, when the financial exclusion is at extreme levels, the majority of the MERs consistently cited the use of cash, the informal economy, and financial exclusion as ML/TF risks or concerns. However, more than half of the MER reports for countries with 10 to 29 percent financial exclusion rates—which in our view still indicates a significant financial exclusion problem—did not mention the informal economy or financial exclusion as risk factors.

The figure also shows another trend of interest: the difference in the references to the use of cash, the informal economy,

and financial exclusion. In most groups, the first two are more frequently mentioned as risks than financial exclusion is. For example, in 71 percent of the reports, the use of cash (at least in some sectors) was cited as an ML/TF risk or concern, whereas only 38 percent of reports cited financial exclusion as an ML/TF risk. Because there are other drivers of cash usage and informal economic activity besides financial exclusion, this finding appears reasonable. The discrepancy between the references to informal economy and financial exclusion, which is indicated with trend lines, is declining as the financial exclusion rate increases (right-hand side of the figure).

However, the differences among MERs' coverage of use of cash, informality, and financial exclusion can also be influenced by the level of attention to each of them by those doing the assessments. The following is a more elaborate analysis that questions the attention the assessors paid to the financial exclusion rates.

FIGURE 2.2 - Relationship between Financial Exclusion Rate and its Coverage in MERs



In figure 2.2, the MERs that cover and do not cover financial exclusion as an ML/TF risk or concern have been plotted against the financial exclusion rates of the jurisdictions in the sample. The horizontal axis shows the ranking of 85 jurisdictions in the sample, from the one with the lowest financial exclusion rate to the one with the highest⁹. The vertical axis on the left side shows whether financial exclusion is cited in the MER as a risk or concern; the second vertical axis on the right side is the financial exclusion rate.

There is a visible shift in the pattern of MER coverage of financial exclusion approximately at the 32 percent financial

exclusion level. Above this level, MERs mostly cover financial exclusion. The point at which this shift happens is indicated with the diagonal line k, which is located next to the country ranked 45th and corresponds to a 32 percent financial exclusion level. This level can be interpreted as the assessors' risk sensitivity to financial exclusion.

In figure 2.2, the countries in zones A and B are the outliers. The countries in zone B are the MERs in which the financial exclusion rate has not been mentioned as a risk despite its high level. Table 2.1 provides more details.

⁹ Findex 2017 did not include the financial inclusion rates of 22 of the 107 jurisdictions in our sample. These 22 are mostly small offshore jurisdictions. The country ranked 85th is Madagascar, with an 82 percent financial exclusion rate.



>>>

TABLE 2.1 - Outliers in Zone B in figure 2.2

Country	Financial exclusion rate (%)	Ranking among 85 jurisdictions
Pakistan*	79	82
Cambodia	78	81
Senegal	58	67
Colombia	54	60
Zambia	54	59
Panama	53	58
Tajikistan	53	57
Indonesia	51	55
Bangladesh	50	54

*. In the Pakistan MER, financial inclusion initiatives are referred to, and issues relating to cash and informal or unregulated services are highlighted in various places. The section on structural elements does not use the phrase financial exclusion, but it does mention that many Pakistanis do not use the formal economy and that Pakistan has a large informal, cash-based economy. One of the key findings in Immediate Outcome 1 is that "Except for one financial inclusion-related remittance product, the findings of the NRA have not led to implementation of enhanced or simplified AML/CFT measures or to any exemptions from AML/CFT requirements for lower risk activities." The last point, in particular, is quite important in the financial inclusion context. However, we still believe that financial exclusion is not covered as a risk or concern in the report, and we included Pakistan in this table, considering that the Pakistan MER itself can be an interesting input to a debate on the adequate coverage of financial exclusion in MERs.

In our view, assessors' sensitivity to financial exclusion should start at a financial exclusion level much lower than 32 percent. Furthermore, as shown in table 2.1, sometimes financial exclusion is overlooked even in the MERs of some countries with extreme financial exclusion rates. Also, the analysis focuses only on coverage of financial exclusion, and this coverage happens mostly in the "country risk context" sections of the MERs and does not have a tangible impact on the conclusions and recommendations of the mutual evaluations.

These issues can be attributed to the lack of assessment criteria that explicitly require the assessors to consider the impacts of informality of the economy and financial exclusion on ML/TF.¹⁰ Also, our review of assessor training materials shows that the assessor training does not include any specific reference to or emphasis on the risks associated with financial exclusion. Therefore, the coverage of the financial inclusion or exclusion aspect is left to the personal awareness and attention of the assessors.

10 The methodology instructions for assessors include references and cues, such as the reference to the level of financial exclusion as a contextual factor that might affect a country's effectiveness. Specific references in IO.3 relate to the materiality of different sectors, and in IO.4 assessors are asked to consider the following as a specific factor that could support their conclusions: "Does the manner in which AML/CFT measures are applied prevent the legitimate use of the formal financial system, and what measures are taken to promote financial inclusion?" However, none of the core issues specifically refer to informality or exclusion, and there is no specific reference in IO.1.

2.1.3. How extensively do jurisdictions use exemptions from AML/CFT requirements?

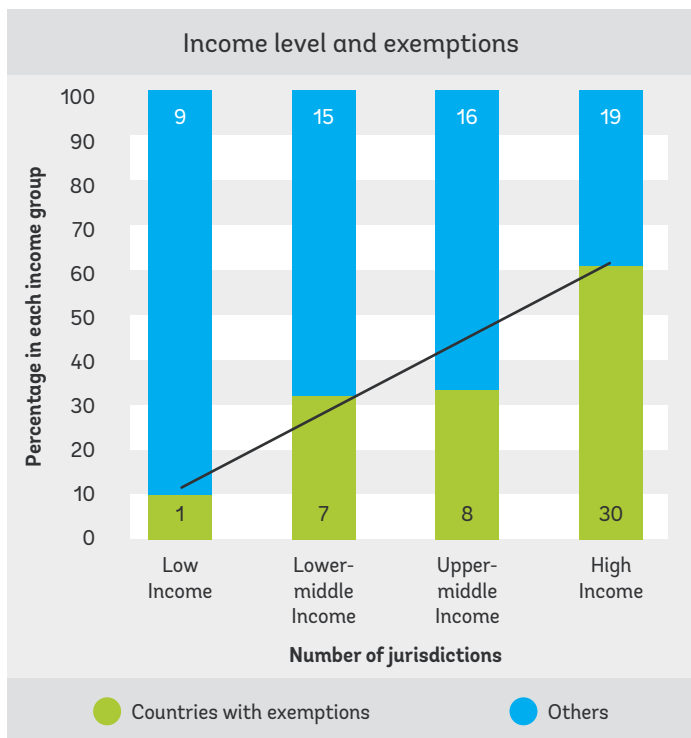
The FATF Recommendations allow limited exemptions from AML/CFT requirements when the country can prove that a sector, service, or product poses low ML/TF risks. In its analysis of the MERs, we also analyzed how extensively countries use such exemptions, both across all countries and within different sets of countries based on income levels.

For this analysis, GDP per capita has been used as a simple indicator of development level. The study used four income categories that are based on the World Bank Group’s GDP per capita income classification as of fiscal year 2021: (a) low income is less than US\$1,036, (b) lower-middle income is US\$1,036–US\$4,045, (c) upper-middle income is US\$4,046–US\$12,535, and (d) high income is greater than US\$12,535.¹¹

In general, most countries appear reluctant to apply exemptions: fewer than half of the jurisdictions examined (43 percent) apply some exemptions. Since exemptions are optional and conditional; they cannot be expected to exist in all countries. However, it is necessary to question whether the 57 percent of jurisdictions in the study that did not use any exemptions might nonetheless have low-risk situations that might warrant their use.

> > >

FIGURE 2.3 - Countries’ Use of Exemptions, by Income Level



The income breakdown of the use of these exemptions was also analyzed. Figure 2.3 shows a clear trend in the percentage of jurisdictions that apply exemptions increasing with their income level.¹²

The FATF Recommendations allow exemptions from AML/CFT requirements in proven low-risk situations. Allowing exemptions can be a powerful tool to promote financial inclusion and encourage the transition to a formal economy in low-income countries, while helping them with efficient use of very limited AML/CFT resources. One could expect to see more applications of exemptions in lower-income countries, as these countries suffer more from financial exclusion and informal economy-related problems. However, the trend is exactly the opposite: our analysis shows that higher-income countries are more likely to use exemptions than lower-income countries. More study may be necessary to explain this unexpected outcome. One explanation could be that higher-income countries have regulators who have greater capacity, awareness, and self-confidence, and who are backed by legal protections. Thus, they are more likely to apply a risk-based approach to AML/CFT regulation and supervision. The observations of subject matter experts working with the jurisdictions (discussed in later parts of this report) support this explanation. Another explanation could be that lower-income countries may fear being evaluated as noncompliant if the assessors do not agree with the exemptions.

GIABA’s 2018 report about West African countries’ use of know your customer (KYC) practices indicated that financial service providers do not take advantage of the flexibility of RBA, which results in suboptimal performance of CDD for financial inclusion goals. These institutions also generally use traditional identification and verification processes. According to the report, “Understanding and applying the RBA in a proportionate and calculated way have not been straightforward for many of the institutions” (GIABA 2018, 9).

The next analysis on SDD also reflects this paradoxical situation.

11 World Bank Country and Lending Groups database; <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.

12 In some reports, gaps in AML/CFT coverage are referred to as exemptions by the assessors. In such a case, not covering lawyers under an AML system may not be a risk-based decision but just a gap, which does not change the substance of the analysis.

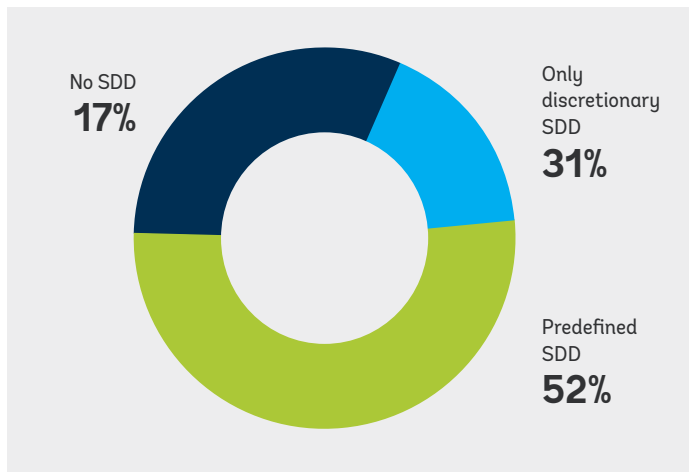


2.1.4. How extensively do jurisdictions use simplified customer due diligence (SDD)?

In general, the jurisdictions in this study are more likely to use the simplifications, rather than exemptions, that FATF permits. For example, 83 percent of all jurisdictions analyzed have some form of SDD, whether discretionary SDD or predefined SDD (figure 2.4). About half of the jurisdictions that have predefined SDD have both discretionary and predefined SDD (as a further breakdown of the 52 percent in the chart).

> > >

FIGURE 2.4 - The Use of SDD by Jurisdictions



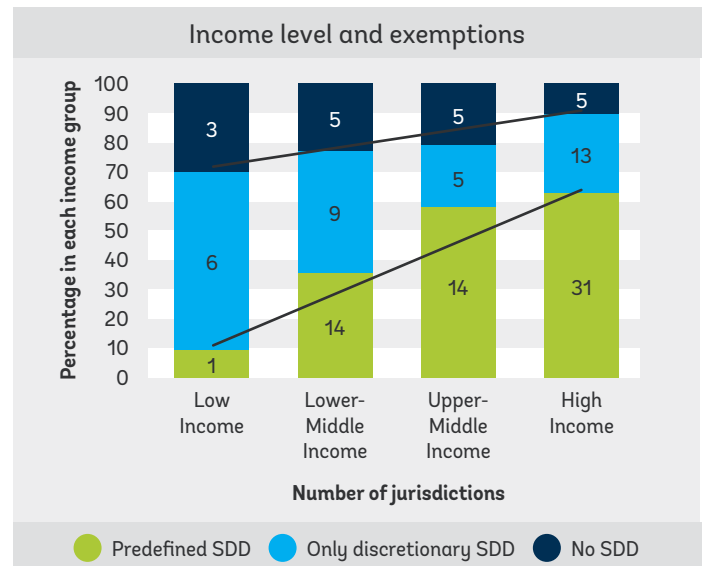
However, the percentage of jurisdictions that use predefined SDD is close to the rate of those that use exemptions. In fact, the jurisdictions in these two groups mostly overlap. Therefore, a country that applies predefined SDD is also more likely to apply exemptions.

With respect to income levels, higher-income countries have a greater tendency to apply predefined SDD than lower-income countries (figure 2.5). Lower-income countries seem to give discretion to their institutions to apply SDD instead of predefined lower-risk situations in which SDD can be applied. However, interviews with some study jurisdictions and the observations of the World Bank experts suggest that most of the time, this discretion is not exercised by the private sector in

those jurisdictions. Especially when there is no clear guidance by the supervisory agencies, having only a clause in the AML law does not reassure the private sector about applying CDD simplifications. This is an important issue that merits further research.

> > >

FIGURE 2.5 - Jurisdictions' Use of SDD, by Income Levels of Jurisdictions



The more frequent use of exemptions and simplifications by higher-income countries is not always motivated by financial inclusion reasons and does not necessarily mean that high-income countries promote financial inclusion more. For example, some financial centers, where financial inclusion is not an issue, introduced simplifications that are mostly motivated by business rationale. This is a good practice, provided that these simplifications are based on assessments of low risk. Such simplifications are still in line with the risk-based approach to AML/CFT because the prerequisite for SDD is not financial inclusion but lower risk. Financial inclusion is only one of the scenarios in which lower risks justify SDD.

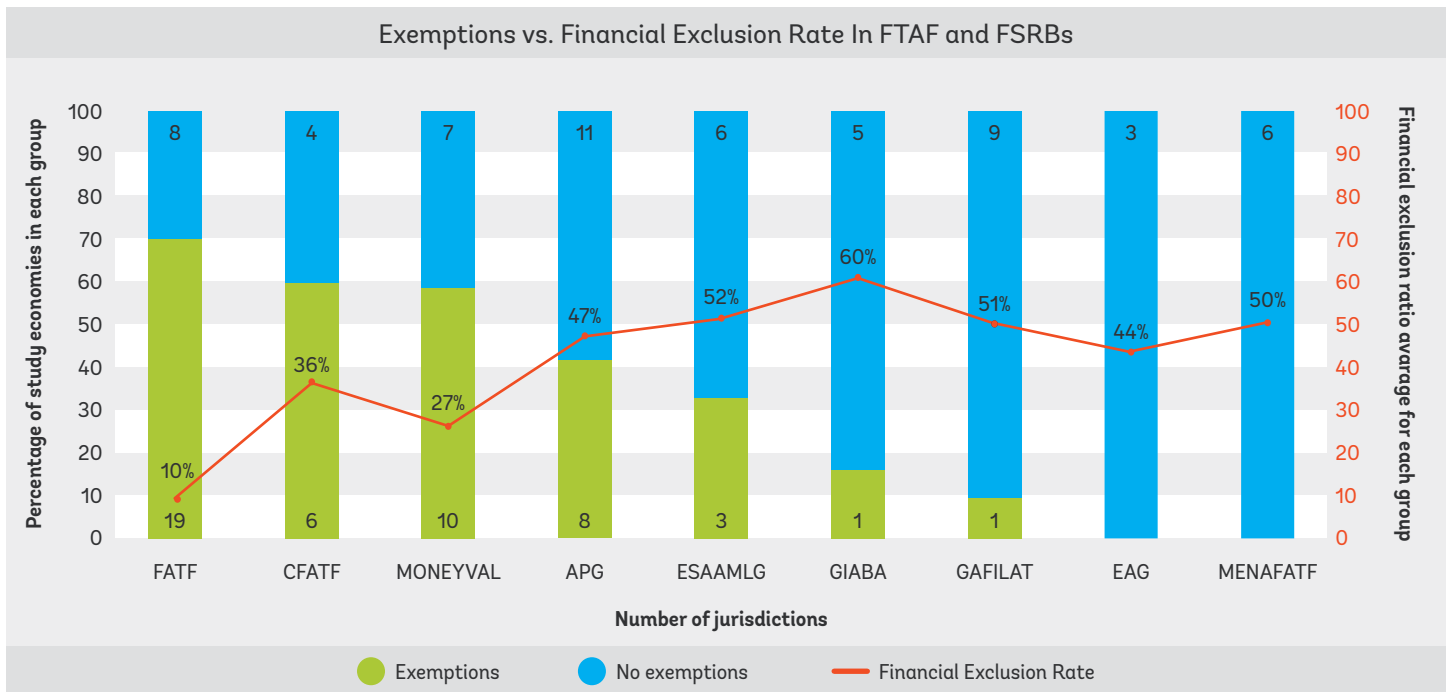


2.1.5. Does the tendency toward application of exemptions differ in FATF and FSRB jurisdictions?

The study reviewed whether the use of exemptions changed according to a country's FATF or FSRB membership.¹³ In this analysis, financial exclusion level is calculated as the average of all members in the FATF and in each FSRB. The jurisdictions that are members of both the FATF and any FSRB were counted only in the FATF group. As figure 2.6 demonstrates, the percentage of FATF member countries using exemptions is much higher than the percentage of FSRB member countries using these exemptions. In terms of percentages, the FSRBs whose members have the highest financial exclusion rates use the exemptions least, and vice versa.

> > >

FIGURE 2.6 - The use of exemptions in the countries based on FATF and FSRB membership



Note: APG = Asia/Pacific Group on Money Laundering; CFATF = Caribbean Financial Action Task Force; EAG = Eurasian Group; ESAAMLG = Eastern and Southern Africa Anti-Money Laundering Group; FATF = Financial Action Task Force; GAFILAT = Financial Action Task Force of Latin America; GIABA = Inter-Governmental Action Group against Money Laundering in West Africa; MENAFATF = Middle East and North Africa Financial Action Task Force; MONEYVAL = The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.

13 The Task Force on Money Laundering in Central Africa (Groupe d'Action contre le blanchiment d'Argent en Afrique Centrale), GABAC, is the youngest FSRB and had not published any reports at the time of this research.

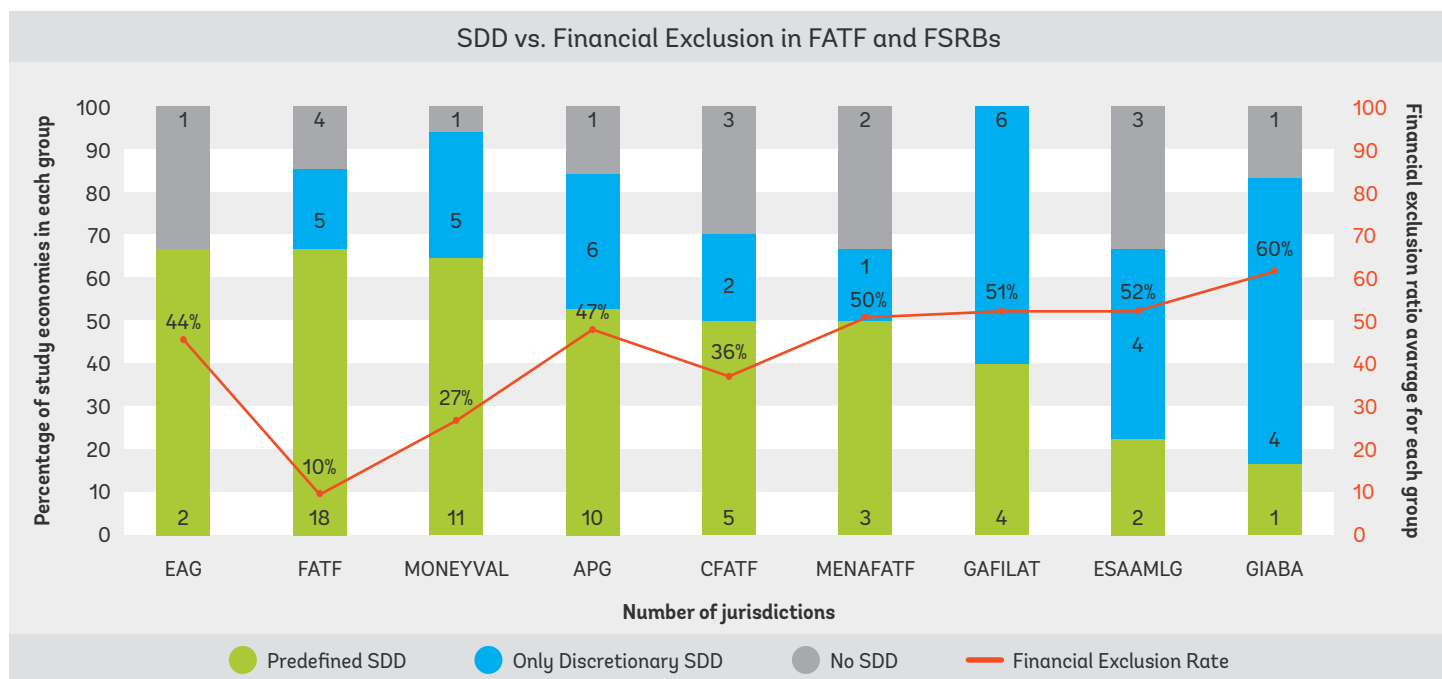


2.1.6. Does the tendency toward application of SDD differ in FATF and FSRB jurisdictions?

Here, the same analysis is repeated but in terms of membership of FATF or FSRBs and use of predefined or discretionary SDD. Figure 2.7 shows the comparison with the financial exclusion rate average for the FATF and each FSRB.

> > >

FIGURE 2.7 - The use of exemptions in the countries based on FATF and FSRB membership



Note: APG = Asia/Pacific Group on Money Laundering; CFATF = Caribbean Financial Action Task Force; EAG = Eurasian Group; FATF = Financial Action Task Force; GAFILAT = Financial Action Task Force of Latin America; GIABA = Inter-Governmental Action Group against Money Laundering in West Africa; MENAFATF = Middle East and North Africa Financial Action Task Force; MONEYVAL = The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.

