



Malta's Grey listing by the FATF: Employers' Perspective  
Survey Results, June 2021

## Executive Summary

The main objective of this survey is to analyse the impact of Malta's grey listing by the FATF on business in Malta and Gozo. The survey obtained data from 191 respondents spread across different economic sectors.

The results of a survey reveal that 88% of respondents believe that the FATF grey listing will leave a negative impact on the Maltese economy, with 64% anticipating strong repercussions. 71% anticipate that the grey listing will affect their business directly. The results show that we are on a clock, as 63% of respondents reported that the grey listing will be affecting them within the coming 6 months.

The degree of uncertainty is uneven among sectors, with companies in financial services, gaming and other services expecting stronger repercussions than manufacturing, wholesale and retail, and tourism.

Businesses are also concerned about rising compliance costs, with some companies having resorted to employing additional personnel to deal with the bureaucracy of added compliance.

The survey results conclude that the main reasons attributed to the grey listing are money laundering activities, a defective rule of law and justice system, institutional corruption, lack of transparency and weak institutions.

Amongst the recommendations submitted by the respondents to come out of the grey listing, the most salient are the need for an effective and efficient justice system; the prosecution of corrupt politicians, PEPs and business people; resignation of implicated politicians and the implementation of Moneyval/FATF recommendations.

## Background

On the 23<sup>rd</sup> June 2021, Malta has been put on the grey list by the Financial Action Task Force (FATF), the global money laundering and terrorist financing watchdog. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. Starting with its own members, the FATF monitors countries' progress in implementing the FATF Recommendations; reviews money laundering and terrorist financing techniques and counter-measures; and, promotes the adoption and implementation of the FATF Recommendations globally.

FATF made its move after years of international criticism of Maltese policy making, including the sale of national passports, as well as a lack of legal action against government officials who were mentioned in the Panama Papers as having set up secret offshore companies.

### What does it mean for Malta?

Greylisting increases the level of risk that a Malta-based legal (company) or natural person (an individual) is assigned when being assessed by a foreign institution.

The FATF's decision highlights the risk of reputational damage, which could reduce investment. Reputational damage from greylisting could eventually adversely affect the country and its financial system by reducing its attractiveness for investors and corporates, ultimately leading to capital outflows and weaker-than-projected economic performance. This could create a worrying scenario since foreign partners may simply decide that it is not worth the cost of this extra due diligence and will no longer support Malta-based businesses.

A working paper issued on May 27 by the International Monetary Fund said greylisting led to a large and statistically significant reduction in capital inflows as investors shifted funds out of the affected countries. Furthermore, empirical research studies have found mixed evidence on how greylisting can affect capital flows and growth, whilst repeated greylisting of Panama and of Iceland in 2019 and 2020 had limited economic effects.

Employers in the financial services fear that there could be an adverse effect on the financial services due to the inevitable increase in costs and increased compliance requirement-losing counterparts. Studies predict that banks can face fines of up to 4% of their global turnover if found to be in breach of anti-money laundering due diligence procedures, so de-risking Malta might not be out of the question. Furthermore, as Malta is a major centre for the European gambling industry – the online sector accounts for 12% of the island's GDP, generating €700 million and employing 9,000 people – the continued greylisting of the country as a potentially financially unsafe could affect this important section of the economy.

# Introduction

Following the news of the greylisting, the Malta Employers' Association decided to conduct a survey among employers with the aim of obtaining:

1. their perceptions of the impact of the greylisting on the economy in general;
2. their opinion about the extent to which their business may be affected due to the greylisting;
3. their views about the reasons why Malta has become greylisted; and
4. their recommendations for actions to be taken to be removed from the greylisting within the shortest time frame possible.

## **Methodology**

The survey was distributed online through Google Forms, to all MEA members, companies coming from different industry sectors.

