Appendix 11.1: Factor analysis for policy response towards money laundering[[1]](#footnote-1)

Method of choice: factor analysis with principal factors. We select only one factor, trying to make sure it reflects the AML policy response of the FIU, as much as possible.[[2]](#footnote-2) We have only 27 observations (the EU Member States) for each variable, so the amount of variables used in the factor analysis is deliberately rather low.

We select variables based on importance for FIU response (which means we exclude the context variables used in the principal component analysis in Chapter 11), expected sign (those with clearly the wrong sign are removed because apparently they are not (yet) a suitable indicator for FIU AML policy response), not used in threat estimation (to keep the comparison between policy response and threat pure) and not indicating size of the country.

We tried to make sure the main factor is about money laundering as far as possible. We had to make some drastic decisions to make sure the size of the country was not interfering. We therefore use indexes and ratios as much as possible. In particular, policy costs with a fixed and variable component were therefore left out of the analysis. Examples of this are the FIU budget and the amount of FIU staff. Every EU Member State needs an FIU with a certain minimum budget and staff to operate. This fixed part means that an FIU is relatively costly for the smaller EU Member States, as we concluded in Chapter 11. Therefore including the FIU budget as a percentage of GDP would not indicate anything related to AML policy response, but would indicate which countries are small. The same kind of issue arises when including the FIU budget as an absolute amount in the factor analysis, because the variable part of the FIU costs means that the bigger countries have a higher FIU budget.

The variables that were eventually selected for the factor analysis are:

|  |  |
| --- | --- |
| Variable | Scoring coefficient |
| FIU access to data score | 0.314 |
| FIU independence score | 0.069 |
| FIU feedback score | 0.302 |
| STR receiving and processing score | 0.270 |

*Source:* Own calculation. All variables were produced during the ECOLEF project. Scoring coefficients are regression-based.

The factor analysis results are quite robust with respect to variable selection, except when including variables where the size of the country plays an important role, such as FIU budget or FIU staff.

1. This is an online appendix to *The Economic and Legal Effectiveness of the European Union’s Anti-Money Laundering Policy*, Chapter 11. [↑](#footnote-ref-1)
2. This main factor has an eigenvalue of 3.57979 with a corresponding proportion of 0.2025. The second factor has an eigenvalue of 2.60040 with a corresponding proportion of 0.1471. LR test: independent vs. saturated: chi2(190) = 1617.06 Prob>chi2 = 0.0000. [↑](#footnote-ref-2)