For predefined SDD, the figure changes a little, but the general trend is very similar to the use of exemptions: FATF countries and the countries in FSRBs with lower financial exclusion levels are more likely to apply SDD measures even though these measures were intended to help countries with higher exclusion levels. Discretionary SDD seems more common in African FSRBs and the Middle East and North Africa Financial Action Task Force. But as explained in other parts of the report, discretionary SDD indeed is not being practiced by the financial sector in most developing countries because of the lack of guidance from regulators.

A GIABA report about AML measures in the context of financial inclusion in GIABA member states indicates more rigid implementation of AML/CFT controls by large financial institutions. According to the report, “although national regulations may allow discretionary use of alternative documents to verify customers, institutions tend to limit discretion and the types of documents accepted” (GIABA 2014, 19).

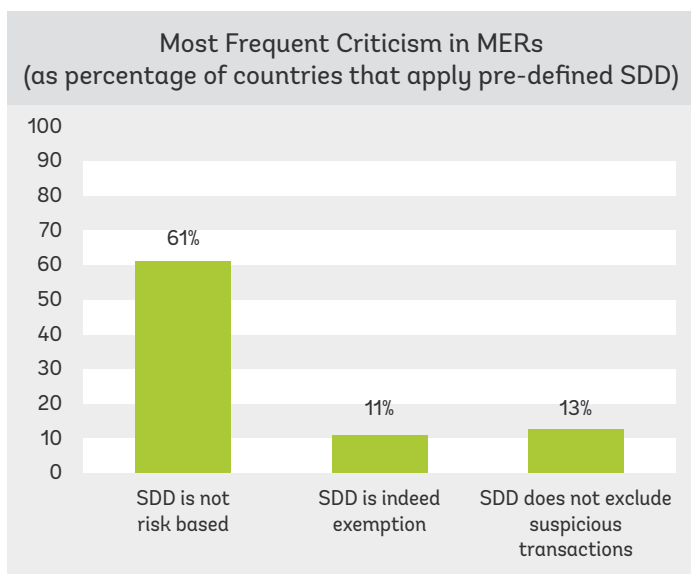
2.1.7. In MERs, what are the most common criticisms about exemptions and simplifications?

As shown in figure 2.8, in most of the MERs assessors tended to criticize the application of SDD for lacking appropriate risk assessments that justify the use of SDD. Another frequent criticism was about the lack of suspicious transaction reporting requirements in the case of SDD. According to the FATF Recommendations, SDD should always be based on lower-risk assessments, but simplified measures should not be permitted whenever there is a suspicion of ML/TF (FATF 2012). However, the regulations of 13 percent of the countries that apply SDD did not include the latter provision. Several MERs criticized the country for labeling some regulations as simplifications, although they were essentially exemptions.¹⁴

Figure 2.9 shows assessors' reactions to discretionary SDD (either in assessment of technical compliance or effectiveness).

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FIGURE 2.8 - Criticisms of predefined SDD, by share of countries using predefined SDD

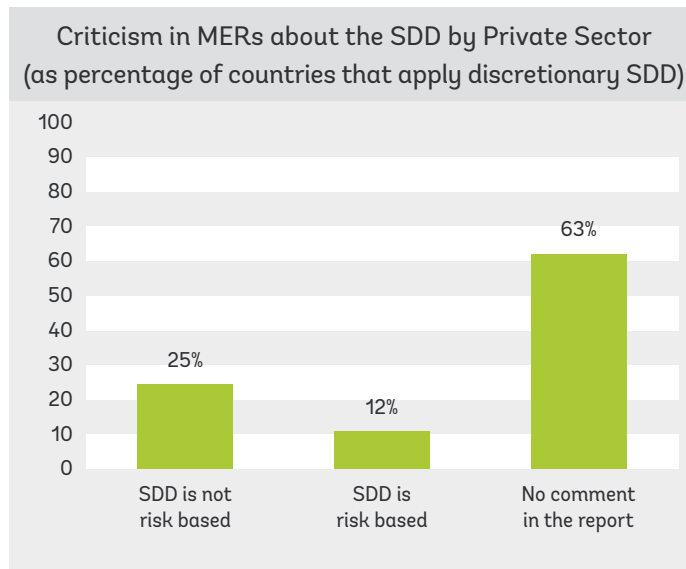


A general finding is that MERs include fewer comments or criticisms of policies that permit discretionary SDD compared with those that mandate the use of predefined SDD. Interestingly, a high proportion of the reports do not include specific information about how the simplifications were ultimately applied by the private sector and whether the private sector's use of simplifications were well justified. This may mean that the private sector does not use options

available for SDD, or the assessors do not pay attention to the application of SDD by the private sector.

> > >

FIGURE 2.9 - Assessment of Discretionary SDD in MERs



In addition to the major issues that were subject to criticism and discussed previously, the following are other examples of countries' MER criticisms of SDD and exemptions:

- Exemptions and simplified measures are not based solely on low and lower risk but include other variables such as regulatory burden and the desirability of promoting the risk-based approach: Australia, Canada, Denmark, and United States MERs.
- Simplified measures are not precisely defined: Andorra MER.
- SDD does not cover all financial institutions and designated nonfinancial businesses and professions (DNFBPs) in a consistent way: Sri Lanka MER.
- The country has not adopted an RBA, so there has been no implementation by financial institutions or DNFBPs based on proven lower risks for financial inclusion or otherwise: Bhutan MER.
- Exemptions may diminish the application of CDD: Australia MER.

A broader compilation of relevant citations from MER reports is provided in appendix C.

¹⁴ For example, European Union countries like Belgium, Greece, Hungary, Italy, Norway, Spain, and Sweden were criticized because they had some categorical exemptions that are not based on proven low risk. These cases usually stemmed from the simplified due diligence definition in section 2, article 11-12 of the European Union's (EU) Third Anti-Money Laundering (AML) Directive. However, this issue was addressed by the EU's Fourth AML Directive, which required the member countries to have a risk assessment as a basis for any CDD simplifications.

Financial regulatory and supervisory agencies in many developing countries are concerned that any simplifications or exemptions may not be condoned by the FATF or FSRB assessors. Our analysis shows that simplifications or exemptions are indeed frequently criticized in MERs. The main criticism is about the lack of reliable risk assessments as the basis of simplifications—which is a valid basis for criticism. However, these deficiencies usually do not have substantial impact on the assessment results (no evidence of an increase in ML/TF risks) and do not lead to a downgrading of the country. The countries are downgraded mostly for more fundamental deficiencies in CDD, such as those related to beneficial ownership, lack of understanding of client risks, or weak CDD by designated nonfinancial business and professions. We did not find any evidence of a simplification that is based on a robust risk assessment being criticized by the MER assessors. The fears of the regulators regarding mutual evaluations are therefore not validated by the MERs examined in this study.

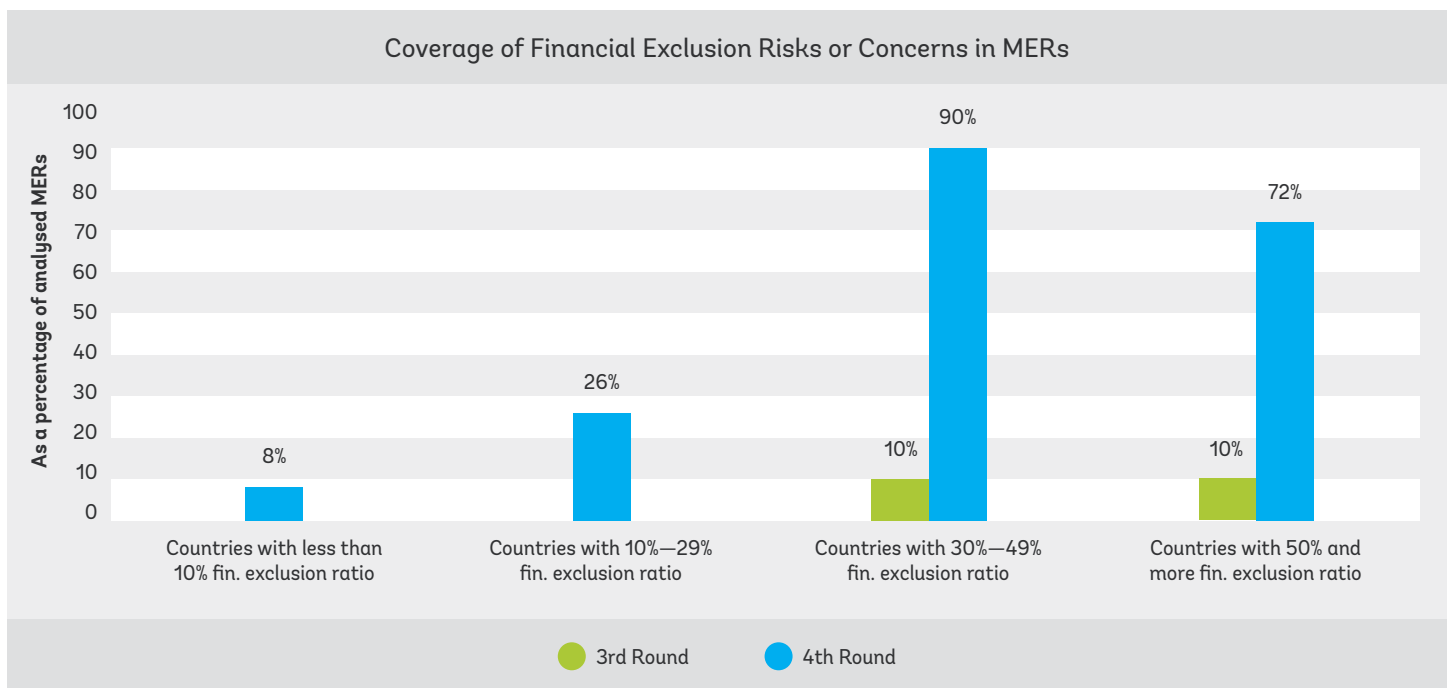
2.1.8. What trends are seen in the coverage of financial inclusion in MERs?

The FATF’s attention to financial inclusion has increased over the past decade and has been integrated into the FATF mandate since 2019. As explained in the earlier parts of this report, FATF assessment methodology (2013) also advises the assessors to consider financial inclusion/exclusion in the evaluation of the country risk and context.

To examine the trends, we first classified the jurisdictions on the basis of their financial exclusion rates and compared the rates and the mentions of financial exclusion by MERs within these groups. When we compare the third- and fourth-round evaluations (previous and current MERs for the 107 study jurisdictions), the impact of the FATFs’ increasing attention to financial inclusion and the transition to a risk-based approach is clear. As seen in figure 2.10, there is significant progress in coverage of both the informal economy and financial exclusion in MERs as an ML/TF risk or concern.

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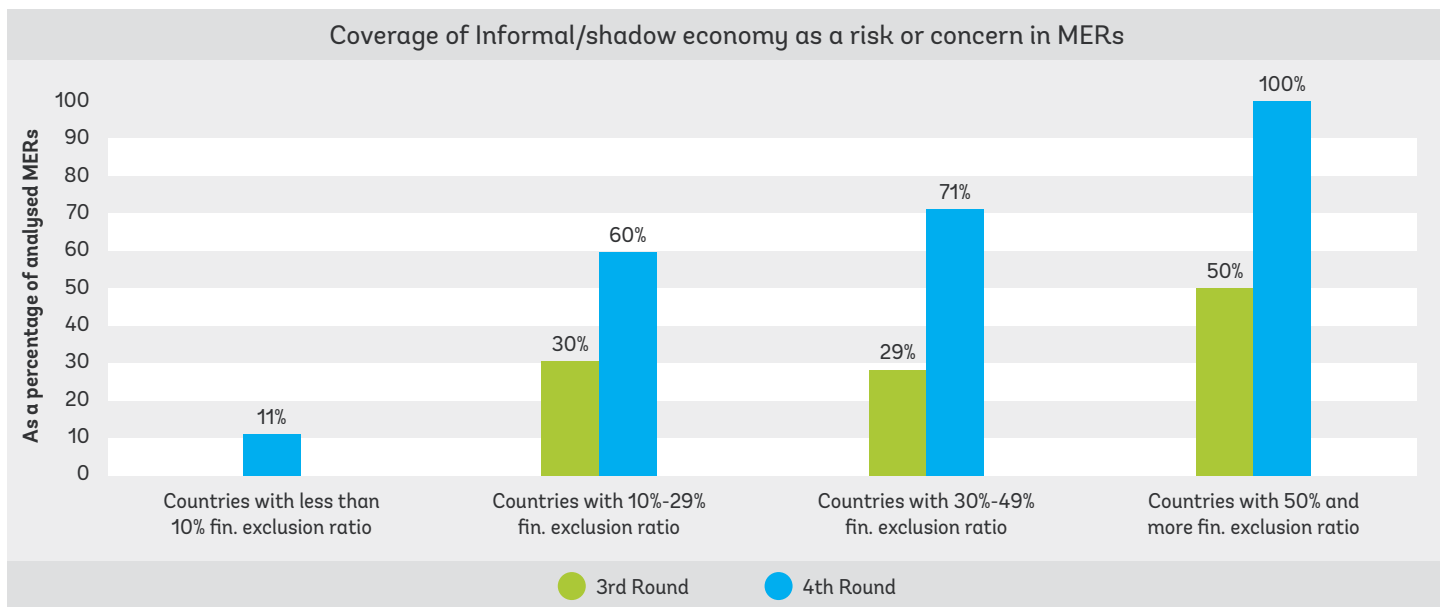
FIGURE 2.10 - The Coverage of Financial Exclusion Risks or Concerns in Third- and Fourth-Round MERs



When the same analysis is conducted for informal economy risks or concerns, a similar trend can be seen (figure 2.11). The coverage of informal economy risks and concerns in the MERs significantly increased in the fourth round. In general, in both the third and fourth rounds, the awareness about the informal economy is higher than that for financial exclusion.

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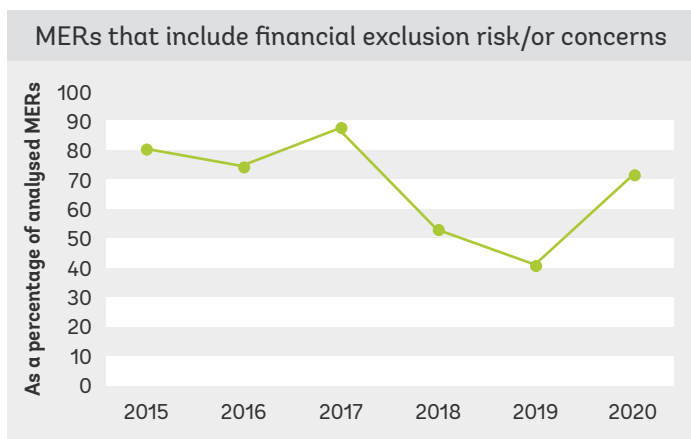
FIGURE 2.11 - The Coverage of Informal or Shadow Economy as a Risk in Third- and Fourth-Round MERs



We also conducted a trend analysis of how financial exclusion is addressed within the fourth-round MERs (figure 2.12).

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FIGURE 2.12 - Financial Exclusion as a Risk or Concern in MERs, 2015 to 2020



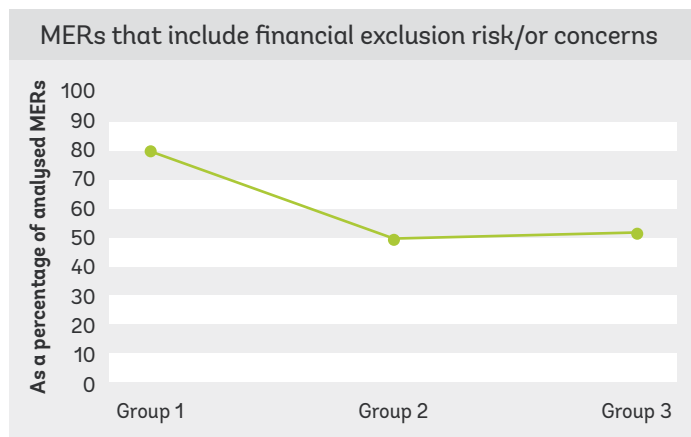
The awareness about financial exclusion risks is higher early in the fourth round. Although the decline was followed by a rise in 2020, this may not necessarily be a turning point. Because of the limited number of observations per year, the data need to be treated with caution. For example, the limited size of the sample does not allow us to test hypotheses such as whether the rise in 2020 can be attributed to the integration of financial inclusion in the FATF’s mandate in 2019 or whether the 2017 updates in the FATF financial inclusion guidance had influenced awareness about financial inclusion in MERs.

Given the relatively small numbers of reports in each year, to improve the statistical quality of the analysis we also tried the

same trend analysis by clustering the reports in three groups based on their historical sequence (figure 2.13). This analysis excluded the countries with 9 percent or lower financial exclusion rates and those countries for which the financial inclusion and exclusion data are not available. The resulting sample of 60 MERs was grouped using the sequencing of their publication dates: (group 1) first 20 MERs, (group 2) second 20 MERs, and (group 3) last 20 MERs.

> > >

FIGURE 2.13 - Coverage of Financial Exclusion as a Risk or Concern in Group 1,2, and 3 MERs



The coverage of financial exclusion as a risk or concern is around 80 percent in the first group but declined to 50 percent in the second group and increased very slightly in the third group. This also confirms the decline in the trend compared with the early years of MERs. It remains the case though the earlier assessments were on relatively higher-capacity countries that possibly have lower financial exclusion rates.

2.2. Coverage of Financial Exclusion Risks in National Risk Assessment Reports

The FATF Recommendations require all the countries to assess and understand their money laundering and terrorist financing risks as the basis for a risk-based approach to AML/CFT.¹⁵ In practice, this self-assessment exercise is called a national risk assessment (NRA). Depending on its quality, an NRA can serve as an important source of information for the mutual evaluation assessors.

In our research, we also reviewed the coverage of financial inclusion issues by countries in their NRAs. In this review, we covered the reports that are publicly available and the nonpublic reports that were shared with the World Bank in the scope of technical assistance provided. For the latter group, because of the confidential nature of the technical assistance documents, this chapter presents the information and observations in a sanitized way and does not provide country-specific details unless the reports were published. For the publicly available reports, we used the published NRAs or NRA summaries listed on the FATF website and reviewed the documents that are available in English. In overall, more than 50 NRA reports or report summaries were included in this analysis.

Among the jurisdictions that published their full or summarized NRAs, Bangladesh; Cambodia; Chile; Malawi; the Philippines; Sri Lanka; Taiwan, China; Uganda, and Zimbabwe covered financial inclusion in a comprehensive way. Australia has done a series of focused risk assessments, some of which closely relate to financial inclusion, such as “Remittance Corridors: Australia to Pacific Island Countries—Money Laundering and Terrorism Financing Risk Assessment 2017” (AUSTRAC 2017). Other countries, including Armenia, Italy, Mexico, the United States, and Uruguay, have limited references to financial inclusion in their public NRAs. The remaining public NRA reports that are available in English as of the study date (including some countries with high rates of financial exclusion) did not mention financial inclusion or exclusion issues.

In addition, for countries that used the World Bank’s Financial Inclusion Product Risk Assessment Module (FIRM), standalone financial product risk assessment reports or relevant chapters in their NRAs were reviewed. FIRM is an optional module of the World Bank’s NRA tool, which has been used by 43 countries. Most of those countries included their findings in the country’s NRA report, while others, such as Nigeria, Tanzania, and Zambia, produced stand-alone reports

on ML/TF risk assessment of financial inclusion products. Some of these reports have been published, but most have not. See appendix D for further information on FIRM. All the reports were written or published in 2014 or later and reflected the situation in the countries as of the report dates.

2.2.1. Coverage of financial exclusion-related risks in NRAs, and the effect on MERs

Using the same sample of 107 MERs, the author reviewed how the prior self-assessment of ML/TF risks linked to financial exclusion by each jurisdiction influenced the coverage of financial exclusion risks in the MER.

Our analysis shows that the correlation between a jurisdiction’s financial exclusion levels and MERs’ coverage of financial exclusion as a risk or concern is 0.34, and the correlation between the NRAs’ coverage of financial inclusion/exclusion and MERs’ coverage of financial exclusion as a risk or concern is 0.23. Both correlations are statistically significant; however, the first one is higher, suggesting that assessors were more sensitive to higher measures of financial exclusion levels in countries than they were to NRAs’ mention of financial exclusion as a risk. With the caveat that establishing the causality requires further analysis, both a country’s actual financial exclusion level and the coverage of financial inclusion/exclusion by their NRA may affect the consideration of financial exclusion risks or concerns by the MER assessors. However, the actual exclusion level seems to be more persuasive to assessors than the national authorities’ views on exclusion as a risk.

2.2.2. Positive impact of the World Bank’s FIRM tool

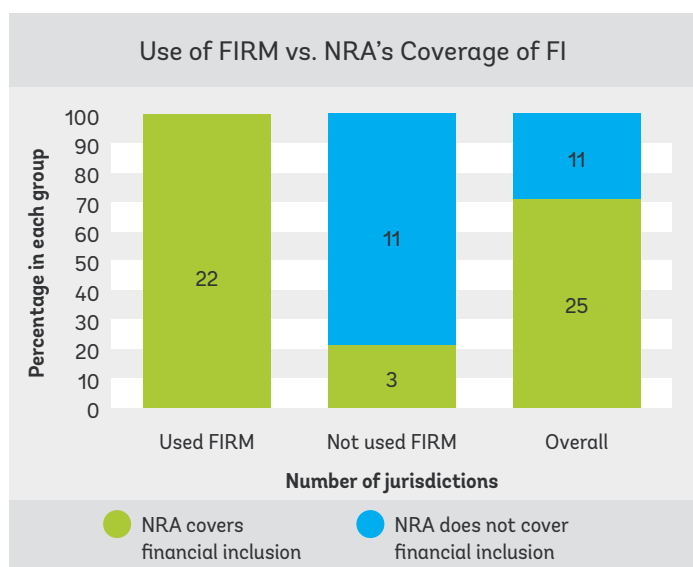
A country’s self-assessment and self-awareness about the ML/TF risks in the context of financial inclusion and exclusion can be expected to guide the coverage of these risks by the MER assessors. The World Bank recommends conducting an ML/TF risk assessment of existing or planned financial inclusion products as a stand-alone exercise or under a country’s national ML/TF risk assessment. To that end, the Bank has been using FIRM to help countries develop AML/CFT solutions that support financial inclusion. Many of these financial inclusion risk assessments also inform the national financial inclusion strategies, especially when the risk assessments are conducted at the same time or on a parallel track with the formation of a country’s financial inclusion strategy.