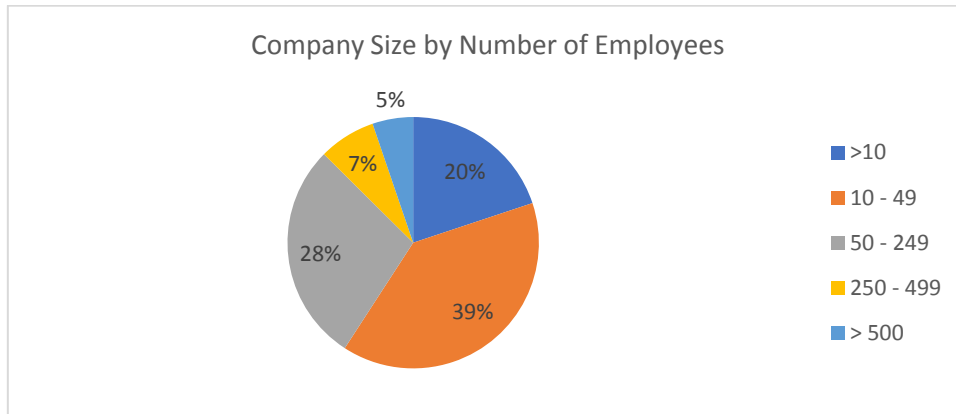
The survey contained eight (8) questions, some of which are closed-ended and others are open-ended. Through the open-ended, respondents were given the possibility to explain further their responses, by adding comments to their answers. Appendix I shows the survey format.

There were hundred and ninety-one (191) responses to the survey, representing a larger number of companies as a number of respondents represented groups of companies, not individual employers.

# Results

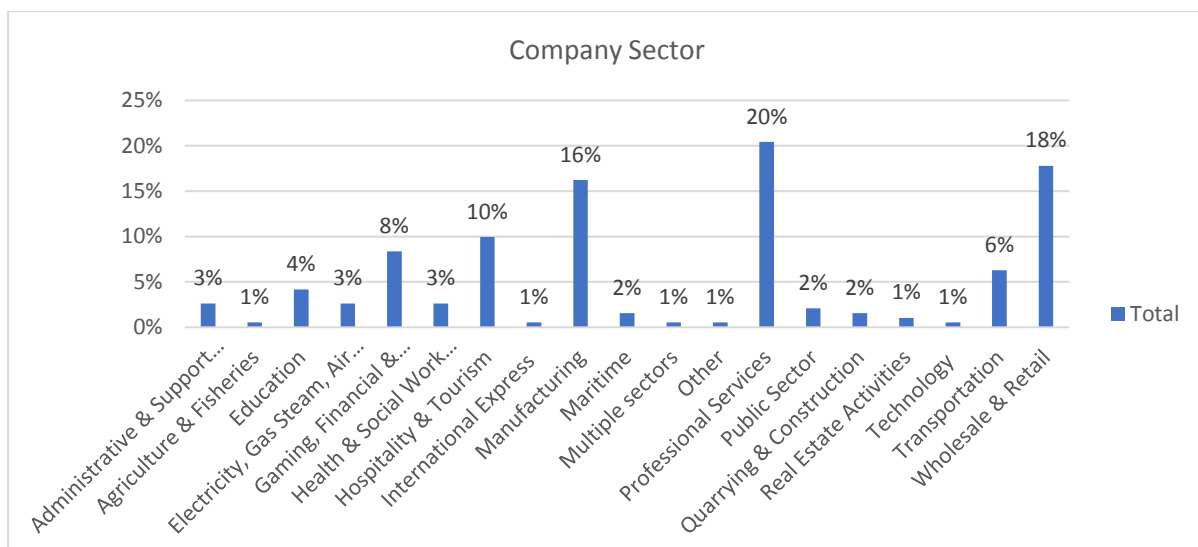
## 1.1 Company Size

Out of 191 survey respondents, 20% of companies employ less than 10 employees, 39% employ between 10-49 employees, 28% employ between 50-249 employees, and 12% employ between more than 250 employees.