15 Proliferation financing has been recently added to FATF Recommendation 1. However, the full implementation of the new standard is yet to start. Therefore, proliferation financing is not covered in this report.

As figure 2.14 shows, the countries that used the World Bank’s FIRM tool always covered the financial exclusion-related risks and concerns in their NRA reports. For the group that did not use FIRM, the rate is around 20 percent. This analysis shows that the use of FIRM raises the awareness of financial exclusion-related risks and leads countries to consistently cover financial exclusion risks and concerns in their NRAs. For focusing the analysis more on developing countries, which constitute the World Bank’s target audience, countries with less than a 30 percent financial exclusion ratio were excluded from this analysis.

> > >

FIGURE 2.14 - The Effect of Using the FIRM Tool on NRA’s Coverage of Financial Inclusion



Most of the 43 FIRM-based risk assessments were done under a World Bank financial inclusion risk assessment program that was sponsored by the Bill & Melinda Gates Foundation. The analysis is also a confirmation of the program’s positive impact.

2.2.3. Insights from the national risk assessments

A summary of the observations from World Bank-guided ML/TF risk assessments related to financial inclusion products was already shared by the World Bank, in an annex to FATF’s guidance on financial inclusion (FATF 2017). An updated version of these findings, augmented with analysis of more reports, is provided in this section of the study. This section

also includes selected relevant excerpts from publicly available NRA reports. The findings that follow are also supplemented with observations of the World Bank experts who supported these World Bank client countries in their financial product risk assessments or national risk assessments.

Most of the financial inclusion products were assessed as lower risk.

In most assessments, microdeposits, microloans, and microinsurance products are consistently assessed as lower-risk products in terms of both ML and TF risks. Also, among low-risk products are basic bank accounts under different names, farmer accounts, and small-value agricultural finance products. Mobile money, electronic money, branchless banking, and some micro-investment schemes also have frequently been found to be lower risk when their functions were restricted—for example, with deposit and payment caps and no access to cross-border transactions.

Using a unique approach that focused on selected specific remittance corridors and was enabled by the availability of granular statistics on remittances, AUSTRAC’s 2017 risk assessment report, “Remittance Corridors: Australia to Pacific Island Countries,” found that, in general, the ML/TF risks in the assessed remittance corridors were low (see box 2.1).

> > >

BOX 2.1: Excerpt from AUSTRAC’s “Remittance Corridors: Australia to Pacific Island Countries—Money Laundering and Terrorism Financing Risk Assessment”

“This risk assessment has assessed that, at a national level, the ML/TF risks associated with remittances from Australia to PIC [Pacific Island Countries] sent through remittance providers [are] low. All reporting entities—banks, remittance providers, and other financial institutions—that remit funds to the Pacific should use the information in this risk assessment to identify, assess, and understand their own ML/TF risks.”

Source: AUSTRAC 2017, 31.

Many risk assessments also state that there were never any ML or TF cases in which the financial inclusion products were abused, as discussed, for example, in box 2.2.

> > >

BOX 2.2:

Excerpt from Nigeria's Financial Inclusion Risk Assessment Report

"There are significant amounts of proceeds of crime generated in Nigeria and the money laundering combating ability of the country was assessed to be medium low during the NRA exercise. However, the controls provided in the guidelines for FI products, especially in the bank and other Financial Institutions sector, is expected to mitigate the ML/TF risk in FI products. There were 4,498 terrorist attacks in the country between 2010 and 2014. A trends and typology report [in] 2013 by the NFIU [Nigerian Financial Intelligence Unit] indicates that terrorist financing is very minimal in Financial Institutions and that most terrorist funds are channeled through the informal sector and DNFBPs. In addition, there are no records of suspicious transactions involving FI products. This buttresses the need to encourage financial inclusion to reduce the volume of transactions in the informal sector (27).

"There are no reported cases relating to any suspicious financial crime perpetrated using these types of products. The total volume and value of transactions are very low due to customers' income level, set thresholds, and customer KYC requirements. However, possibility of suspected financial crime such as fraud cannot be totally ruled out (28)."

Source: Nigeria 2016.

Some reports indicate the involvement of microfinance institutions in West Africa in some ML cases.¹⁶ As an interesting example, Ghana's NRA report found the risk of microfinance

institutions to be medium. The basis of this assessment is the country's very weak supervisory oversight and some past fraud cases, especially before the formalization of microfinance institutions in 2011.

Although they are low risk, in many jurisdictions financial inclusion products are not subject to simplifications.

Despite findings of low risk and lack of any ML/TF typologies relating to financial inclusion products, many countries have stringent AML/CFT regulations that lack any flexibility to apply simplifications. Some of these countries have quite high financial exclusion and informal economy rates (see boxes 2.3, 2.4, and 2.5).

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BOX 2.3:

Excerpt from Country A's NRA Report

Know Your Customer (KYC) in Low Income Groups

"...in order to qualify to have an FI product according to the rules and regulations in Country A, photo identification (passport, national identification card, driving license, etc.), address verification, telephone/fax numbers etc. must be obtained from potential customers to enable banks and other institutions to fulfill their KYC requirements.

"Thus, as it stands at present irrespectively of whether the customer is of low, medium, or high risk, conforming to potential ML/TF or involved in fraud, the KYC requirements are identical...

"Hence low-income groups (that is, low-income persons, farmers, garment workers) who are generally low risk are unable to furnish [the] above requirements and hence get excluded from participating in the financial inclusion products. The current legislation is a hindrance for low-income families participating in available financial products."

Source: World Bank internal records.

16 Outside the NRA reports, the number of ML/TF cases that may be related to these products is very limited. GIABA's 2018 annual report mentions the use of microfinance institutions in some money laundering cases in West African countries. However, the scale and nature of these cases are not clear in the report, and these cases may involve fraud schemes by informal microfinance providers. It is also important to note that microfinance institutions do not have a commonly agreed definition, and the functions and scale of their transactions can differ from country to country. For example, in some countries any type of small-scale moneylender can be classified as microfinance. In some regions, especially in Africa, these operate as informal or semiformal institutions, but in some other countries they function almost like banks. Therefore, when assessing the microfinance industry, it is very important to understand the definition and functions of these in the country context.

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BOX 2.4:

Excerpt from Country B's NRA Report

"The Know-Your-Customer (KYC) requirements for opening a bank account such as identity cards, passports, proof of residence, and pay slips were also cited as some of the significant barriers to many potential customers..."

"Chief among the major recommendations is the need to amend the Money Laundering and Proceeds of Crime Act [Chapter 9:24] to provide for simplified KYC/CDD requirements for low-risk financial inclusion products and enhanced KYC/CDD for higher risk products."

Source: World Bank internal records.

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BOX 2.5:

Excerpt from Uganda NRA Report

[Anti-Money Laundering Act and Regulations] "set the criteria for establishing the identity of different kinds of persons and customers before establishing a business relationship. These include a National Identification Card or an alien's Identification Card, whichever is applicable. In addition, the prospective customers are required to provide details of the residential address, telephone contact, fax number, postal address and e-mail address, an introductory letter from the employer or a senior government official attesting to the identity of the person, a tax identification number where applicable, a sample signature and thumb print. These documents must be obtained from a potential customer to ensure that KYC requirements are sufficiently fulfilled."

"This is the present position in Uganda and irrespective of whether a customer is low, medium, or high risk, the KYC requirement in terms of potential money laundering/terrorist financing is identical."

"This blanket requirement may hinder the ability of certain segments of society, such as low-income earners, persons living in rural areas like farmers, and persons with disabilities, to access and use financial services as they may not possess the prerequisite identification documents required to establish a relationship with financial service providers."

Source: Uganda 2016, 186.

The regulatory framework relating to CDD in countries can be more onerous than the requirements of the FATF Recommendations.

In some countries, the country's regulatory framework is even more onerous than the requirements set out in the FATF Recommendations and does not contain the flexibility incorporated into the FATF Recommendations and its relevant guidance. Examples include requirements to verify the address, document the purpose, or provide a tax ID number or secondary ID document regardless of the amount and level of risk of the transactions. This is more visible in countries with exchange control regimes.

One common area that is subject to overregulation is the address verification requirements. Most countries tend to include this in their CDD requirements, although address verification is not mentioned in Recommendation 10 at all and is mentioned in Recommendation 14, on wire transfers, in an indirect and optional way. Address infrastructure in many developing countries (especially in Sub-Saharan Africa) is extremely weak, and address verification requirements in the countries are disconnected from many countries' reality. Although they usually take place in an AML/CFT legal framework, address verification requirements frequently stem from other concerns related to exchange and tax regulations or fraud risks. Address verification is one of the persistent barriers to financial inclusion (see box 2.6).

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BOX 2.6:

Experience of a World Bank Team in Country C

The financial exclusion rate in country C is at extreme levels, and progress in financial inclusion has been slow. The country's AML/CFT law is prescriptive about the customer due diligence (CDD) requirements and contains a lengthy list of CDD procedures that are applicable to all reporting entities. These requirements include address verification.

However, the address infrastructure in the country is poor, and a credible survey done in the country found that more than 80 percent of the population has difficulty verifying their address. An attempt to simplify CDD requirements has been on hold for the past three years, and interviews with country authorities reveal that this is probably due to resistance from financial supervision authorities. In the interviews, the authorities expressed their concerns about the mutual evaluation and believe that financial institutions in the country cannot apply SDD due to FATF's assessment criteria 1.12.



Financial exclusion feeds informality.

Some reports contain information on how the stringent rules may drive the financially excluded population to the informal economy and its players (see boxes 2.7 and 2.8).

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BOX 2.7:

Excerpt from Country D's NRA Report

"Many hinterland, mining and farming communities experience access problems; not only where financial services are concerned but for some other basic services. Residents have, over time, adopted informal ways of meeting these needs. These solutions often come with increased risk and create increased opportunities for launderers and financers of terrorism. To reduce or mitigate these risks traditional financial services must be encouraged in these communities at reasonable costs through innovative means. The lack of business incentives to invest in these areas could be reduced using technology, such as mobile banking and mobile payment services."

Source: World Bank internal records.

> > >

BOX 2.8:

Excerpt from Sri Lanka NRA Report

"FI products are not offered to and not used by non-resident and/or non-citizen customers. If they want to open an account in Sri Lanka they have to adhere to KYC requirements and exchange control procedures. Most of immigrant workers employed in the country have not used formal financial system to transfer funds."

Source: Sri Lanka 2014, 42.

Regulators are reluctant to allow CDD simplifications or AML/CFT exemptions.

Although some NRA reports recommended that the country amend the laws and regulations to allow SDD or tiered CDD, our interactions with country authorities revealed that these recommendations were not pursued or implemented most of the time.

In general, the regulators are reluctant to develop innovative SDD measures out of concern that AML/CFT assessors will not condone their risk-based approach. Sometimes, concerns about fraud or the country's exchange regime also contribute to this reluctance. Some regulators do not have a full understanding of an RBA or the capacity, expertise, or confidence to fully implement it. Thus, they find it more convenient to not allow CDD simplifications at all.

In general, banking supervisors and financial intelligence units have a more conservative stand than financial inclusion policy makers and do not provide for simplifications and exemptions in the regulations and guidance they issue. Although financial inclusion teams in the central banks are more open to simplifications to support financial inclusion, the approach of banking supervisors and financial intelligence units usually prevails.

Not surprisingly, this reluctance is much more prominent for exemption. Countries tend to not see exemption as an option, even for very low-risk financial inclusion products. For example, many African countries have savings and credit associations or cooperatives, or similar schemes under different names: SACCO (Savings and Credit Cooperative Society), ROSCA (Rotating Savings and Credit Association), ASCA (Accumulating Savings and Credit Association), VSCA (Village Savings and Credit Association), and others. They are small, closed financial schemes where low value amounts are collected from and loaned to community members. Often, these schemes operate as informal or semiformal institutions, and their regulators face a dilemma when they want to formalize them. Because they are involved in savings and



lending transactions, they fall within the FATF’s definition of a “financial institution” and become subject to a full range of AML/CFT obligations, which they cannot implement practically. The same applies to microfinance institutions. Many of these are very small-scale institutions with low capacity and low ML/TF risks, but they are subject to the full set of AML/CFT obligations, including institutional ML/TF risk assessments.

Rule-based measures and their effective implementation are important as a basis for RBA; however, [for example] in West African countries, most regulators still rely on traditional supervision methods while assessing AML/CFT compliance. As one review stated, “Due to the fact that regulators enjoy monopoly of control in their various subsectors, they do not have the urge to step out of their comfort zones to keep up with the pace of change in the industry” (GIABA 2018, 17, 22).

According to GIABA, the KYC/CDD-related documents from authorities show strict implementation of AML/CFT measures in the countries in question (GIABA 2014). This strict approach is reinforced in the regulatory and supervisory guidance (GIABA 2018, 15, 28).

Some ambiguities in the FATF Recommendations may also have an impact on the reluctance of regulators to allow simplifications and exemptions. The applicability of simplifications and exemptions to different components of CDD, as well as other AML/CFT requirements, such as suspicious transaction reporting, monitoring, institutional risk assessment, and compliance monitoring, is not always clear in the interpretative notes. There are several valid questions related to efficiency in that regard. For example: Do all the relevant obligations need to be imposed on all small-scale, low-risk institutions, and is there adequate evidence that they are all needed? Can some of these functions be carried out by shared utilities and monitoring mechanisms? Clearly, without eroding the existing principle-based approach and existing flexibility in the FATF Recommendations and interpretative notes, adding more FATF guidance on simplifications and

exemptions would be useful. The 2017 additions to the FATF financial inclusion guidance have been helpful, but this study indicates that more is needed (see box 2.9).

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BOX 2.9:

Experience of a World Bank Team in Country E

Country E has stringent AML/CFT laws and regulations that allow no flexibility for low-risk situations. Around 60 percent of the adult population does not have access to a formal financial institution.

The World Bank team that supports the country in financial sector regulation and supervision capacity building advised the country to relax the stringent CDD requirements to allow basic bank accounts with a low cap and limited functions as a way to increase financial inclusion of low-risk clients and to reduce the informal economy. The World Bank also offered support to the country in conducting the risk assessment of the product and designing the product in a way that would ensure lower ML/TF risks. The banking supervision authority objected to the proposal and defended the stringent CDD requirements that were in force as being the best for the country.

In some countries, there is no or very limited dialogue between the financial intelligence unit and the governmental department that specializes in the promotion of financial inclusion. These two entities may be working in complete isolation. Ongoing dialogue and cooperation is needed between these two key stakeholders. That dialogue should also extend to other relevant stakeholders, including financial sector supervisors, telecommunication regulators, and national ID authorities.



Some common problems discourage the provision of FI products, especially by banks.

Factors that reduce the appetite of financial institutions to provide FI products include (a) high AML/CFT compliance costs; (b) stringent, opaque, or conflicting regulatory requirements; (c) lack of clear guidance from regulatory agencies about the risk-based approach to AML/CFT and the application of SDD or CDD exemptions; (d) inconsistencies in the regulatory framework for different sectors; and (e) lack of willingness to use FI products and lack of encouragement by supervisors for provision of FI products. Banks, in particular, tend to see financial inclusion products as high-cost, low-profit products with limited cross-marketing or business expansion potential. Nonbank small-scale providers of these products are also seen as high-risk (and high-cost) and low-profit clients (boxes 2.10, 2.11, and 2.12).

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BOX 2.10:

Excerpt from Sri Lanka NRA Report

“Of the responses received, it was observed that only a few institutions have FI products, and [the] majority of the financial institutions do not offer FI products. According to the survey, FI products not being in line with the business model was cited as the major reason for non-availability of FI products. The survey also highlighted the fact that some institutions have not clearly understood the objective of FI products. Some financial institutions have indicated that FI products were not offered by them due to procedures adopted to comply with KYC requirements. It is therefore observed that the existing AML/CFT legislation has discouraged financial institutions to introduce FI products.”

Source: Sri Lanka 2014, 40.

> > >

BOX 2.11:

Excerpt from Uganda NRA Report

“It is important to note that section 6(e) of AMLA gives accountable persons the discretion to apply to each of its customers due diligence measures on a risk sensitive basis depending on the type of customer, business relationship or transaction, in certain circumstances. Therefore, in cases where risks are deemed low, accountable persons may apply reduced or simplified customer due diligence. There is need to put in place clear procedures for identifying and determining which products, services or customer should qualify for reduced or simplified customer due diligence” (186–87).

“Of the 10 institutions that do not offer financial inclusion products, three (3) stated that financial inclusion products were not in line with their core business model, three (3) indicated that they had plans to start providing FI products, one institution found it difficult to reach customers as a hindrance to provision of FI products (192).”

Source: Uganda 2017.

> > >

BOX 2.12:

Experience of a World Bank Team in Country F

A World Bank team has been providing capacity-building support to the financial sector regulation and supervision authorities in country F. The team meets with various financial supervision authorities and notices that it is the first time that the financial intelligence unit and the experts from the financial inclusion division have come together and met each other.

In the country, the electronic money regulation was recently issued and is being enforced by the telecom authority, which is the regulator of the mobile money sector. Electronic money regulations allow tiered CDD, in contrast with the banking regulations, which do not contain any simplifications or tiered approaches. During the on-site visit to the country, the World Bank team also meets with the private sector. The representative of a bank reports that it was interested in providing a financial inclusion product with some simplifications and appealed to the financial sector regulation and supervision authority for harmonization of the banking law with the electronic money law to contain the same flexibilities. These requests were dismissed by the banking supervision authorities. The bank later abandoned its plans to introduce the planned product.

NRA reports contain several potential solutions to incentivize the provision of FI products.

The NRA reports contain several potential solutions to incentivize banks and other financial institutions to provide FI products. However, it is not clear whether these NRA recommendations have been implemented by the countries. In addition to AML/CFT simplifications, these solutions include leveraging new technologies, introducing limits to products to qualify them as low risk, introducing tax incentives, and requiring the firms to open a certain percentage of new branches in rural and underserved areas (see boxes 2.13, 2.14, and 2.15).

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BOX 2.13:

Excerpt from the Philippines NRA Report

“In 2014 to 2016, The Economist Intelligence Unit recognized the Philippines as the best in Asia and top three globally in terms of having a conducive environment for financial inclusion” (Philippines 2016, 146)...

“...this environment, (characterized by enabling policies and regulations), catalyzes the development of a financial system that serves not only the relatively well-off clients and big businesses, but also the poor, low-income population that are currently unbanked or underserved” (Philippines 2016, 79).

“Proportionality is the key in defining the regulatory approach for financial inclusion. Useful innovations need not be stifled but instead be allowed to operate in an environment where the risks associated with such innovations are adequately understood and addressed, and where there is a judicious and proportionate application of sound principles. For these to work, it is important that all players and financial service providers are properly and proportionately regulated to ensure consumer protection, financial system stability and integrity.”

Source: Philippines 2016, 147.

> > >

BOX 2.14:

Excerpt and Information from Country G’s NRA Report

“The possibility to devise a suitable mechanism for keeping check on transaction limits on [an] industry-wide basis should be explored in consultation with the market.” ...

“The government of the country sponsored a number of guarantee facilities and subsidized lending schemes aimed at encouraging lending to the underserved segments.”



> > >

BOX 2.15:

Quote from Uganda NRA Report

“Government should provide incentives to financial service providers that implement strategies that target the excluded population. For instance, government should provide tax breaks to financial service providers that offer services in rural areas or those that have products targeting the marginalized.

“Policies should be put in place to allow for simplified customer due diligence for low risk products, while financial service providers should be encouraged to practice differential pricing on categorized sectors such as low-income earners. To increase uptake and usage of formal financial services, government should ensure that all payments made to citizens, such as social benefits and salaries, are channeled through formal financial service providers.”

Source: Uganda 2017, 189.

Digital ID systems have the potential to increase financial inclusion.

Rapid advances in information technologies come with new promises for financial inclusion. As recognized by the FATF,¹⁷ wider use of digital ID systems in developing countries can help tackle the traditional challenges of CDD documentation while improving the efficiency and reducing the costs of financial services. However, the right design and implementation of digital ID systems are key to achieving these benefits.

The use of alternative ID documents (such as employee ID, and student ID) can serve as a solution in low-capacity countries with ID infrastructure problems. Although alternative

ID documents can be necessary and useful, it is important to intensify the efforts for sustainable solutions. Considering the massive benefits, not only for financial inclusion but also for social and economic inclusion and development, it is important to prioritize the development of digital IT systems and their use for electronic know-your-customer (e-KYC) purposes.

Developments in the digitalization of national ID systems and the availability of e-KYC solutions can facilitate smooth, low-cost, and reliable ID identification and verification. Because the number of countries that have established or are working on establishing digital ID systems is still relatively low, the global significance of the impact on financial inclusion is yet to be seen. In some countries, the lack of ongoing dialogue among relevant stakeholders has led to situations in which there is almost complete coverage with digital IDs (including for poor and disadvantaged people), but financial institutions still need to require a broad range of documents for customer identification and identity verification (for example, a letter from an employer). Moreover, in some contexts there is a need for interagency dialogue when developing the legal framework for using national IDs to ensure that AML/CFT and financial inclusion issues are addressed. This dialogue is also important when developing the technical and financial conditions for financial institutions to be able to perform e-KYC.

Some NRA reports (for example, Nigeria and Uganda) show that even if a country has established or is establishing a national digital ID system, it cannot be used effectively for customer verification and e-KYC until the majority of the population have been duly registered and have received their ID cards, and until the verification devices and access to verification databases become available to the institutions. The cost structure of the access to verification devices and databases can also hinder utilization of Digital ID for customer identification and can result in the exclusion of smaller financial institutions.

17 The FATF issued Guidance on Digital Identity in March 2020; see <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/digital-identity-guidance.html>.

2.3. Supplement on Expert Opinions

Under the scope of this study, to facilitate consultation and incorporate inputs from subject matter experts and other stakeholders, the World Bank organized a workshop on September 29, 2020. In addition, a short survey was done with 39 experts among various stakeholders who had intensive involvement and practical experience on financial inclusion, including those who attended the workshop. The survey participants were mainly from the World Bank, International Monetary Fund (IMF), CGAP, and relevant nongovernmental organizations (NGOs) and mostly had backgrounds in AML/CFT, financial inclusion, and financial supervision. Of those, 72 percent were directly involved in the implementation of financial inclusion projects, 67 percent were very familiar with AML/CFT, and 33 percent were partially familiar with AML/CFT. The most relevant survey results are presented here. Please see Appendix E for survey questions.

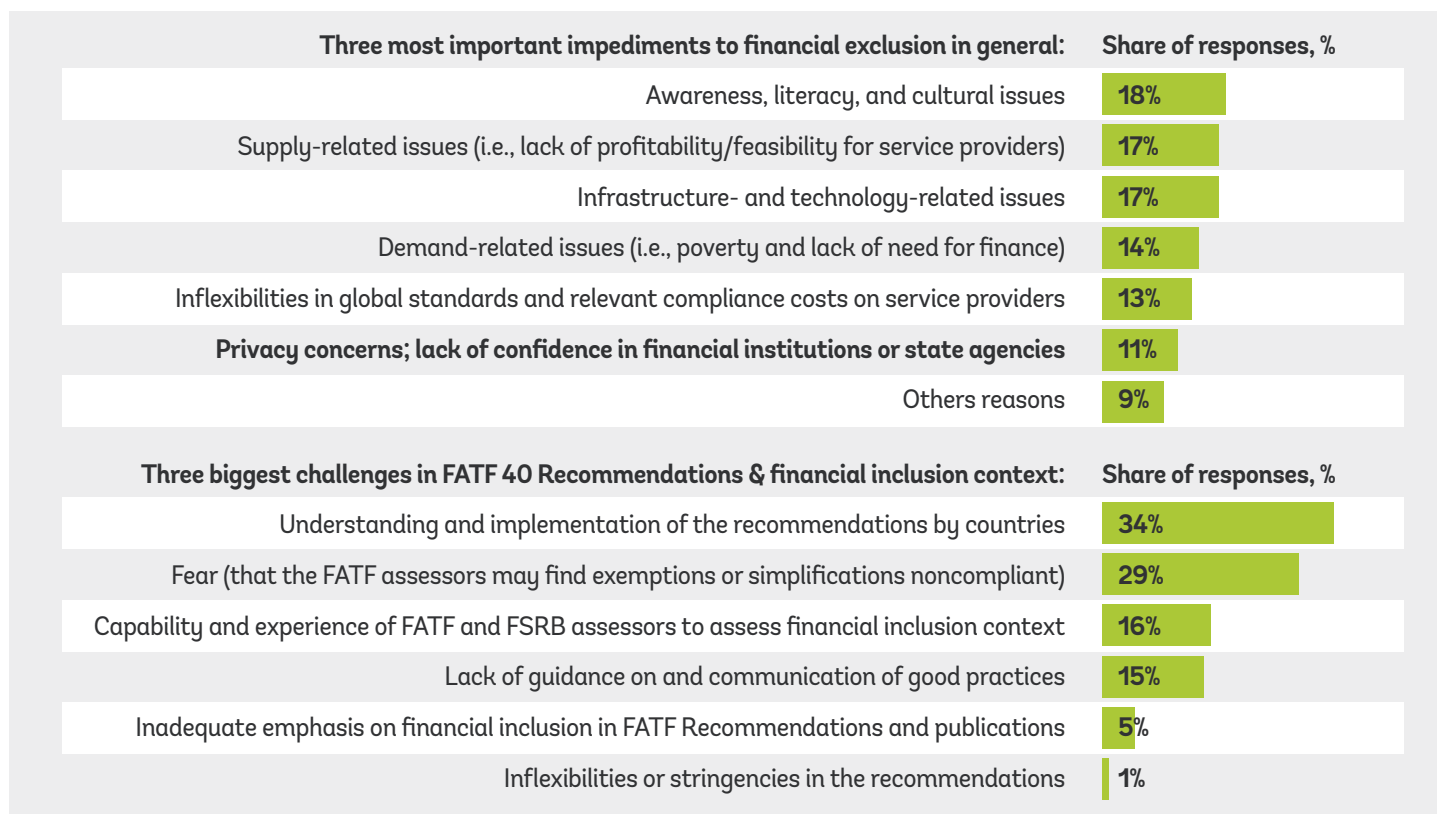
Although 37 percent of the participants thought that the FATF Recommendations fully accommodated financial inclusion

and 46 percent thought that only some slight revisions were needed to fully accommodate financial inclusion, 55 percent were of the view that the FATF was not vocal enough in encouraging financial inclusion. Experts expected to see the FATF have a more encouraging and open stand on the importance of financial inclusion and the flexibilities to support it. According to the experts, the recommendations are not insufficient in themselves, but the FATF's tone and guidance are overly cautious and discourage countries from exploring the use of simplifications and exemptions.¹⁸

The experts were surveyed about following two key issues, among other questions: (a) the three most important impediments to financial inclusion in general, and (b) the three biggest challenges related to the FATF 40 Recommendations in context of financial inclusion. The answers, set out in figure 2.15, were not surprising.

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FIGURE 2.15 - The Experts' Opinions about Impediments to Financial Inclusion



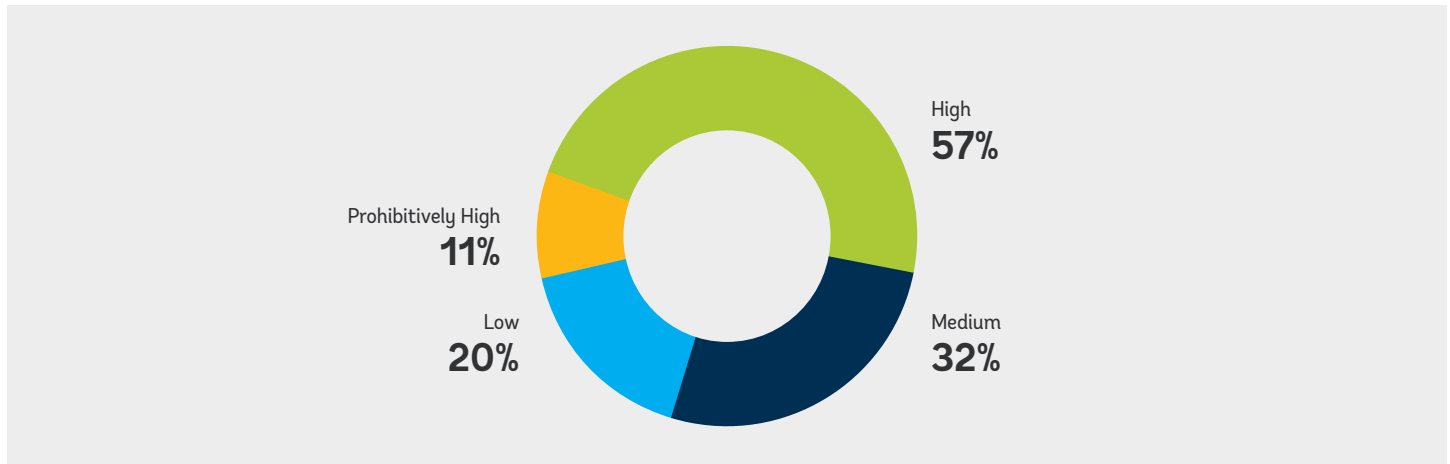
The incidence of those who see the FATF Recommendations as a major problem is minimal. Rather, most experts think that the main problems are related to countries' understanding and implementation of the recommendations, and the concerns about the assessors' reactions during the mutual evaluations.

¹⁸ This finding is based mainly on the views expressed by the experts in the survey or during the study workshop. The study did not aim to conduct a thorough review of FATF publications. This could be the subject of a stand-alone future study. However, a quick example of this very cautious language is the reference to "strictly limited and justified circumstances" in the Interpretative Note to Recommendation 1 / paragraph 6.a.2. This phrase is somehow repetitive with the condition of "proven-low risk" and makes the clause forbidding rather than being conducive to application of exemptions.

The survey also sought the experts' views of the cost implications of implementing AML/CFT requirements on the providers of financial inclusion products and services. Compliance costs might affect financial inclusion in two ways. It might reduce the demand for financial inclusion products by increasing the transaction cost for the end user, and it might reduce the supply of those products by cutting the profit margin. The majority of the experts think that the AML/CFT costs are too high for the providers of the financial inclusion products (figure 2.16).

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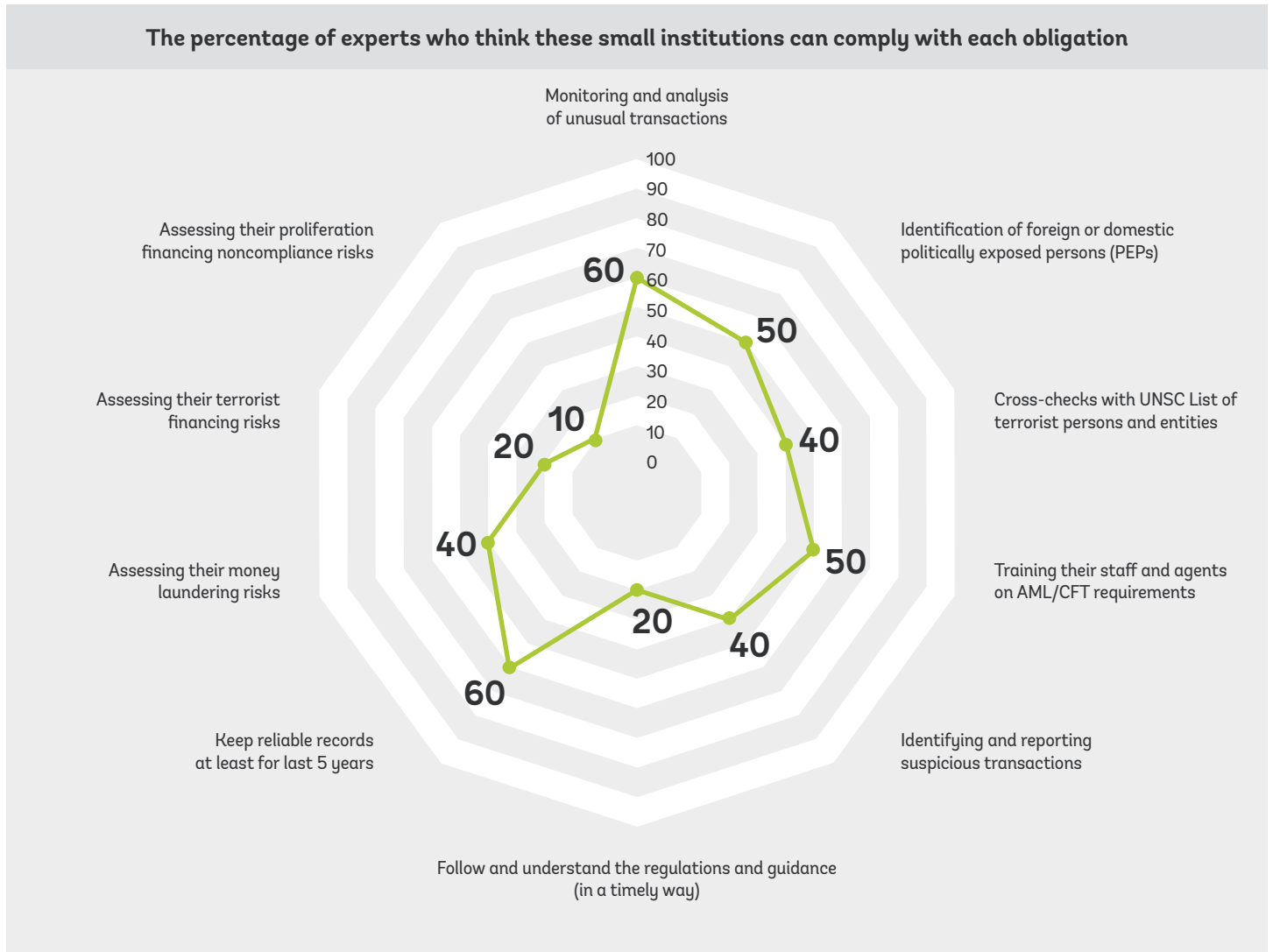
FIGURE 2.16 - Distribution of Responses about the Cost of AML/CFT Requirements for the Providers of Financial Inclusion Products and Services



Because underserved or unserved people generally reside in rural and less-populated areas, it becomes very costly for financial institutions to provide access to financial services through traditional channels. Small-scale local financial service providers, agents, and mobile money network operators may have greater efficiencies in reaching out to financially excluded people in these areas. However, these may have much lower capacity than banks and lack the economies of scale of the large institutions. To consider this factor, the survey sought feedback from the experts as to whether small-scale providers of financial inclusion products had the ability to comply with

AML/CFT requirements. Regarding most of the obligations, only half of the experts think that the small institutions can comply with the requirements. Most experts think that the small-scale institutions will have serious challenges, particularly in understanding and assessing their TF risks and proliferation financing noncompliance risks (figure 2.17). These small-scale providers are also thought to be incapable of following and understanding the regulations and guidance issued by the financial intelligence unit (FIU) and AML/CFT supervisors in a timely manner.

FIGURE 2.17 - Survey Responses on Whether Small-Scale Providers of Financial Inclusion Products Can Comply with AML/CFT Requirements



Note: UNSC = United Nations Security Council.



Conclusions and Recommendations

Based on the analysis of 107 mutual evaluation reports (MERs) published by the Financial Action Task Force (FATF) and FATF-style regional bodies (FSRBs) during 2014–21, reviews of national money laundering and terrorist financing (ML/TF) risk assessments of more than 50 jurisdictions, and the experience and observations of experts from the World Bank and other stakeholders, this study reached the following conclusions and recommendations.

The FATF's attention to financial exclusion is increasing, but the coverage of financial exclusion aspects in MERs is still not satisfactory.

References to financial inclusion in the FATF's 2013 assessment methodology, the FATF Guidance (FATF 2017) on financial inclusion, the recognition of the importance of financial inclusion in the FATF's 2019 mandate, and the FATF's Guidance on Digital Identity (2020) are important developments that show the organization's increasing attention to financial inclusion. In addition, the fourth round of MER reports showed a significant leap in the coverage of financial exclusion as an ML/TF risk or concern compared with the third round. However, the progress is still not satisfactory. The sensitivity of the assessors to financial exclusion is low where the financial exclusion rate in a jurisdiction is less than about 30 percent. Although it increases where financial exclusion rates are higher, the attention to financial exclusion is not always consistent. Financial exclusion risk was, for example, overlooked in the MERs of countries with severe financial exclusion rates, such as Pakistan (79 percent), Cambodia (78 percent), Senegal (58 percent), Colombia (54 percent), and Zambia (54 percent). But a more important issue is the substance of the coverage. Even where financial exclusion was discussed in an MER, it generally had no discernable impact on the assessment itself, and relevant recommended actions by assessors are rare. The FATF assessment methodology has no explicit criteria among core issues that require the assessors to assess the possible impact of stringent AML/CFT measures on financial inclusion or exclusion. As a result of this gap, the consideration of financial inclusion or exclusion depends mainly on the personal knowledge and awareness of the assessors. More attention to financial inclusion in assessor training could increase their level of awareness. A more fundamental solution, however, would be to integrate the financial inclusion aspect into the assessment criteria in a more explicit way.

>> Recommendation:

The FATF could explicitly cover the potential adverse impacts of stringent AML/CFT rules on financial inclusion in its assessor training and, more importantly, in its assessment methodology for mutual evaluations. Other stakeholders can support the FATF in developing these training materials. Concise, comparative, and up-to-date “country fact sheets” containing financial inclusion data could also be made available to assessors.

FATF Recommendations have the flexibility to support a risk-based approach to AML/CFT; however, the very cautious tone about simplifications and exemptions can be a disincentive for regulators.

The results of our survey of experts from the World Bank, other international organizations, and stakeholder nongovernmental organizations, and views expressed during the study workshop indicate that most experts find the FATF Recommendations adequately flexible to support financial inclusion. But the same group of experts thinks that the FATF is not vocal and encouraging enough about the use of CDD simplifications and exemptions to support financial inclusion. The FATF’s very cautious language may discourage the regulators from allowing simplifications and exemptions. This finding is based mainly on the views of a relatively small group of (39) experts. This result can be further examined in future studies and through broader surveying of experts, regulators, and the private sector.

>> Recommendation:

The FATF could reconsider its too cautious tone regarding simplifications and exemptions in its interpretive notes, guidance documents, and public statements. There should be more constructive and direct communication about simplifications and exemptions, and more encouragement of their use in low-risk situations and of the use of innovative and collaborative mechanisms that can bring efficiencies and that support financial inclusion.

The applicability of simplifications and exemptions to different components of customer due diligence (CDD), and to other AML/CFT requirements, such as suspicious transaction reporting, monitoring, institutional risk assessment, and

compliance monitoring, is not necessarily clear in the interpretative notes. Without eroding the existing principle-based approach and flexibility in the FATF Recommendations and interpretative notes, adding more FATF guidance on simplifications and exemptions would be useful.

>> Recommendation:

The FATF could consider developing guidance that focuses solely on simplifications and exemptions. This guidance might include selected case studies, good practices, and examples of innovative solutions by higher-capacity countries.

The countries that most need the AML/CFT flexibilities use them least.

Paradoxically, the use of the exemptions and simplifications decreases with the income level of a country. Low-income countries that need these exemptions and simplifications most to formalize the informal financial market and tackle financial exclusion generally do not use the simplifications and exemptions. The World Bank team’s research and field experience show that exemptions, especially, are perceived as untouchable and are not being used by the countries even for very low-risk sectors and low-risk products. The underlying reason for that restraint is the fear of mutual evaluations and the issues related to regulatory and supervisory capacity in lower-capacity countries.

Fear of mutual evaluations, which frequently underlies avoidance of CDD simplifications and exemptions, is unjustified.

Financial regulatory and supervisory agencies in developing countries are concerned that any simplifications or exemptions may not be condoned by the FATF or FSRB assessors. Our analysis shows that simplifications or exemptions are indeed frequently criticized in MERs, and that the main criticism is about the lack of reliable risk assessments as the foundation of simplifications or exemptions, which is a valid basis for criticism. However, these deficiencies usually do not have a substantial impact on the assessment results (i.e. significant increase in ML/TF risks) and do not lead to a downgrading of the country. The countries are downgraded mostly for more fundamental deficiencies in CDD, such as those related to beneficial ownership, lack of understanding of client risks, or weak CDD by designated nonfinancial businesses and professions. We found no evidence that MER assessors criticized a simplification that was based on a robust risk assessment. The fears of the regulators and supervisors regarding mutual evaluations are therefore not validated by the MERs examined in this study.

Building awareness and capacity of the regulators and supervisors is fundamental to a genuine risk-based approach that accommodates financial inclusion.

One of the common challenges is awareness- and capacity-related issues in the regulatory and supervisory agencies in implementation of a risk-based approach (RBA). The agencies of low-income countries lack the training, experience, and confidence to apply the RBA, and therefore they tend to be too stringent in AML/FCT regulations. The lack of proper legal protection for the supervisors may also be a reason for this risk-averse stance. Developing countries are lagging in the implementation of an RBA, and the gap is increasing, as is evident in the MERs.

Lower-capacity countries frequently delegate the implementation of an RBA and simplifications completely to the private sector without guidance and sometimes with ambiguities in the regulatory framework. Our research found that in such cases, the private sector is reluctant to apply simplifications.

>> Recommendation:

Lower-capacity countries require more support for awareness raising and capacity building for regulators and supervisors to help them implement a risk-based approach to AML/CFT. The World Bank, the International Monetary Fund, and the Alliance for Financial Inclusion (AFI) already have technical assistance programs on these topics, which can be prioritized and better resourced, if and as needed. The FATF Training and Research Institute and other stakeholders may also prioritize such capacity building activities for developing countries.

The lack of cooperation and agreement among financial inclusion policy makers, financial intelligence units, and financial supervision authorities is another common problem in many countries. The resistance to simplifications often comes from financial sector supervisors or financial intelligence units.

>> Recommendation:

The FATF could revise the assessment criteria about domestic cooperation in its assessment methodology to include coordination between AML/CFT and financial inclusion authorities.

Address verification is a persistent issue that continues to hamper financial inclusion.

One common area that is subject to overregulation is the address verification requirements. Most countries tend to include this in their CDD requirements, although address verification is not mandatory in the FATF Recommendations. Address infrastructure in many developing countries (especially in Sub-Saharan Africa) is extremely weak, and mandatory address verification prescribed in the laws is disconnected from the reality in many countries. Address verification continues to be one of the persistent barriers to financial inclusion.

>> Recommendation:

The FATF could clearly communicate that address verification is not among the minimum requirements in the FATF Recommendations and that inappropriate address verification requirements may create financial exclusion risks and undermine AML/CFT objectives.

Digital ID systems are promising but are still underutilized for AML/CFT.

Although recognition of alternative identification documents can be necessary and useful in expanding financial inclusion, it is important to intensify the efforts for permanent solutions. Considering the rapid advances in digital technologies and their massive benefits not only for financial inclusion but also for social and economic inclusion and development, countries should prioritize the development of digital ID systems and their use for electronic know-your-customer (e-KYC) purposes.

>> Recommendation:

More capacity building is needed on the use of digital ID systems to support AML/CFT functions and to develop e-KYC solutions. This step should include strengthening the coordination among financial supervisors, financial intelligence units, financial inclusion authorities, and national ID agencies.

Countries' self-assessment and awareness can guide a better understanding of financial exclusion risks.