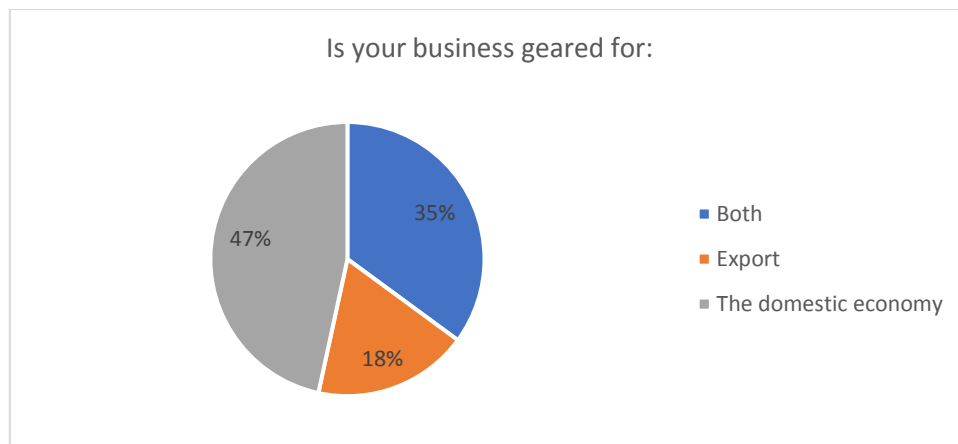
## 1.2 Company Sector

The data below shows the number of respondents by sector. Out of one hundred and ninety-one (191) respondents, the highest company representations come from the Professional Services (20%), Wholesale & Retail (18%) and the Manufacturing (16%). This is followed by Hospitality & Tourism (10%), Gaming, Financial & Insurance (8%) and Transportation (6%).



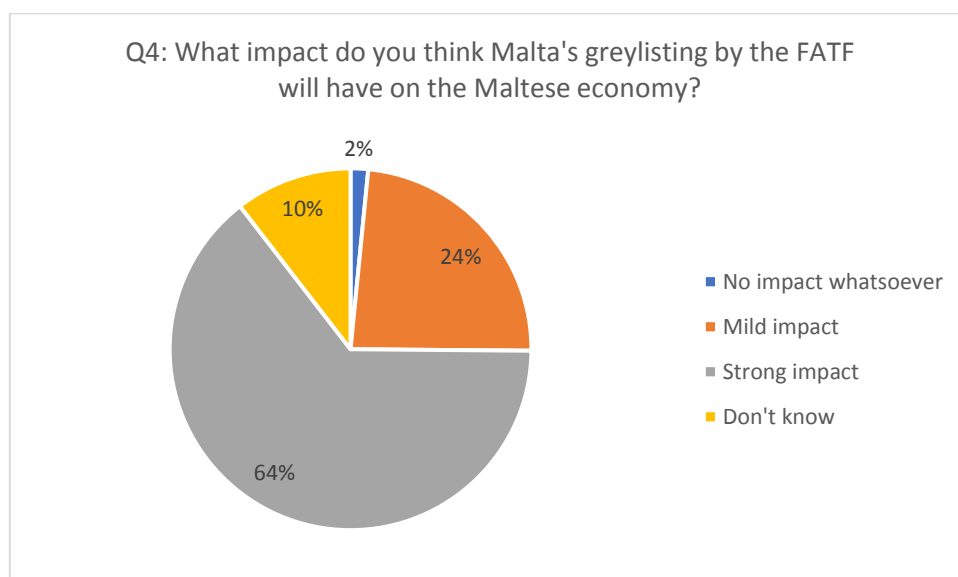
### 1.3 Business geared for:

Out of the total number of respondents, 47% of the companies are geared for the domestic economy, 18% for export and 35% for both.