The relationship among ML/TF risks, financial exclusion, and informal economies is not always fully analyzed and understood by the countries themselves. A country's awareness about

these interactions can also guide the MER assessors, who can use a country's own national risk assessment to understand the country context, as appropriate. Our research suggests that coverage of financial exclusion risks in a country's national ML/TF risk assessment is a good practice and has a beneficial effect on coverage of those risks in mutual evaluation.

>> Recommendation:

Countries are encouraged to deepen their understanding of the relationships among ML/TF risks, AML/CFT measures, financial exclusion, and the informal economy and to conduct a specific risk assessment focused on financial exclusion, and financial inclusion products and services. The World Bank's financial inclusion product risk assessment (FIRM) tool can be useful for this purpose and can be made public after some improvements and with more guidance for self-use by countries.

Impact of AML/CFT rules on financial inclusion through the supply side needs further attention.

Implementation of the FATF Recommendations may affect financial inclusion through both demand (user) and supply

(service provider) behavior. Direct barriers related to CDD documents and access requirements, which are related more to the demand aspect, have been more extensively researched, but the impact on service providers' operational costs and supply behavior has not been adequately studied. Most of the surveyed experts believe that AML/CFT compliance costs are too high, especially for small-scale financial institutions, discouraging them from providing financial inclusion products. Some research was triggered by the significant incidence of risk-related refusals by formal financial services in recent years, commonly known as de-risking. However, further empirical research and financial support for such research are needed.

>> Recommendation:

International organizations, NGOs, and national authorities could allocate more resources for assessing the impact of the AML/CFT measures on financial inclusion and informal economies. These groups should also deepen their engagement with academia in this field. Such studies should ideally cover the impacts of AML/CFT measures on financial inclusion through both demand (user) and supply (service provider) behavior.



Appendix A. Mutual Evaluation Reports by FATF and FSRBs That Are Used in This Study

(All based on FATF's 2013 Assessment Methodology)

	Jurisdiction	Report Date
1	Albania	Dec/18
2	Andorra	Sep/17
3	Antigua and Barbuda	Jul/18
4	Armenia	Jan/16
5	Australia	Apr/15
6	Austria	Sep/16
7	Bahamas, The	Aug/17
8	Bahrain	Sep/18
9	Bangladesh	Nov/16
10	Barbados	Feb/18
11	Belarus	Dec/19
12	Belgium	Apr/15
13	Bermuda	Jan/20
14	Bhutan	Oct/16
15	Botswana	May/17
16	Burkina Faso	May/19
17	Cabo Verde	May/19
18	Cambodia	Sep/17
19	Canada	Sep/16
20	Cayman Islands	Mar/19
21	China	Apr/19
22	Colombia	Nov/18
23	Cook Islands	Sep/18
24	Costa Rica	Dec/15
25	Cuba	Dec/15
26	Cyprus	Dec/19
27	Czech Republic	Feb/19
28	Denmark	Aug/17
29	Dominican Republic	Sep/18
30	Ethiopia	Jun/15
31	Fiji	Nov/16
32	Finland	Apr/19
33	Georgia	Nov/20
34	Ghana	Apr/18
35	Gibraltar	Dec/19
36	Greece	Sep/19
37	Guatemala	Feb/17
38	Haiti	Jul/19
39	Honduras	Jan/17
40	Hong Kong SAR, China	Sep/19
41	Hungary	Sep/16
42	Iceland	Apr/18
43	Indonesia	Sep/18
44	Ireland	Sep/17
45	Isle of Man	Dec/16
46	Israel	Dec/18
47	Italy	Feb/16
48	Jamaica	Jan/17
49	Jordan	Jan/20
50	Korea, Rep.	Apr/20
51	Kyrgyz Republic	Sep/18
52	Latvia	Jul/18
53	Lithuania	Feb/19
54	Macao SAR, China	Dec/17

	Jurisdiction	Report Date
55	Madagascar	Sep/18
56	Malawi	Sep/19
57	Malaysia	Sep/15
58	Mali	Mar/20
59	Malta	Jul/19
60	Mauritania	Nov/18
61	Mauritius	Jul/18
62	Mexico	Jan/18
63	Moldova	Jul/19
64	Mongolia	Sep/17
65	Morocco	Jun/19
66	Myanmar	Sep/18
67	New Zealand	Feb/21
68	Nicaragua	Oct/17
69	Norway	Dec/14
70	Pakistan	Oct/19
71	Palau	Sep/18
72	Panama	Jan/18
73	Peru	Feb/19
74	Philippines	Oct/19
75	Portugal	Dec/17
76	Russian Federation	Dec/19
77	Samoa	Oct/15
78	Saudi Arabia	Sep/18
79	Senegal	May/18
80	Serbia	Jun/16
81	Seychelles	Sep/18
82	Sierra Leone	Dec/20
83	Singapore	Sep/16
84	Slovak Republic	Nov/20
85	Slovenia	Aug/17
86	Solomon Islands	Oct/19
87	Spain	Dec/14
88	Sri Lanka	Oct/15
89	St. Lucia	Feb/21
90	Sweden	Apr/17
91	Switzerland	Dec/16
92	Taiwan, China	Oct/19
93	Tajikistan	Dec/18
94	Thailand	Dec/17
95	Trinidad and Tobago	Jun/16
96	Tunisia	Jun/16
97	Turkey	Dec/19
98	Turks and Caicos	Jan/20
99	Uganda	Sep/16
100	Ukraine	Jan/18
101	United Arab Emirates	Apr/20
102	United Kingdom	Dec/18
103	United States	Dec/16
104	Uruguay	Jan/20
105	Vanuatu	Oct/15
106	Zambia	Jun/19
107	Zimbabwe	Jan/17



Appendix B. Study Data Extracted from 107 Mutual Evaluation Reports

DESCRIPTIONS OF THE DATA CATEGORIES
(in columns of the Study Data tables).

	Column /Data	Source
1.	FATF/FSRBs Membership.	https://www.fatf-gafi.org/countries/
2.	FATF/FSRB Membership (FATF members not included in FSRBs): If a country or jurisdiction is a member of both FATF and an FSRB, it has been considered only as FATF member.	Based on the author's analysis.
3.	Income Level (World Bank Group classification)	https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups
4.	Lending Status (World Bank Group classifications): Shows if the jurisdiction is a WBG client. IDA = eligible for International Development Agency funding, IBRD = eligible for International Bank of Development and Reconstruction lending. Blend = eligible for IDA and IBRD funding.	https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups
5.	Mutual Evaluation Report Dates.	https://www.fatf-gafi.org/publications/mutualevaluations/documents/assessment-ratings.html
6.	MERs that contain a ratio on the level of formal economy/shadow economy.	Based on the author's analysis of MERs.
7.	In the MER, the level of informal/shadow economy is regarded as an ML/TF risk or concern.	Based on the author's analysis of MERs.
7.a	In the previous MER, the level of informal/shadow economy is regarded as an ML/TF risk or concern.	Based on the author's analysis of MERs.
8	In the MER the use of cash or the level of cash-intensive business is cited as a concern.	Based on the author's analysis of MERs.
9	The MER indicated a connection between informal/cash economy and financial exclusion.	Based on the author's analysis of MERs.
10	The MER cites financial exclusion (separately from informal economy) as a ML/TF risk or concern.	Based on the author's analysis of MERs.
10.a	The previous MER cites financial exclusion (separately from informal economy) as a ML/TF risk or concern.	Based on the author's analysis of MERs.
11	The MER contains some ratios on the level of financial inclusion. (e.g., account ownership, bank penetration rate, access to formal financial services/bank account).	Based on the author's analysis of MERs.
11.a	The previous MER contains some ratios on the level of financial inclusion. (e.g., account ownership, bank penetration rate, access to formal financial services/bank account).	Based on the author's analysis of MERs.
12.	The MER has reference to the jurisdiction's national policy or strategy for financial inclusion/ financial education.	Based on the author's analysis of MERs.
13.	The MER cited financial products/measures that exist in the jurisdiction to promote financial inclusion.	Based on the author's analysis of MERs.
14.	The MER contains some recommendations about financial inclusion.	Based on the author's analysis of MERs.
15.	The MER contains direct or indirect information on de-risking by banks or other institutions.	Based on the author's analysis of MERs.
16.	The jurisdiction has up-to-date and complete NRA.	Based on the author's analysis of MERs.
17.	NRA has been used to frame low risk factors for exemption.	Based on the author's analysis of MERs.
18.	NRA has lower-risk scenarios for SDD.	Based on the author's analysis of MERs.
19.	Fis and DNFBPs are required to make risk assessment to identify, assess, and mitigate risks.	Based on the author's analysis of MERs.
20.	The jurisdiction allows some exemptions of FATF Recommendations under law/regulations.	Based on the author's analysis of MERs.
21.	Exemptions of some financial/nonfinancial activities from AML/CFT measures are based on risk assessments.	Based on the author's analysis of MERs.
22.	The exemptions (from CDD) are based on low-risk cases/transactions.	Based on the author's analysis of MERs.
23.	The obliged entities can apply exemptions based on risk assessment.	Based on the author's analysis of MERs.
24.	The jurisdiction/legislation/regulations allow simplified measures to be applied in predetermined scenarios.	Based on the author's analysis of MERs.
25.	The jurisdiction has a tiered/progressive CDD approach as a means of SDD.	Based on the author's analysis of MERs.
26.	The predetermined SDD measures are based on risk assessments or NRA.	Based on the author's analysis of MERs.
27.	SDD measures are in fact exemptions according to the assessors.	Based on the author's analysis of MERs.
28.	SDD measures are allowed when lower risk has been identified by obliged entities. (Discretionary SDD).	Based on the author's analysis of MERs.
29.	Discretionary SDD measures are based on risk assessment/lower risk factors or commensurate with NRA/risk assessment.	Based on the author's analysis of MERs.

	Column /Data	Source
30.	Obligated entities need to get the approval of supervisory authority for SDD based on risk assessments.	Based on the author's analysis of MERs.
31.	SDD/exemptions cannot be applied where there is a suspicion of ML/TF.	Based on the author's analysis of MERs.
32.	There are some recommendations for the jurisdiction regarding SDD measures.	Based on the author's analysis of MERs.
33.	There is differentiation among obliged entities groups related to SDD.	Based on the author's analysis of MERs.
34.	There is a requirement to verify the potential/existing customer's address according to the CDD measures?	Based on the author's analysis of MERs.
35.	The jurisdiction has ID number/ID-citizen database/ID infrastructure for citizens.	Based on the author's analysis of MERs.
36.	A kind of SDD (predefined SDD and/or discretionary SDD) exists in the country.	Based on the author's analysis of MERs.
37.	The jurisdiction allows both predefined SDD and discretionary SDD.	Based on the author's analysis of MERs.
38.	The jurisdiction applies only discretionary SDD.	Based on the author's analysis of MERs.
39.	Shadow economy ratio, as of 2015	Leandro Medina and Friedrich Schneider, "Shadow Economies around the World: What Did We Learn Over the Last 20 Years?," IMF Working Paper 017, International Monetary Fund, Washington, DC, 2018. https://www.elibrary.imf.org/view/journals/001/2018/017/001.2018.issue-017-en.xml .
40.	Shadow economy groups: (1) 9% or less, (2) 10%–19%, (3) 20%–29%, (4) 30%–39%, (5) 40%–49%, (6) 50%–59%, (7) 60% and more.	Categorization of data in column 39 by the author.
41.	Account ownership (% age 15+) as of 2017. This has been used as the main indicator of financial inclusion levels in jurisdictions.	Global Findex https://globalfindex.worldbank.org
42.	Financial exclusion rate. Percentage of those who are in +15 age group and do not have accounts.	Transpose of data in 41 by the author: 100% minus account ownership ratio.
43.	Financial exclusion groups: (1) 9% or less, (2) 10%–19%, (3) 20%–29%, (4) 30%–39%, (5) 40%–49%, (6) 50%–59%, (7) 60% and more.	Categorization of data in column 42 by the author.
44.	Fragile and Post Conflict States	https://www.worldbank.org/en/topic/fragilityconflictviolence/overview#3
45.	Legal System (common law, civil law, mixed)	Based on the author's research and analysis.
46.	GDP-2015 (constant USD 2010)	https://data.worldbank.org/indicator/NY.GDP.MKTP.KD
47.	GDP Per Capita-2015 (constant USD 2010)	https://data.worldbank.org/indicator/NY.GDP.PCAP.KD

STUDY DATA

	1	2	3	4	5	6	7	7.A	8
Data Description	FATF/FSRB Membership	FATF/FSRB Membership (FATF members not included in FRSBs)	Income Level (WBG)	Lending Status (WBG)	MER Date (based on FATF ratings list)	MER contains a ratio on informal economy/ cash economy.	In the MER, the level of informal/ shadow economy is regarded as a ML/TF risk or as a concern.	Same in the previous MER.	In the MER the use of cash or cash-intensive business is a concern.
COUNTRY/JURISDICTION									
1 ALBANIA	MONEYVAL	MONEYVAL	UMI	IBRD	Dec/18	Y	Y	Y	Y
2 ANDORRA	MONEYVAL	MONEYVAL	HI		Sep/17	N	N	N	Y
3 ANTIGUA and BARBUDA	CFATF	CFATF	HI	IBRD	Jul/18	N	N	N	Y
4 ARMENIA	MONEYVAL	MONEYVAL	UMI	IBRD	Jan/16	Y	Y	Y	Y
5 AUSTRALIA	FATF/APG	FATF	HI		Apr/15	N	N	N	Y
6 AUSTRIA	FATF	FATF	HI		Sep/16	N	N	N	Y
7 BAHAMAS, THE	CFATF	CFATF	HI		Aug/17	N	N	N	Y
8 BAHRAIN	MENAFATF	MENAFATF	HI		Sep/18	N	N		Y
9 BANGLADESH	APG	APG	LMI	IDA	Nov/16	N	Y	Y	Y
10 BARBADOS	CFATF	CFATF	HI		Feb/18	N	N	N	N
11 BELARUS	EAG	EAG	UMI	IBRD	Dec/19	N	N	N	Y
12 BELGIUM	FATF	FATF	HI		Apr/15	Y	N	N	Y
13 BERMUDA	CFATF	CFATF	HI		Jan/20	N	N	N	N
14 BHUTAN	APG	APG	LMI	IDA	Oct/16	Y	Y		Y
15 BOSTWANA	ESAAMLG	ESAAMLG	UMI	IBRD	May/17	N	Y	N	Y
16 BURKINA FASO	GIABA	GIABA	LI	IDA	May/19	Y	Y	Y	Y
17 CABO VERDE	GIABA	GIABA	LMI	BLEND	May/19	Y	Y	N	Y
18 CAMBODIA	APG	APG	LMI	IDA	Sep/17	N	Y	Y	Y
19 CANADA	FATF/APG	FATF	HI		Sep/16	N	N	N	N
20 CAYMAN ISLANDS	CFATF	CFATF	HI		Mar/19	N	N	N	N
21 CHINA	FATF/APG/EAG	FATF	UMI	IBRD	Apr/19	N	Y	N	N
22 COLOMBIA	GAFILAT	GAFILAT	UMI		Nov/18	Y	Y	N	Y
23 COOK ISLANDS	APG	APG			Sep/18	N	N	N	N
24 COSTA RICA	GAFILAT	GAFILAT	UMI	IBRD	Dec/15	N	Y		Y
25 CUBA	GAFILAT	GAFILAT	UMI		Dec/15	N	N		N
26 CYPRUS	MONEYVAL	MONEYVAL	HI		Dec/19	N	N	N	N
27 CZECH REPUBLIC	MONEYVAL	MONEYVAL	HI		Feb/19	N	N	N	Y
28 DENMARK	FATF	FATF	HI		Aug/17	N	N	N	N
29 DOMINICAN REPUBLIC	GAFILAT	GAFILAT	UMI	IBRD	Sep/18	Y	Y		N
30 ETHIOPIA	ESAAMLG	ESAAMLG	LI	IDA	Jun/15	Y	Y		Y
31 FIJI	APG	APG	UMI	BLEND	Nov/16	N	N	N	Y
32 FINLAND	FATF	FATF	HI		Apr/19	Y	Y	Y	N
33 GEORGIA	MONEYVAL	MONEYVAL	UMI	IBRD	Nov/20	Y	Y	N	Y
34 GHANA	GIABA	GIABA	LMI	IDA	Apr/18	Y	Y		Y
35 GIBRALTAR	MONEYVAL	MONEYVAL	HI		Dec/19	N	N		Y
36 GREECE	FATF	FATF	HI		Sep/19	Y	Y	Y	N
37 GUATEMALA	GAFILAT	GAFILAT	UMI	IBRD	Feb/17	Y	Y	Y	Y
38 HAITI	CFATF	CFATF	LI	IDA	Jul/19	N	Y	Y	Y
39 HONDURAS	GAFILAT	GAFILAT	LMI	IDA	Jan/17	N	Y	N	Y
40 HONG KONG SAR, CHINA	FATF/APG	FATF	HI		Sep/19	N	N	N	N
41 HUNGARY	MONEYVAL	MONEYVAL	HI		Sep/16	N	Y	N	Y
42 ICELAND	FATF	FATF	HI		Apr/18	N	N	N	Y
43 INDONESIA	APG	APG	UMI	IBRD	Sep/18	N	N	N	Y
44 IRELAND	FATF	FATF	HI		Sep/17	N	N	N	N
45 ISLE OF MAN	MONEYVAL	MONEYVAL	HI		Dec/16	N	N		N
46 ISRAEL	FATF/MONEYVAL	FATF	HI		Dec/18	N	Y	N	N
47 ITALY	FATF	FATF	HI		Feb/16	N	Y	N	Y
48 JAMAICA	CFATF	CFATF	UMI	IBRD	Jan/17	N	N	N	Y
49 JORDAN	MENAFATF	MENAFATF	UMI	IBRD	Jan/20	Y	Y	N	Y
50 KOREA, REP.	FATF/APG	FATF	HI		Apr/20	N	N	N	N
51 KYRGYZ REPUBLIC	EAG	EAG	LMI	IDA	Sep/18	Y	Y	Y	Y
52 LATVIA	MONEYVAL	MONEYVAL	HI		Jul/18	Y	Y	Y	Y
53 LITHUANIA	MONEYVAL	MONEYVAL	HI		Feb/19	Y	Y	Y	Y
54 MACAO SAR, CHINA	APG	APG	HI		Dec/17	N	N	N	N

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	1	2	3	4	5	6	7	7.A	8
Data Description	FATF/FSRB Membership	FATF/FSRB Membership (FATF members not included in FRSBs)	Income Level (WBG)	Lending Status (WBG)	MER Date (based on FATF ratings list)	MER contains a ratio on informal economy/ cash economy.	In the MER, the level of informal/ shadow economy is regarded as a ML/TF risk or as a concern.	Same in the previous MER.	In the MER the use of cash or cash-intensive business is a concern.
COUNTRY/JURISDICTION									
55 MADAGASCAR	ESAAMLG	ESAAMLG	LI	IDA	Sep/18	N	Y		Y
56 MALAWI	ESAAMLG	ESAAMLG	LI	IDA	Sep/19	N	Y	N	Y
57 MALAYSIA	FATF/APG	FATF	UMI	IBRD	Sep/15	N	N	Y	Y
58 MALI	GIABA	GIABA	LI	IDA	Mar/20	Y	Y	Y	Y
59 MALTA	MONEYVAL	MONEYVAL	HI		Jul/19	Y	Y	N	Y
60 MAURITANIA	MENAFATF	MENAFATF	LMI	IDA	Nov/18	N	Y	Y	Y
61 MAURITIUS	ESAAMLG	ESAAMLG	HI	IBRD	Jul/18	N	N	N	N
62 MEXICO	FATF/GAFILAT	FATF	UMI	IBRD	Jan/18	Y	Y	Y	Y
63 MOLDOVA	MONEYVAL	MONEYVAL	LMI	IBRD	Jul/19	N	N	N	Y
64 MONGOLIA	APG	APG	LI		Sep/17	Y	Y	Y	Y
65 MOROCCO	MENAFATF	MENAFATF	LMI	IBRD	Jun/19	Y	Y	N	Y
66 MYANMAR	APG	APG	LMI	IDA	Sep/18	Y	Y	Y	Y
67 NICARAGUA	GAFILAT	GAFILAT	LMI	IDA	Oct/17	Y	Y		Y
68 NORWAY	FATF	FATF	HI		Dec/14	N	N	N	N
69 NEW ZEALAND	FATF/APG	APG	HI		Feb/21	N	N	N	N
70 PAKISTAN	APG	APG	LMI	BLEND	Oct/19	N	Y	Y	Y
71 PALAU	APG	APG	HI	IBRD	Sep/18	N	N		Y
72 PANAMA	GAFILAT	GAFILAT	HI	IBRD	Jan/18	N	N		N
73 PERU	GAFILAT	GAFILAT	UMI	IBRD	Feb/19	Y	Y	N	Y
74 PHILIPPINES	APG	APG	LMI	IBRD	Oct/19	Y	Y	N	Y
75 PORTUGAL	FATF	FATF	HI		Dec/17	Y	Y	N	Y
76 RUSSIAN FEDERATION	FATF/MONEYVAL/EAG	FATF	UMI	IBRD	Dec/19	Y	Y	N	Y
77 SIERRA LEONE	GIABA	GIABA	LI	IDA	Dec/20	Y	Y	N	Y
78 ST. LUCIA	CFATF	CFATF	UMI	BLEND	Feb/21	N	N	N	Y
79 SAMOA	APG	APG	UMI	IDA	Oct/15	N	N	Y	Y
80 SAUDI ARABIA	FATF/MENAFATF	FATF	HI		Sep/18	N	N	Y	Y
81 SENEGAL	GIABA	GIABA	LMI	IDA	May/18	Y	Y	Y	Y
82 SERBIA	MONEYVAL	MONEYVAL	UMI	IBRD	Jun/16	Y	Y	N	Y
83 SEYCHELLES	ESAAMLG	ESAAMLG	HI	IBRD	Sep/18	N	N	N	N
84 SINGAPORE	FATF/APG	FATF	HI		Sep/16	Y	N	N	N
85 SLOVAK REPUBLIC	MONEYVAL	MONEYVAL	HI		Nov/20	Y	Y	N	Y
86 SLOVENIA	MONEYVAL	MONEYVAL	HI		Aug/17	N	N	N	N
87 SOLOMON ISLANDS	APG	APG	LMI	IDA	Oct/19	Y	Y	N	Y
88 SPAIN	FATF	FATF	HI		Dec/14	Y	Y	N	Y
89 SRI LANKA	APG	APG	LMI	IBRD	Oct/15	Y	Y	N	N
90 SWEDEN	FATF	FATF	HI		Apr/17	N	N	N	N
91 SWITZERLAND	FATF	FATF	HI		Dec/16	N	N	N	Y
92 TAJIKISTAN	EAG	EAG	LI	IDA	Dec/18	N	N	N	Y
93 TAIWAN, CHINA	APG	APG			Oct/19	Y	Y	N	Y
94 THAILAND	APG	APG	UMI	IBRD	Dec/17	Y	Y	Y	Y
95 TRINIDAD AND TOBAGO	CFATF	CFATF	HI	IBRD	Jun/16	N	N	N	Y
96 TUNISIA	MENAFATF	MENAFATF	LMI	IBRD	Jun/16	Y	Y	N	Y
97 TURKEY	FATF	FATF	UMI	IBRD	Dec/19	Y	Y	Y	Y
98 TURKS AND CAICOS	CFATF	CFATF	HI		Jan/20	N	N	N	N
99 UGANDA	ESAAMLG	ESAAMLG	LI	IDA	Sep/16	N	N	N	Y
100 UKRAINE	MONEYVAL	MONEYVAL	LMI	IBRD	Jan/18	Y	Y	Y	Y
101 UNITED ARAB EMIRATES	MENAFATF	MENAFATF	HI		Apr/20	N	N	N	Y
102 UNITED KINGDOM	FATF	FATF	HI		Dec/18	N	N	N	N
103 UNITED STATES	FATF/APG	FATF	HI		Dec/16	N	N	N	N
104 URUGUAY	GAFILAT	GAFILAT	HI	IBRD	Jan/20	Y	Y	N	N
105 VANUATU	APG	APG	LMI	IDA	Oct/15	N	N	N	Y
106 ZAMBIA	ESAAMLG	ESAAMLG	LMI	IDA	Jun/19	N	N	N	Y
107 ZIMBABWE	ESAAMLG	ESAAMLG	LMI	BLEND	Jan/17	N	Y	N	Y

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	9	10	10.A	11	11.A	12	13	14	15
Data Description	MER indicated a connection between informal/cash economy and financial exclusion.	MER cites financial exclusion (distinct from informal economy) as a ML/TF risk or concern.	Same in the previous MER	MER contains some ratios on financial inclusion (i.e., bank penetration, access to formal financial services/bank account).	Same in the previous MER	MER has reference to the jurisdiction's national policy or strategy for financial inclusion/financial education.	MER cited financial products/ measures aiming at the promotion of financial inclusion.	MER contains some recommendations about financial inclusion.	MER contains direct or indirect information on de-risking by banks or other institutions.
COUNTRY/JURISDICTION									
1 ALBANIA	Y	Y	N	N	N	Y	Y	Y	Y
2 ANDORRA	N	N	N	N	N	NI	NI	N	NI
3 ANTIGUA and BARBUDA	N	N	N	N	N	NI	NI	N	Y
4 ARMENIA	Y	Y	N	N	N	Y	Y	N	Y
5 AUSTRALIA	N	N	N	N	N	NI	NI	N	N
6 AUSTRIA	N	N	N	N	N	NI	NI	N	N
7 BAHAMAS, THE	N	N	N	N	Y	NI	NI	N	N
8 BAHRAIN	N	N		Y		NI	NI	N	N
9 BANGLADESH	N	N	N	Y	N	Y	Y	N	N
10 BARBADOS	N	N	N	N	N	NI	NI	N	N
11 BELARUS	N	N	N	Y	N	NI	NI	N	N
12 BELGIUM	N	N	N	N	N	NI	NI	N	Y
13 BERMUDA	N	N	N	N	N	NI	NI	N	Y
14 BHUTAN	N	Y		Y		Y	Y	N	N
15 BOSTWANA	N	Y	N	Y	N	NI	NI	N	N
16 BURKINA FASO	N	Y	N	Y	N	Y	Y	Y	N
17 CABO VERDE	N	N	N	N	N	N	Y	N	N
18 CAMBODIA	N	N	N	N	N	Y	Y	N	N
19 CANADA	N	N	N	Y	Y	N	N	N	N
20 CAYMAN ISLANDS	N	N	N	N	N	N	N	N	N
21 CHINA	N	N	N	N	N	NI	Y	N	N
22 COLOMBIA	N	N	N	Y	N	Y	NI	N	Y
23 COOK ISLANDS	N	N	N	Y	N	N	N	N	Y
24 COSTA RICA	N	Y		Y		N	Y	y	N
25 CUBA	N	Y		N		N	N	N	N
26 CYPRUS	N	N	N	N	N	NI	NI	N	Y
27 CZECH REPUBLIC	N	N	N	Y	N	N	N	N	Y
28 DENMARK	N	N	N	Y	N	N	N	N	N
29 DOMINICAN REPUBLIC	Y	Y		Y		N	N	N	N
30 ETHIOPIA	Y			Y		Y	Y	Y	N
31 FIJI	N	Y	N	Y	N	Y	Y	N	N
32 FINLAND	N	N	N	Y	N	N	N	N	Y
33 GEORGIA	Y	Y	N	Y	N	Y	NI	N	N
34 GHANA	N	Y		Y		Y	Y	Y	N
35 GIBRALTAR	N	N		N		N	N	N	N
36 GREECE	N	N	N	N	N	N	N	N	N
37 GUATEMALA	Y	Y	N	Y	N	Y	Y	N	N
38 HAITI	Y	Y	N	Y	N	Y	Y	Y	Y
39 HONDURAS	N	Y	N	Y	N	N	Y	N	N
40 HONG KONG SAR, CHINA	N	N	N	N	N	N	N	N	N
41 HUNGARY	N	Y	N	Y	N	Y	Y	N	N
42 ICELAND	N	N	N	N	N	N	N	N	N
43 INDONESIA	N	N	N	Y	N	Y	Y	N	Y
44 IRELAND	N	N	N	N	N	N	N	N	N
45 ISLE OF MAN	N	N		N		N	N	N	N
46 ISRAEL	N	N	N	N	N	N	N	N	Y
47 ITALY	N	N	N	N	N	N	N	N	N
48 JAMAICA	Y	Y	N	Y	N	Y	Y	N	N
49 JORDAN	N	Y	N	Y	N	Y	Y	N	N
50 KOREA, REP.	N	N	N	Y	N	N	N	N	N
51 KYRGYZ REPUBLIC	N	Y	N	Y	N	NI	Y	N	N
52 LATVIA	Y	N	N	Y	N	Y	Y	N	Y
53 LITHUANIA	N	N	N	N	N	N	N	N	Y
54 MACAO SAR, CHINA	N	N	N	N	N	N	N	N	N

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	9	10	10.A	11	11.A	12	13	14	15
Data Description	MER indicated a connection between informal/cash economy and financial exclusion.	MER cites financial exclusion (distinct from informal economy) as a ML/TF risk or concern.	Same in the previous MER	MER contains some ratios on financial inclusion (i.e., bank penetration, access to formal financial services/ bank account).	Same in the previous MER	MER has reference to the jurisdiction's national policy or strategy for financial inclusion/ financial education.	MER cited financial products/ measures aiming at the promotion of financial inclusion.	MER contains some recommendations about financial inclusion.	MER contains direct or indirect information on de-risking by banks or other institutions.
COUNTRY/JURISDICTION									
55 MADAGASCAR	Y	Y		Y		N	Y	Y	N
56 MALAWI	Y	Y	N	N	Y	Y	Y	Y	N
57 MALAYSIA	N	N	N	Y	N	Y	Y	N	Y
58 MALI	N	Y	Y	Y	N	Y	Y	Y	N
59 MALTA	N	Y	N	N	Y	N	N	N	N
60 MAURITANIA	Y	Y	Y	Y	N	N	N	Y	N
61 MAURITIUS	N	N	N	Y	N	N	N	N	N
62 MEXICO	Y	Y	N	Y	Y	Y	Y	N	Y
63 MOLDOVA	Y	Y	N	N	N	Y	N	N	N
64 MONGOLIA	N	Y	N	Y	N	N	N	N	N
65 MOROCCO	Y	Y	N	Y	N	Y	NI	N	N
66 MYANMAR	Y	Y	N	Y	Y	NI	NI	N	Y
67 NICARAGUA	Y	Y		Y		N	N	N	N
68 NORWAY	N	N	N	N	N	N	NI	N	N
69 NEW ZEALAND	N	N	N	N	N	NI	NI	N	Y
70 PAKISTAN	N	N	N	N	Y	Y	Y	N	N
71 PALAU	N	N	N	N	N	N	N	Y	N
72 PANAMA	N	N		N		N	N	N	N
73 PERU	N	Y	N	N	N	Y	Y	N	N
74 PHILIPPINES	N	Y	N	Y	Y	Y	Y	Y	Y
75 PORTUGAL	N	N	N	N	N	N	N	N	N
76 RUSSIAN FEDERATION	N	N	N	N	N	N	N	N	N
77 SIERRA LEONE	Y	Y	N	Y	N	Y	Y	Y	Y
78 ST. LUCIA	N	N	N	N	N	N	N	N	N
79 SAMOA	N	N	Y	Y	N	Y	N	N	Y
80 SAUDI ARABIA	N	N	N	N	N	N	N	N	N
81 SENEGAL	N	N	Y	N	N	Y	Y	N	N
82 SERBIA	N	N	N	N	N	Y	Y	N	N
83 SEYCHELLES	N	N	N	Y	N	N	N	N	Y
84 SINGAPORE	N	N	N	N	N	N	N	N	N
85 SLOVAK REPUBLIC	N	N	N	Y	N	N	N	N	N
86 SLOVENIA	N	N	N	Y	N	N	N	N	N
87 SOLOMON ISLANDS	N	N	N	N	N	N	N	N	N
88 SPAIN	N	N	N	N	N	N	N	N	Y
89 SRI LANKA	N	Y	N	Y	N	Y	Y	Y	Y
90 SWEDEN	N	N	N	Y	N	N	N	N	N
91 SWITZERLAND	N	N	N	N	N	N	N	N	N
92 TAJIKISTAN	N	N	N	N	N	N	N	N	N
93 TAIWAN, CHINA	N	N	N	Y	N	Y	Y	N	Y
94 THAILAND	N	Y	N	Y	N	N	N	N	N
95 TRINIDAD AND TOBAGO	Y	Y	N	Y	N	Y	NI	N	N
96 TUNISIA	N	Y	N	Y	N	N	N	Y	N
97 TURKEY	N	N	N	N	N	N	N	N	Y
98 TURKS AND CAICOS	N	N	N	N	N	N	N	N	Y
99 UGANDA	Y	Y	Y	Y	Y	N	Y	Y	N
100 UKRAINE	Y	Y	N	Y	Y	Y	Y	Y	N
101 UNITED ARAB EMIRATES	N	N	N	N	N	N	N	N	Y
102 UNITED KINGDOM	N	N	N	Y	N	N	N	N	N
103 UNITED STATES	N	N	N	Y	N	N	N	N	N
104 URUGUAY	Y	Y	N	Y	N	Y	Y	N	N
105 VANUATU	N	N	N	N	N	Y	Y	N	N
106 ZAMBIA	N	N	N	Y	N	Y	Y	N	N
107 ZIMBABWE	N	Y	N	Y	N	Y	Y	N	N

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	16	17	18	19	20	21	22	23	24
Data Description	The jurisdiction has up-to-date and complete NRA.	NRA has been used to frame low risk factors for exemption.	NRA has lower risk scenarios for SDD.	FIs and DNFBP are required to make risk assessment to identify, assess, and mitigate risks.	The jurisdiction allows some exemptions of FATF Recommendations under law/regulations	Exemptions of some financial/nonfinancial activities are based on risk assessments.	The exemptions are based on low-risk cases/transactions	The obliged entities can apply exemptions based on risk assessment.	The jurisdiction /legislation/regulation/regulations allow simplified measures to be applied in predetermined scenarios
COUNTRY/JURISDICTION									
1 ALBANIA	Y	N	N	Y	N				N
2 ANDORRA	Y	N	N	N	N				Y
3 ANTIGUA and BARBUDA	Y	N		Y	Y		N	NI	Y
4 ARMENIA	Y	N	N	Y	N				Y
5 AUSTRALIA	Y	N	NI	Y	Y	N	N	NI	Y
6 AUSTRIA	Y	NI	N	Y	N				Y
7 BAHAMAS, THE	N			N	N				Y
8 BAHRAIN	N			Y	N				Y
9 BANGLADESH	Y	Y	Y	Y	Y		Y	NI	Y
10 BARBADOS	Y	N	N	Y	N				Y
11 BELARUS	N			Y	N				N
12 BELGIUM	Y	NI	NI	Y	Y		N	N	Y
13 BERMUDA	Y	NI	NI	Y	Y		Y	NI	N
14 BHUTAN	Y	NI	NI	Y	Y		N	NI	N
15 BOSTWANA	N			N	Y		N	N	N
16 BURKINA FASO	Y	N	N	Y	N				N
17 CABO VERDE	N	NI	NI	Y	N				Y
18 CAMBODIA	Y	NI	NI	Y	N				Y
19 CANADA	Y	Y	N	Y	Y	N	Y	NI	N
20 CAYMAN ISLANDS	N	NI	NI	Y	Y	NI	N	NI	Y
21 CHINA	Y	n	NI	Y	N				N
22 COLOMBIA	Y	NI	N	Y	N	N			Y
23 COOK ISLANDS	Y	NI	NI	y	y	NI	y	NI	Y
24 COSTA RICA	Y	NI	NI	Y	Y	NI	N	NI	N
25 CUBA	Y	N		Y	N				N
26 CYPRUS	Y	Y	NI	Y	Y		N	NI	Y
27 CZECH REPUBLIC	Y	Y	Y	Y	Y		Y	NI	Y
28 DENMARK	Y	N	N	Y	Y	N	Y	NI	N
29 DOMINICAN REPUBLIC	Y	NI	NI	Y	N				N
30 ETHIOPIA	N			Y	N				N
31 FIJI	Y	N	N	Y	N				Y
32 FINLAND	Y	N	N	Y	Y		Y	NI	Y
33 GEORGIA	Y	N	N	Y	N	N			N
34 GHANA	Y	N	N	Y	N				N
35 GIBRALTAR	Y	N	N	Y	Y		N	NI	N
36 GREECE	Y	N	N	Y	Y		Y	NI	N
37 GUATEMALA	N	N	NI	Y	N				Y
38 HAITI	N			N	N	N			N
39 HONDURAS	Y	N	N	Y	N	N			Y
40 HONG KONG SAR, CHINA	Y	NI	NI	Y	Y	NI	N	NI	Y
41 HUNGARY	Y	N	N	N	Y		N	NI	Y
42 ICELAND	Y	N	N	N	Y		N	NI	Y
43 INDONESIA	Y	NI	NI	Y	N	NI			Y
44 IRELAND	Y	N	N	N	Y		N	N	Y
45 ISLE OF MAN	Y	N	N	Y	Y		Y	NI	N
46 ISRAEL	Y	NI	NI	Y	Y	N	N	NI	Y
47 ITALY	Y	NI	NI	Y	Y		N	NI	Y
48 JAMAICA	N			Y	Y		N	NI	N
49 JORDAN	N	NI	NI	N	N				N
50 KOREA, REP.	Y	N	Y	Y	Y	N	N	NI	Y
51 KYRGYZ REPUBLIC	Y	N	NI	N	N	N			Y
52 LATVIA	Y	N	N	Y	N				Y
53 LITHUANIA	N	NI	NI	Y	N				Y
54 MACAO SAR, CHINA	Y	NI	NI	Y	N				Y

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	16	17	18	19	20	21	22	23	24
Data Description	The jurisdiction has up-to-date and complete NRA.	NRA has been used to frame low risk factors for exemption.	NRA has lower risk scenarios for SDD.	FIs and DNFBP are required to make risk assessment to identify, assess, and mitigate risks.	The jurisdiction allows some exemptions of FATF Recommendations under law/regulations	Exemptions of some financial/nonfinancial activities are based on risk assessments.	The exemptions are based on low-risk cases/transactions	The obliged entities can apply exemptions based on risk assessment.	The jurisdiction /legislation/regulations allow simplified measures to be applied in predetermined scenarios
COUNTRY/JURISDICTION									
55 MADAGASCAR	N			N	N				N
56 MALAWI	Y	NI	NI	Y	N				N
57 MALAYSIA	Y	NI	NI	Y	Y	Y	Y	NI	Y
58 MALI	N			Y	Y		Y	NI	N
59 MALTA	Y	N	N	Y	Y	N	Y	NI	Y
60 MAURITANIA	N			N	N				N
61 MAURITIUS	N			N	Y		N	NI	Y
62 MEXICO	Y	NI	NI	Y	N				Y
63 MOLDOVA	Y	NI	NI	Y	Y		Y	NI	N
64 MONGOLIA	Y	N	N	Y	N	N			N
65 MOROCCO	N	NI	NI	N	N				Y
66 MYANMAR	N			Y	N				N
67 NICARAGUA	Y	N	NI	Y	N				N
68 NORWAY	Y	NI	NI	Y	N				Y
69 NEW ZEALAND	Y	N	Y	Y	N	N			Y
70 PAKISTAN	Y	N	N	Y	N				N
71 PALAU	Y	N	NI	N	N	Y			N
72 PANAMA	Y	NI	NI	Y	N				N
73 PERU	Y	NI	NI	Y	N				Y
74 PHILIPPINES	Y	Y	Y	Y	Y		Y	Y	N
75 PORTUGAL	Y	N	N	Y	N	Y			Y
76 RUSSIAN FEDERATION	Y	NI	NI	Y	N				Y
77 SIERRA LEONE	Y	N	N	Y	N				N
78 ST. LUCIA	Y	N	N	Y	Y		N	NI	Y
79 SAMOA	Y	Y	NI	Y	Y		Y	NI	Y
80 SAUDI ARABIA	Y	N	N	Y	N				N
81 SENEGAL	Y	N	N	N	N				N
82 SERBIA	Y	N	NI	NI	Y		N	NI	Y
83 SEYCHELLES	Y	N	N	N	N				Y
84 SINGAPORE	Y	N	Y	Y	Y		N	NI	Y
85 SLOVAK REPUBLIC	Y	N	N	Y	Y		N	N	Y
86 SLOVENIA	Y	N	N	Y	N	N			N
87 SOLOMON ISLANDS	Y	N	N	N	N				N
88 SPAIN	Y	NI	NI	Y	Y	Y	Y	NI	Y
89 SRI LANKA	Y	N	N	N	Y		N	NI	N
90 SWEDEN	Y	N	N	Y	Y	N	N	NI	N
91 SWITZERLAND	Y	NI	NI	Y	Y		N	NI	N
92 TAJIKISTAN	Y	NI	N	N	N				Y
93 TAIWAN, CHINA	Y	N	NI	Y	Y		N	NI	Y
94 THAILAND	Y	N	Y	Y	Y	N	N	NI	Y
95 TRINIDAD AND TOBAGO	N	N	N	Y	N				N
96 TUNISIA	N			N	N				Y
97 TURKEY	Y	NI	N	Y	N	N			Y
98 TURKS AND CAICOS	Y	N	N	Y	Y		N	NI	N
99 UGANDA	N			N	N				N
100 UKRAINE	Y	N	N	Y	Y		N	NI	Y
101 UNITED ARAB EMIRATES	Y	N	Y	Y	N				N
102 UNITED KINGDOM	Y	Y	NI	Y	Y		Y	NI	N
103 UNITED STATES	Y	N	NI	Y	Y	N	N	NI	N
104 URUGUAY	Y	N	NI	Y	N				N
105 VANUATU	N			N	N				N
106 ZAMBIA	Y	NI	NI	Y	N				N
107 ZIMBABWE	Y	NI	Y	N	Y		N	NI	N

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	25	26	27	28	29	30	31	32	33
Data Description	The jurisdiction has a tiered CDD approach.	The SDD set out by the jurisdiction are based on risk assessments or NRA.	SDD measures are in fact exemptions according to the assessors.	SDD measures are allowed when lower risk has been identified by obliged entities.	SDD applied by obliged entities is really based on risk assessment/ lower risk factors and commensurate with NRA/risk assessment.	Obliged entities need to get the approval of supervisory authority for SDD based on risk assessments.	SDD/exemptions cannot be applied where there is a suspicion of ML/TF.	There are some recommendations for the jurisdiction regarding simplified measures.	There is distinction among sectors related to SDD.
COUNTRY/JURISDICTION									
1 ALBANIA	N			N				N	
2 ANDORRA	N	N	Y	Y	NI	NI	Y	N	N
3 ANTIGUA and BARBUDA	N	NI	N	Y	NI	NI	Y	N	N
4 ARMENIA	N	N	N	N			Y	N	N
5 AUSTRALIA	N	N	Y	N			Y	N	N
6 AUSTRIA	N	N	N	N			Y	N	Y
7 BAHAMAS, THE	N	N	NI	N			Y	N	N
8 BAHRAIN	N	N	N	N			Y	N	Y
9 BANGLADESH	N	Y	N	Y	NI	Y	Y	N	N
10 BARBADOS	N	N	N	N			Y	N	Y
11 BELARUS	N			N				Y	N
12 BELGIUM	N	N	N	N			Y	N	N
13 BERMUDA	N			Y	NI	N	Y	N	N
14 BHUTAN	N			Y	NI	Y	Y	N	N
15 BOSTWANA	N			N			NI	N	N
16 BURKINA FASO	N			Y	N	NI	Y	Y	N
17 CABO VERDE	N	N	N	Y	NI	NI	Y	N	N
18 CAMBODIA	N	N	N	N				Y	N
19 CANADA	M			N				N	N
20 CAYMAN ISLANDS	N	N	Y	Y	Y	NI	Y	Y	N
21 CHINA	Y	Y	N	Y	NI	Y	Y	N	N
22 COLOMBIA	N	Y	N	N		NI	Y	N	Y
23 COOK ISLANDS	N	Y	N	Y	NI	NI	Y	N	N
24 COSTA RICA	N			Y	N	Y	NI	Y	Y
25 CUBA	N			Y	NI	Y	Y	Y	N
26 CYPRUS	N	Y	N	Y	NI	NI	N	Y	N
27 CZECH REPUBLIC	N	N	N	Y	NI	NI	Y	Y	N
28 DENMARK	N		Y	Y	NI	Y	Y	Y	N
29 DOMINICAN REPUBLIC	N			Y	NI	NI	Y	N	Y
30 ETHIOPIA	N			Y	NI	NI	Y	N	N
31 FIJI	N	NI	N	Y	NI	NI	Y	N	N
32 FINLAND	N	NI	N	Y	NI	NI	Y	Y	N
33 GEORGIA	N			Y	NI	Y	Y	N	N
34 GHANA	N		N	Y	N	NI	Y	Y	N
35 GIBRALTAR	N		N	Y	N	N	N	Y	N
36 GREECE	N		N	Y	Y	NI	Y	Y	N
37 GUATEMALA	N	NI	N	Y	NI	Y	N	N	N
38 HAITI	N			N				N	
39 HONDURAS	N	Y		Y	NI	NI	Y	N	N
40 HONG KONG SAR, CHINA	N	N	N	Y	NI	NI	Y	N	N
41 HUNGARY	N	N	Y	N			Y	N	N
42 ICELAND	N	N	N	Y	NI	Y	Y	N	N
43 INDONESIA	N	Y	N	Y	NI	NI	Y	N	N
44 IRELAND	N	N	N	N			Y	N	N
45 ISLE OF MAN	N			Y	NI	Y	Y	N	N
46 ISRAEL	N	N	Y	N			Y	N	Y
47 ITALY	N	NI	N	N			Y	N	N
48 JAMAICA	N			N			N	N	N
49 JORDAN	N			N				Y	Y
50 KOREA, REP.	N	Y	N	Y	NI	NI	Y	N	Y
51 KYRGYZ REPUBLIC	N	N	N	N			N	N	N
52 LATVIA	N	N	N	N			Y	N	N
53 LITHUANIA	N	N	N	Y	NI	NI	Y	N	N
54 MACAO SAR, CHINA	N	Y	N	N			Y	N	N

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	25	26	27	28	29	30	31	32	33
Data Description	The jurisdiction has a tiered CDD approach.	The SDD set out by the jurisdiction are based on risk assessments or NRA.	SDD measures are in fact exemptions according to the assessors.	SDD measures are allowed when lower risk has been identified by obliged entities.	SDD applied by obliged entities is really based on risk assessment/ lower risk factors and commensurate with NRA/risk assessment.	Obliged entities need to get the approval of supervisory authority for SDD based on risk assessments.	SDD/exemptions cannot be applied where there is a suspicion of ML/TF.	There are some recommendations for the jurisdiction regarding simplified measures.	There is distinction among sectors related to SDD.
COUNTRY/JURISDICTION									
55 MADAGASCAR	N			N				N	
56 MALAWI	N			Y	NI	NI	N	N	N
57 MALAYSIA	N	Y	N	N			Y	N	N
58 MALI	N			Y	Y	Y	Y	Y	N
59 MALTA	N	NI	N	Y	N	NI	Y	Y	N
60 MAURITANIA	N			N				Y	
61 MAURITIUS	N	N	N	N			Y	Y	N
62 MEXICO	Y	Y	N	Y	NI	NI	N	N	Y
63 MOLDOVA	N			Y	N	NI	Y	N	N
64 MONGOLIA	N			N				Y	
65 MOROCCO	N	N	N	N			Y	N	N
66 MYANMAR	N			Y	N	NI	Y	N	N
67 NICARAGUA	N			Y	Y	NI	NI	N	N
68 NORWAY	N	N	Y	N			Y	N	N
69 NEW ZEALAND	N	Y	N	N			N	N	N
70 PAKISTAN	Y	Y		Y	N	NI	Y	N	Y
71 PALAU	N			Y	N	NI	N	Y	N
72 PANAMA	N			Y	NI	Y	N	N	N
73 PERU	N	Y	N	Y	NI	Y	Y	N	Y
74 PHILIPPINES	N			Y	NI	Y	Y	N	N
75 PORTUGAL	N	N	N	Y	NI	NI	Y	N	N
76 RUSSIAN FEDERATION	N	Y	N	N			Y	N	N
77 SIERRA LEONE	N			Y	NI	N	N	Y	N
78 ST. LUCIA	N	N	N	Y	N	NI	N	N	N
79 SAMOA	N	N	N	Y	N	NI	Y	N	N
80 SAUDI ARABIA	N			Y	NI	NI	Y	N	Y
81 SENEGAL	N			N				Y	N
82 SERBIA	N	N	N	Y	N	NI	Y	Y	N
83 SEYCHELLES	N	N	N	N			Y	N	N
84 SINGAPORE	N	Y		Y	NI	NI	Y	N	N
85 SLOVAK REPUBLIC	N	N		N			Y	Y	N
86 SLOVENIA	N			Y	NI	NI	Y	Y	N
87 SOLOMON ISLANDS	N			N				Y	
88 SPAIN	N	Y	N	N			Y	N	N
89 SRI LANKA	N			N				Y	N
90 SWEDEN	N		Y	N			Y	N	N
91 SWITZERLAND	N			N				N	Y
92 TAJIKISTAN	N	N	N	N			N	N	N
93 TAIWAN, CHINA	N	N	N	N			Y	Y	Y
94 THAILAND	N	N	N	Y	N	NI	NI	N	N
95 TRINIDAD AND TOBAGO	N		N	Y	N	NI	Y	N	N
96 TUNISIA	N	N	N	N			Y	N	N
97 TURKEY	N	N	N	N			Y	N	N
98 TURKS AND CAICOS	N		Y	N			Y	N	N
99 UGANDA	N		N	Y	N	NI	Y	N	N
100 UKRAINE	N	Y	N	N			Y	N	Y
101 UNITED ARAB EMIRATES	N			Y	Y	NI	Y	N	N
102 UNITED KINGDOM	N			Y	Y	NI	Y	N	N
103 UNITED STATES	N			N				N	
104 URUGUAY	N			Y	NI	NI	Y	N	Y
105 VANUATU	N			Y	NI	Y	NI	N	N
106 ZAMBIA	N			Y	Y	NI	N	N	N
107 ZIMBABWE	N			N				N	N

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	34	35	36	37	38	39	40	41	42
Data Description	There is a requirement to verify the potential/ existing customer's address according to the CDD measures.	The jurisdiction has ID number/ ID-citizen database/ID infrastructure for citizens.	A kind of SDD (pre-determined SDD and/or discretionary SDD)	Jurisdictions that allow both predefined SDD and discretionary SDD	Only discretionary SDD is allowed.	Shadow economy, as of 2015	Shadow economy groups: (1) 9% or less, (2) 10%–19%, (3) 20%–29%, (4) 30%–39%, (5) 40%–49%, (6) 50%–59%, (7) 60% and more.	Account (% age 15+) 2017	Financial exclusion rate (rate of those who don't have accounts)
COUNTRY/JURISDICTION									
1 ALBANIA	N	Y	N	N	N	26.21%	3	40%	60%
2 ANDORRA	NI	Y	Y	Y	N				NI
3 ANTIGUA and BARBUDA	Y	NI	Y	Y	N				NI
4 ARMENIA	NI	Y	Y	N	N	35.96%	4	48%	52%
5 AUSTRALIA	Y	NI	Y	N	N	8.10%	1	100%	0%
6 AUSTRIA	N	NI	Y	N	N	9.01%	1	98%	2%
7 BAHAMAS, THE	NI	NI	Y	N	N	38.55%	4		
8 BAHRAIN	Y	Y	Y	N	N	16.63%	2	83%	17%
9 BANGLADESH	Y	Y	Y	Y	N	27.60%	3	50%	50%
10 BARBADOS	Y	NI	Y	N	N				
11 BELARUS	NI	Y	N	N	N	32.37%	4	81%	19%
12 BELGIUM	NI	NI	Y	N	N	17.80%	2	99%	1%
13 BERMUDA	NI	NI	Y	N	Y				
14 BHUTAN	Y	Y	Y	N	Y	20.28%	3	34%	66%
15 BOSTWANA	Y	Y	N	N	N	23.99%	3	51%	49%
16 BURKINA FASO	NI	Y	Y	N	Y	29.63%	4	43%	57%
17 CABO VERDE	NI	NI	Y	Y	N	30.23%	4		
18 CAMBODIA	Y	Y	Y	N	N	33.85%	4	22%	78%
19 CANADA	N	NI	N	N	N	9.42%	1	100%	0%
20 CAYMAN ISLANDS	NI	NI	Y	Y	N				
21 CHINA	N	Y	Y	N	Y	12.11%	2	80%	20%
22 COLOMBIA	Y	Y	Y	N	N	25.25%	3	46%	54%
23 COOK ISLANDS	N	Y	Y	Y	N				
24 COSTA RICA	Y	Y	Y	N	Y	19.24%	2	68%	32%
25 CUBA	N	Y	Y	N	Y				
26 CYPRUS	N	Y	Y	Y	N	32.20%	4	89%	11%
27 CZECH REPUBLIC	NI	Y	Y	Y	N	10.47%	2	81%	19%
28 DENMARK	Y	Y	Y	N	Y	14.70%	2	100%	0%
29 DOMINICAN REPUBLIC	N	Y	Y	N	Y	27.97%	3	56%	44%
30 ETHIOPIA	NI	N	Y	N	Y	25.10%	3	35%	65%
31 FIJI	N	NI	Y	Y	N	25.37%	3		
32 FINLAND	Y	Y	Y	Y	N	13.30%	2	100%	0%
33 GEORGIA	N	NI	Y	N	Y	53.07%	6	61%	39%
34 GHANA	NI	N	Y	N	Y	39.37%	4	58%	42%
35 GIBRALTAR	Y	Y	Y	N	Y				
36 GREECE	NI	Y	Y	N	Y	26.45%	3	85%	15%
37 GUATEMALA	Y	Y	Y	Y	N	16.88%	2	44%	56%
38 HAITI	Y	N	N	N	N	56.38%	6	33%	67%
39 HONDURAS	Y	Y	Y	Y	N	37.68%	4	45%	55%
40 HONG KONG SAR, CHINA	NI	NI	Y	Y	N	12.39%	2	95%	5%
41 HUNGARY	NI	NI	Y	N	N	20.49%		75%	25%
42 ICELAND	N	Y	Y	Y	N	12.45%	2		
43 INDONESIA	Y	Y	Y	Y	N	21.76%	3	49%	51%
44 IRELAND	NI	NI	Y	N	N	9.58%	2	95%	5%
45 ISLE OF MAN	N	NI	Y	N	Y				
46 ISRAEL	N	NI	Y	N	N	19.18%	2	93%	7%
47 ITALY	N	NI	Y	N	N	22.97%	3	94%	6%
48 JAMAICA	Y	N	N	N	N	24.97%	3	78%	22%
49 JORDAN	N	Y	N	N	N	15.16%	1	42%	58%
50 KOREA, REP.	Y	Y	Y	Y	N	19.83%	3	95%	5%
51 KYRGYZ REPUBLIC	NI	NI	Y	N	N	30.78%	4	40%	60%
52 LATVIA	N	NI	Y	N	N	16.62%	2	93%	7%
53 LITHUANIA	N	NI	Y	Y	N	18.65%	2	83%	17%
54 MACAO SAR, CHINA	Y	NI	Y	N	N				

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	34	35	36	37	38	39	40	41	42
Data Description	There is a requirement to verify the potential/ existing customer's address according to the CDD measures.	The jurisdiction has ID number/ ID-citizen database/ID infrastructure for citizens.	A kind of SDD (pre-determined SDD and/or discretionary SDD)	Jurisdictions that allow both predefined SDD and discretionary SDD	Only discretionary SDD is allowed.	Shadow economy, as of 2015	Shadow economy groups: (1) 9% or less, (2) 10%–19%, (3) 20%–29%, (4) 30%–39%, (5) 40%–49%, (6) 50%–59%, (7) 60% and more.	Account (% age 15+) 2017	Financial exclusion rate (rate of those who don't have accounts)
COUNTRY/JURISDICTION									
55 MADAGASCAR	Y	Y	N	N	N	45.29%	5	18%	82%
56 MALAWI	Y	N	Y	N	Y	33.56%	4	34%	66%
57 MALAYSIA	Y	Y	Y	N	N	26.07%	3	85%	15%
58 MALI	N	N	Y	N	Y	29.45%	3	35%	65%
59 MALTA	N	NI	Y	Y	N	29.43%	3	97%	3%
60 MAURITANIA	Y	NI	N	N	N	25.75%	3	21%	79%
61 MAURITIUS	Y	Y	Y	N	N	19.23%	2	90%	10%
62 MEXICO	Y	Y	Y	Y	N	28.07%	3	37%	63%
63 MOLDOVA	N	NI	Y	N	Y	39.68%	5	44%	56%
64 MONGOLIA	N	Y	N	N	N	13.20%	2	93%	7%
65 MOROCCO	NI	NI	Y	N	N	27.13%	3	29%	71%
66 MYANMAR	N	Y	Y	N	Y	50.99%	6	26%	74%
67 NICARAGUA	NI	NI	Y	N	Y	39.51%	5	31%	69%
68 NORWAY	N	Y	Y	N	N	15.07%	2	100%	0%
69 NEW ZEALAND	NI	Y	Y	N	N	8.97%	1	99%	1%
70 PAKISTAN	Y	Y	Y	N	Y	31.62%	4	21%	79%
71 PALAU	N	N	Y	N	Y				
72 PANAMA	Y	Y	Y	N	Y			46%	54%
73 PERU	NI	Y	Y	Y	N	41.53%	5	43%	57%
74 PHILIPPINES	NI	Y	Y	N	Y	28.04%	3	34%	66%
75 PORTUGAL	N	NI	Y	Y	N	17.87%	2	92%	8%
76 RUSSIAN FEDERATION	Y	NI	Y	N	N	33.72%	4	76%	24%
77 SIERRA LEONE	Y	Y	Y	N	Y	34.18%	4	20%	80%
78 ST. LUCIA	Y	Y	Y	Y	N				
79 SAMOA	NI	NI	Y	Y	N				
80 SAUDI ARABIA	Y	Y	Y	N	Y	14.70%	2	72%	28%
81 SENEGAL	Y	Y	N	N	N	33.68%	4	42%	58%
82 SERBIA	N	NI	Y	Y	N			71%	29%
83 SEYCHELLES	Y	Y	Y	N	N				
84 SINGAPORE	N	Y	Y	Y	N	9.20%	1	98%	2%
85 SLOVAK REPUBLIC	NI	NI	Y	N	N	11.18%	2	84%	16%
86 SLOVENIA	NI	Y	Y	N	Y	20.21%	3	98%	2%
87 SOLOMON ISLANDS	Y	NI	N	N	N	30.89%	4		
88 SPAIN	NI	NI	Y	N	N	22.01%	3	94%	6%
89 SRI LANKA	Y	NI	N	N	N	35.49%	4	74%	26%
90 SWEDEN	NI	Y	N	N	N	11.74%	2	100%	0%
91 SWITZERLAND	N	NI	N	N	N	6.94%	1	98%	2%
92 TAJIKISTAN	NI	NI	Y	N	N	37.73%	4	47%	53%
93 TAIWAN, CHINA	N	NI	Y	N	N				
94 THAILAND	Y	NI	Y	Y	N	43.12%	5	82%	18%
95 TRINIDAD AND TOBAGO	NI	NI	Y	N	Y	31.40%	4	81%	19%
96 TUNISIA	Y	Y	Y	N	N	30.90%	4	37%	63%
97 TURKEY	Y	Y	Y	N	N	27.43%	3	69%	31%
98 TURKS AND CAICOS	NI	Y	N	N	N				
99 UGANDA	N	N	Y	N	Y	31.88%	4	59%	41%
100 UKRAINE	N	Y	Y	N	N	42.90%	5	63%	37%
101 UNITED ARAB EMIRATES	NI	Y	Y	N	Y	24.26%	3	88%	12%
102 UNITED KINGDOM	N	NI	Y	N	Y	8.32%	1	96%	4%
103 UNITED STATES	Y	Y	N	N	N	7.00%	1	93%	7%
104 URUGUAY	N	Y	Y	N	Y	20.38%	3	64%	36%
105 VANUATU	NI	NI	Y	N	Y				
106 ZAMBIA	Y	N	Y	N	Y	32.99%	4	46%	54%
107 ZIMBABWE	Y	NI	N	N	N	67.00%	7	55%	45%

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	43	44	45	46	47
Data Description	Financial exclusion groups: (1) 9% or less, (2) 10%–19%, (3) 20%–29%, (4) 30%–39%, (5) 40%–49%, (6) 50%–59%, (7) 60% and more.	Fragile and Post Conflict States	Legal System	GDP-2015 (Constant USD 2010)	GDP Per Capita-2015 (Constant USD 2010)
COUNTRY/JURISDICTION					
1 ALBANIA	7	N	CivL	13,033,375,122	4,524
2 ANDORRA		N	ComL	3,287,458,571	42,141
3 ANTIGUA and BARBUDA		N	ComL	1,247,061,369	13,328
4 ARMENIA	6	N	CivL	11,479,040,584	3,924
5 AUSTRALIA	1	N	ComL	1,311,782,435,234	55,080
6 AUSTRIA	1	N	CivL	413,029,270,084	47,789
7 BAHAMAS, THE		N	ComL	10,298,092,269	27,520
8 BAHRAIN	2	N	ML	30,778,484,043	22,436
9 BANGLADESH	6	N	ML	156,629,530,357	1,002
10 BARBADOS		N	ComL	4,518,500,000	15,836
11 BELARUS	2	N	CivL	60,589,462,936	6,385
12 BELGIUM	1	N	CivL	513,013,709,008	45,503
13 BERMUDA		N	ComL		
14 BHUTAN	7	N	ML	2,024,091,803	2,781
15 BOSTWANA	5	N	ML	16,146,492,037	7,614
16 BURKINA FASO	6	Y	ML	13,160,121,367	727
17 CABO VERDE		N		1,791,765,400	3,415
18 CAMBODIA	7	N	CivL	15,903,594,934	1,025
19 CANADA	1	N	ComL	1,794,500,549,645	50,262
20 CAYMAN ISLANDS		N	ComL	4,551,569,361	73,741
21 CHINA	3	N	ML	8,913,316,598,061	6,500
22 COLOMBIA	6	N	CivL	360,219,751,074	7,580
23 COOK ISLANDS		N	ComL		
24 COSTA RICA	4	N	CivL	44,693,794,269	9,219
25 CUBA		N	CivL	73,868,565,770	6,523
26 CYPRUS	2	N	ML	23,648,094,815	27,898
27 CZECH REPUBLIC	2	N	CivL	225,492,702,209	21,382
28 DENMARK	1	N	CivL	343,294,474,743	60,402
29 DOMINICAN REPUBLIC	5	N	CivL	68,495,164,568	6,662
30 ETHIOPIA	7	N	ML	48,667,131,303	483
31 FIJI		N	ComL	3,786,536,322	4,359
32 FINLAND	1	N	CivL	250,126,829,516	45,647
33 GEORGIA	4	N	CivL	15,593,311,954	4,186
34 GHANA	5	N	ML	45,280,184,655	1,626
35 GIBRALTAR		N	ComL		
36 GREECE	2	N	CivL	244,718,538,732	22,615
37 GUATEMALA	6	N	CivL	49,984,953,618	3,211
38 HAITI	7	Y	CivL	7,798,330,009	729
39 HONDURAS	6	N	CivL	18,839,040,425	2,067
40 HONG KONG SAR, CHINA	1	N	ML	264,386,769,836	36,261
41 HUNGARY	3	N	CivL	145,140,270,520	14,745
42 ICELAND		N	CivL	15,724,860,718	47,534
43 INDONESIA	6	N	ML	988,128,596,686	3,824
44 IRELAND	1	N	ComL	307,661,905,046	65,433
45 ISLE OF MAN		N	ComL	6,776,319,279	81,413
46 ISRAEL	1	N	ML	277,141,740,754	33,071
47 ITALY	1	N	CivL	2,062,497,785,388	33,961
48 JAMAICA	3	N	ComL	13,651,535,656	4,722
49 JORDAN	6	N	ML	30,629,948,424	3,305
50 KOREA, REP.	1	N	ML	1,329,638,605,060	26,064
51 KYRGYZ REPUBLIC	7	N	CivL	6,082,952,718	1,021
52 LATVIA	1	N	CivL	28,371,477,922	14,347
53 LITHUANIA	2	N	CivL	44,591,709,054	15,350
54 MACAO SAR, CHINA		N	CivL	32,198,777,329	53,479

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).

	43	44	45	46	47
Data Description	Financial exclusion groups: (1) 9% or less, (2) 10%–19%, (3) 20%–29%, (4) 30%–39%, (5) 40%–49%, (6) 50%–59%, (7) 60% and more.	Fragile and Post Conflict States	Legal System	GDP-2015 (Constant USD 2010)	GDP Per Capita-2015 (Constant USD 2010)
COUNTRY/JURISDICTION					
55 MADAGASCAR	7	N	ML	11,388,624,679	470
56 MALAWI	7	N	ML	8,499,051,829	508
57 MALAYSIA	2	N	ML	330,321,318,799	10,912
58 MALI	7	Y	ML	12,726,485,666	730
59 MALTA	1	N	ML	11,525,964,504	25,898
60 MAURITANIA	7	N	ML	7,010,569,791	1,733
61 MAURITIUS	2	N	ML	11,965,285,104	9,477
62 MEXICO	7	N	CivL	1,223,115,888,816	10,037
63 MOLDOVA	6	N	CivL	8,372,415,479	2,954
64 MONGOLIA	1	N	ML	11,680,159,346	3,895
65 MOROCCO	7	N	ML	113,383,503,345	3,222
66 MYANMAR	7	Y	ML	70,339,509,334	1,335
67 NICARAGUA	7	N	CivL	11,425,955,819	1,836
68 NORWAY	1	N	CivL	467,126,944,888	90,029
69 NEW ZEALAND	1	N	ComL	169,087,041,816	36,792
70 PAKISTAN	7	N	ML	215,639,252,601	1,081
71 PALAU		N	ComL	221,964,659	12,565
72 PANAMA	6	N	CivL	42,724,375,045	10,766
73 PERU	6	N	CivL	186,304,991,062	6,114
74 PHILIPPINES	7	N	ML	279,298,784,316	2,735
75 PORTUGAL	1	N	CivL	228,064,215,666	22,018
76 RUSSIAN FEDERATION	3	N	CivL	1,662,474,715,110	11,355
77 SIERRA LEONE	7	N	ComL	3,163,801,389	441
78 ST. LUCIA		N	ComL	1,521,136,822	8,492
79 SAMOA		N	ML	688,543,101	3,558
80 SAUDI ARABIA	3	N	CivL	678,729,654,960	21,399
81 SENEGAL	6	N	ML	20,184,156,790	1,385
82 SERBIA	3	N	CivL	43,675,262,297	6,155
83 SEYCHELLES		N	ML	1,231,973,526	13,188
84 SINGAPORE	1	N	ML	298,944,012,931	54,010
85 SLOVAK REPUBLIC	2	N	CivL	102,499,951,243	18,898
86 SLOVENIA	1	N	CivL	49,165,961,260	23,826
87 SOLOMON ISLANDS		Y	ML	870,760,297	1,444
88 SPAIN	1	N	CivL	1,418,879,948,439	30,550
89 SRI LANKA	3	N	ML	76,485,840,044	3,647
90 SWEDEN	1	N	CivL	552,086,083,358	56,340
91 SWITZERLAND	1	N	CivL	634,044,597,765	76,553
92 TAJIKISTAN	6	N	CivL	7,912,968,730	936
93 TAIWAN, CHINA		N			
94 THAILAND	2	N	CivL	394,514,326,506	5,741
95 TRINIDAD AND TOBAGO	2	N	ComL	23,076,489,057	16,840
96 TUNISIA	7	N	ML	48,167,866,634	4,308
97 TURKEY	4	N	CivL	1,087,875,530,787	13,853
98 TURKS AND CAICOS		N	ComL		
99 UGANDA	5	N	ML	34,417,776,841	900
100 UKRAINE	4	N	CivL	121,203,317,705	2,829
101 UNITED ARAB EMIRATES	2	N	ML	372,810,856,991	40,248
102 UNITED KINGDOM	1	N	ComL	2,735,997,359,822	42,017
103 UNITED STATES	1	N	ComL	16,710,459,044,262	52,117
104 URUGUAY	4	N	CivL	47,559,277,163	13,939
105 VANUATU		N	ML	754,225,529	2,782
106 ZAMBIA	6	N	ML	26,058,142,315	1,641
107 ZIMBABWE	5	Y	ML	17,048,679,959	1,234

Data entries: Y (Yes), N (No), NI (No information in the MER Report), Blank (Not applicable or available).



Appendix C. Quotes from Mutual Evaluations Reports on Criticism of Simplifications or Exemptions

- **ANDORRA:** ... these simplified measures are in effect an exemption rather than a reduction in due diligence ... (Criterion [Cr.] 1.6, 1.8) ... the authorities have not explained how the results of the NRA are to be used to justify exemptions (e.g. those considered under c.1.6) and support the application of any simplified measures for lower risk scenarios. (IO1) ... but there has been no commensurate risk assessment by the Andorran authorities to determine that it is appropriate to dis-apply aspects of the FATF's CDD requirements. (Cr. 1.6)
- **ARMENIA:** The exemptions and the instances where the application of simplified measures are permitted are based on the FATF Standards rather than being justified by the findings of the NRA ... (Ex. Sum.)
- **AUSTRALIA:** Exemptions from requirements, and the application of enhanced or simplified measures, are not based primarily on the results of the NTA, NRA or other efforts to assess ML/TF risks. (IO1) Exemptions, and the application of simplified measures, are not based solely on low risk but include other variables such as regulatory burden and the desirability of promoting the risk-based approach. (Factor(s) underlying the rating- Rec. 1)
- **AUSTRIA:** As to date, Austria uses the findings of the risk assessments to a limited extent: to justify simplified due diligence measures (e.g. SDD for savings associations) and support the application of enhanced measures for higher risk scenarios. (IO1) There is a blanket exemption from CDD requirements for lawyers and notaries in case of a number of designated types of customers ... without proper risk analysis of those customers. (Cr. 1.8, Factor(s) underlying the rating-Rec. 1)
- **THE BAHAMAS:** ... identified low risk situations on the basis of the 2003 FATF Recommendations. These low risk situations are not based on a national assessment of risk. (Cr. 1.8) The above measures only allow for simplified CDD measure on a prescriptive basis rather than on a risk assessment based on analysis of risk by the country and the FI. (Cr.10.18)
- **BAHRAIN:** Simplified measures are permitted only in defined circumstances. ... The circumstances have not been subject to formal risk assessment supporting the application of due diligence ... (IO1)
- **BARBADOS:** The application of enhanced or reduced due diligence measures detailed in sector specific guidelines are not fully supported by an understanding of the ML/TF risks. ... The risk-based approach was not predicated on either the NRA or the CBB's sector specific risk-based methodology. (IO1)
- **BELGIUM:** However, no risk analysis has been performed at the national or European level that establishes that all of these situations present a lower risk. (Cr. 1.8)
- **CABO VERDE:** To date, there is no risk analysis that demonstrates the existence of situations likely to warrant the application of simplified CDD measures in the ML/TF Laws. ... The NRA did not identify or classify any sector of as low risk thereby necessitating application of exemptions or simplified due diligence measures, despite the mechanism being described in the AML Act. (IO1)
- **CAMBODIA:** REs exercise ... simplified measures based on the generic requirements outlined in ... CAFIU has not demonstrated a clear link between these requirements and a well-founded understanding of risks, through the NRA or elsewhere. (IO1)
- **CAYMAN ISLANDS:** The broader application of exemptions and simplified measures in the domain of supervision... have not been substantiated with analysis that support a finding of low risk. (IO1)
- **CZECH REPUBLIC:** The lower risk scenarios for the application of simplified CDD measures are provided ... in relation to certain institutions and services ... The inherent risks corresponding to these exemptions do not stem from the NRA or other risk assessment and are mostly based on the examples provided in the Interpretive Note to FATF Recommendation 10. (IO1)
- **CYPRUS:** Situations in which obliged entities can apply simplified CDD do not expressly exclude situations where there is suspicion of ML/TF. (Cr.1.12)
- **HONG KONG SAR, CHINA:** The inherent risks corresponding to these exemptions do not stem from the NRA or other risk assessment and are mostly based on the examples provided in the Interpretive Note to FATF Recommendation 10. (Cr. 10.18)
- **HUNGARY:** Simplified and enhanced CDD measures, as set forth under the AML/CFT Act, derive from the transposition of the third EU AML Directive and are not a result of a proper assessment of ML/TF risks. (IO1)

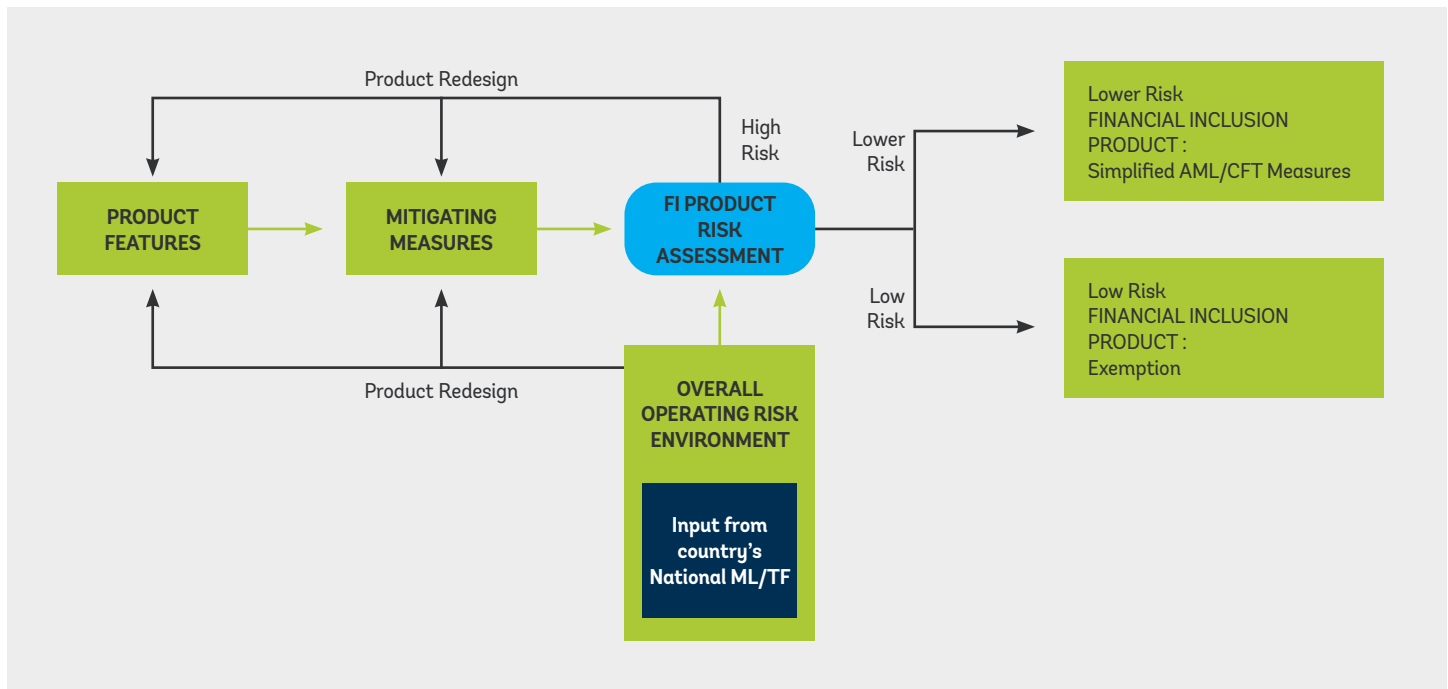
- **ICELAND:** Icelandic authorities report that these SDD measures are based on Article 11 of the 3rd EU AML Directive (Directive 2005/60); not on a supranational or national risk assessment or other means of proving low risk. (Cr. 1.8) Icelandic authorities did not provide evidence that the aforementioned situations for SDD were based on identified lower risk. (Cr.10.18)
- **IRELAND:** Ireland allows for simplified CDD measures, for specified customers and products based on the Third EU Money Laundering Directive (3AMLD), ... This is however not based on the fact of it being consistent with the country's assessment of ML/TF risks. (Cr. 1.8)
- **ISRAEL:** However, the list of categories included is not based on adequate risk analysis by Israel or by the FI. There are also no provisions stating that simplified measures should be commensurate with lower risk factors... (IO4)
- **KYRGYZ REPUBLIC:** The findings of ML/TF risk assessments are not used in Kyrgyzstan to justify exemptions and the use of enhanced and simplified measures. (IO1) Application of these simplified measures is based on a mere assumption of low risk rather than on a robust assessment of ML/TF risks. (Cr.1.8) The requirement prohibiting the application of simplified identification measures in situations involving high ML/TF risks is missing from the country's legal framework. (Cr. 10.18)
- **LATVIA:** ... Latvian legislative framework permitting the REs to apply simplified CDD with regard to certain categories of customers whenever the identified lower risks do not contradict the national ML/FT risk assessment but rather simply represent a transposition of the relevant provisions of the former EU Directives ... This does not amount to using the results of risk assessments to support simplified measures in case of lower risk scenarios. (IO1)
- **LITHUANIA:** Simplified due diligence (SDD) may be carried.... While the provisions ... of the AML/CFT Law do not appear to be unreasonable, there was no analysis which would support the application of SDD. (IO4)
- **MALAWI:** However, there is no clear provision under the law that prohibits the taking of simplified due diligence when the FI or DNFBP suspects ML or TF. (Cr. 1.12)
- **MAURITIUS:** However, these simplified measures are not supported by an adequate analysis of risks by FSC or the FIs and are not consistent with the country's assessment of risk considering that Mauritius has not yet carried out national or sectoral ML/TF risk assessment. (Cr. 1.8)
- **MEXICO:** There is no prohibition on the use of simplified measures when there is a suspicion of ML/TF. (Cr.1.12)
- **MOROCCO:** There is no basis to justify exemptions from AML requirements or to support the implementation of enhanced and simplified measures. (IO1) Moroccan authorities have identified low risk areas where simplified due diligence measures ... would apply...; yet it has not been proven whether these risks are consistent with the real or potential risks, in Morocco, as per the NRA findings. (Cr. 1.8)
- **NEW ZEALAND:** There is no prohibition from carrying out simplified CDD on these customers where there is a suspicion of ML/TF. (Cr. 1.12)
- **NORWAY:** Simplified CDD is allowed, but the defined categories of "simplified CDD" are in fact exemptions from CDD, and the preconditions for such exemptions have not been demonstrated. (Ratings) Results of risk assessments are not used to justify exemptions and support the application of AML/CFT measures depending on risk. (IO1)
- **PANAMA:** However, the regulations do not restrict the application of simplified DDC to cases of verified low ML/FT risk. (Cr. 1.12)
- **PORTUGAL:** There is no risk analysis showing that all of the cases for the application of SDD measures in the AML/CFT Law present lower risks, as these cases are based on the 3rd EU AML Directive. (IO1)
- **SAMOA:** While ... Regulations allow for simplified CDD for certain customers where ML/TF risk is low, this has not been tied to the findings of the 2012 NRA. (Cr.1.8)
- **SERBIA:** With regard to simplified measures for lower risk scenarios, ... the AML/CFT Law provide exemptions from CDD in relation to certain services. Some exemptions (wire transfers) are not based on low risk specified in the NRA or in any other assessment of risk. (IO1) However, the circumstances established by the Law are based on a presumption of relatively low risk, without it being supported by the previous risk assessment. (Cr. 1.8)

- **SEYCHELLES:** ... the AML/CFT Regulations provides for application of simplified CDD measures by FIs and DNFBPs in relation to certain circumstances ... However, this was not informed by ML/TF risk assessment. (Cr. 1.8)
- **SIERRA LEONE:** There is no requirement prohibiting simplified AML/CFT measures where there is suspicion of ML/TF. (Cr. 1.12)
- **ST. LUCIA:** The basis upon which the application of simplified measures apply in these circumstances were not based on the results of the NRA. (Cr. 1.8) Neither of the cited provisions stipulate that simplified measures should not be permitted should not be permitted when there is a suspicion of ML/TF. (Cr. 1.12)



Appendix D. The Financial Inclusion Product Risk Assessment Module (FIRM)

The World Bank has been using a stand-alone risk assessment module specifically to help jurisdictions assess the money laundering and terrorist financing (ML/TF) risks associated with financial inclusion products in a systematic and evidence-based way. Figure D.1 shows the structure of the financial inclusion product risk assessment module and its logic.

FIGURE D.1 - Overall Structure of the Financial Inclusion Product Risk Assessment Module

The assessment is conducted in the following four steps:

- STEP 1.** Analyzing the product features and their risk implications: At the first step of the assessment, the assessor identifies the features of the product and their possible implications on the ML/TF risks. For example, having features such as “availability of international transactions,” “non-face-to-face account opening,” “anonymity,” “delivery through agents,” “availability to nonresident/noncitizens,” or “availability to legal persons” increases the inherent risk of the products and therefore the need for stronger mitigating measures. In contrast, introducing a cap on transaction size and/or number or limiting some of the functions of the product reduces the risk level.
- STEP 2.** Assessment of risk mitigation measures: The second step of the assessment focuses on the adequacy and quality of risk mitigation measures that are linked with each product feature. For example, if the product has a cap for the amount or number of transactions, the module asks questions about the existence and quality of the analytical work that informed the decision for this cap. If the product allows international transactions, the module asks questions about the quality of relevant monitoring mechanisms of the institution. Moreover, if the product is offered through agents, the procedures for onboarding, training, and monitoring of the agents need to be assessed.
- STEP 3.** Assessing the impact of country risk context on the product: The risk context of the country is important, because a financial inclusion product that may have low risk in a certain country context may not be necessarily low risk in another country. Step 3 of the assessment allows users to reassess the mitigation measures, considering the country’s ML/TF threat and vulnerability context. The quality of the supervision and the institution’s capacity to detect and mitigate the risks are also assessed in this step. Inputs from a country’s national ML/TF risk assessment are crucial for this step.
- STEP 4.** Overall assessment: This final step facilitates the assessment of the ultimate net risk level, which is a function of the product features, risk mitigation measures, and the country’s risk context. The country or institution may consider (or justify) a simplified customer due diligence (SDD) regime only if the assessment results in lower or low risk. If the assessment results are medium or high risks, the country may use the module as a basis for the redesign of the product, then it may reassess the risk level. Limiting the functions of the product, lowering the caps, or improving the control and mitigation measures may reduce the risk level of the product.

Until 2015, FIRM was delivered to client jurisdictions under the scope of a three-day NRA workshop. Later, the World

Bank project teams started to dedicate a separate day to the financial inclusion product risk assessment. During this one-day workshop the team facilitates a brainstorming and discussion session on the financial inclusion–related facts, experiences, and observations in the jurisdiction, with a focus on the ML/TF aspect. Then the team trains the participants on the module and works on some exercises. Following the workshop, the authorities complete the assessment, write a report, and develop an action plan. Ideally, this action plan is expected to focus on the simplification of anti-money laundering/combating the financing of terrorism (AML/CFT) rules so as to improve financial inclusion.

Before the start of the activity, FMI recommends to client countries to establish a working group to conduct the financial inclusion product risk assessment. This working group usually consists of 10–15 people that include officials from the central bank, other financial supervision authorities, the

financial intelligence unit, academics and nongovernmental organization representatives, and private sector participants. The module has been used by a diverse group of countries in the assessments of their current or planned financial inclusion products. These countries include Armenia, Bangladesh, Botswana, the Democratic Republic of Congo, Dominican Republic, El Salvador, Ghana, Guatemala, Guyana, India, Jamaica, Malawi, Namibia, Nigeria, Nepal, the Philippines, Pakistan, Sierra Leone, Sri Lanka, Tajikistan, Tanzania, Uganda, and Zambia. The assessment of financial inclusion products was done as part of national risk assessments in most of these countries and as a stand-alone assessment in some others. While being used for assessment and testing of the ML/TF risk of financial inclusion products, FIRM has served mostly as a diagnostic tool in these countries and has so far not been used as a basis for redesign of CDD regulatory framework. Thus, the module itself has not been subject to any direct review or comment during any mutual evaluation.



Appendix E.

Subject Matter Expert Survey Questions

Question 1

Despite the progress, financial inclusion continues to be a global challenge. What are the three most common issues in your view?

Choices

- Awareness, literacy, and cultural issues.
- Demand-related issues (i.e., poverty and lack of need for finance).
- Supply-related issues (i.e., lack of profitability/feasibility for service providers).
- Inflexibilities in global standards, and relevant compliance costs on service providers.
- Infrastructure and technology-related issues.
- Privacy concerns and/or lack of confidence in financial institutions or state agencies.
- Others.

Question 2

In your view, do the FATF 40 Recommendations themselves hamper financial inclusion and require revisions?

Choices

- Yes.
- No.
- Yes, but some slight adjustments are still needed.

Question 3

Please specify the recommendations and relevant issues that require revisions.

Question 4

In your view, what are the three biggest challenges about the FATF 40 Recommendations in the financial inclusion context?

Choices

- Inflexibilities /stringencies in the recommendations.
- Inadequate emphasis on financial inclusion in FATF Recommendations and publications.
- Understanding and implementation of the recommendations by countries.
- Capability and experience of FATF and FSRB assessors to assess the financial inclusion context.
- Lack of guidance and communication of good practices.
- Fear factor (the country thinks that the assessors will not tolerate exemptions or simplifications).

Question 5

Is the FATF adequately vocal and encouraging about financial inclusion?

Choices

- Yes.
- No.

Question 6

How great is the operational cost impact of AML/CFT requirements on the providers of financial inclusion products and services?

Choices

- Prohibitively high.
- High.
- Medium.
- Low.

Question 7

In practice, do or can small-scale providers of financial inclusion services/products comply with the following AML/CFT requirements?

Choices

Yes or No (to each category).

Categories

Monitoring and analysis of unusual transactions.

Identification of foreign or domestic PEPs.

Crosschecks with the United Nations Security Council's List of terrorist persons and entities.

Training their staff and agents on AML/CFT requirements.

Identifying and reporting suspicious transactions.

Follow and understand the regulations and guidance by the FIU (in a timely way).

Keep reliable records at least for the last five years.

Assessing their money laundering risks.

Assessing their terrorist financing risks.

Assessing their proliferation financing noncompliance risks.

Question 8

Were you involved in the implementation of financial inclusion projects in any country?

Choices

- Yes, intensively.
- Yes, but limited involvement.
- No direct involvement.

Question 9

If your response to the previous question was “Yes,” please list the countries where you were involved in financial inclusion projects.

Question 10

Can you name 3 countries you find successful in promoting / enabling financial inclusion?

Question 11

Can you name three countries you find “unsuccessful” in promoting/enabling financial inclusion?

Question 12

How can the World Bank better support the countries in the FATF and financial inclusion context?

Question 13

What is your primary specialization?

Choices

- AML/CFT.
- Financial Inclusion.
- Payment systems.
- Prudential regulation/supervision.
- Other.

Question 14

What is your background?

Choices

- International organization.
- Financial regulation and supervision.
- Financial sector.
- Think tank, NGO, or similar.
- Academia.
- Other.

Question 15

How familiar are you with FATF Recommendations and mutual evaluations?

Choices

- I am very familiar and have in-depth experience.
- I am familiar with certain aspects that relate to my job/field.
- I only have general information and am not that familiar with the details.



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