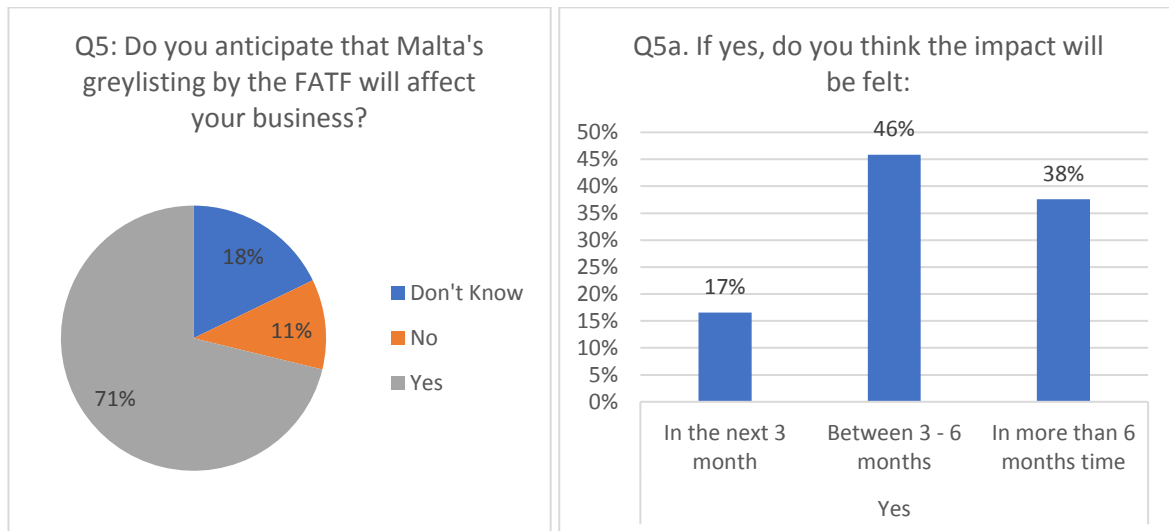
### 1.4 Impact of Malta's grey-listing on the Maltese economy

The majority of survey respondents (64%) state that Malta's grey listing by the FATF will have a strong impact on the Maltese economy. 24% state that it will have a 'mild impact', followed by 10% that stated that they do not know. Only 2% of survey respondents believe that Malta's grey listing will have no impact whatsoever on the Maltese economy.



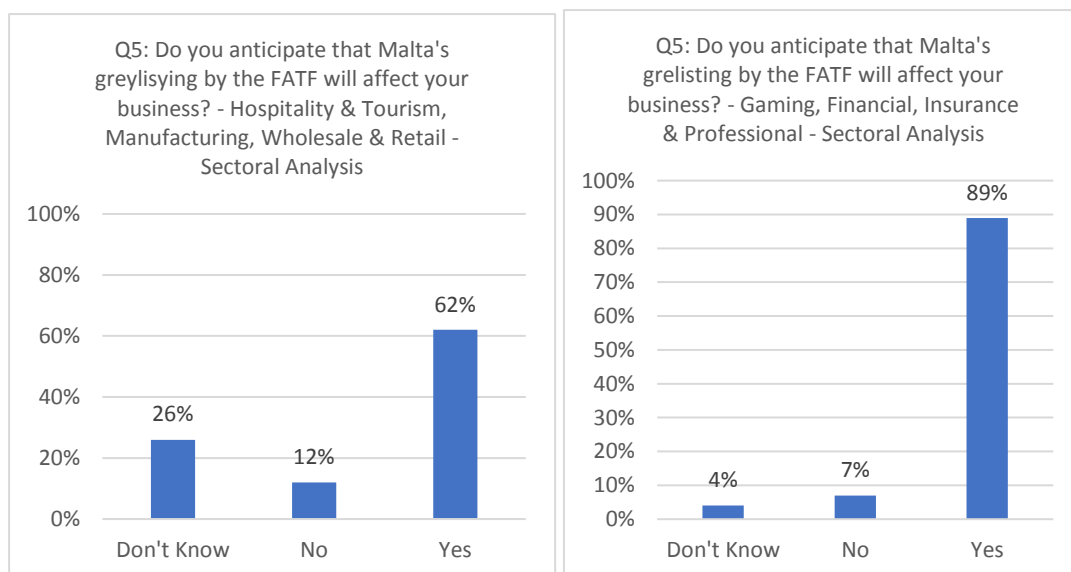
## 1.5 Malta's grey-listing effect on business

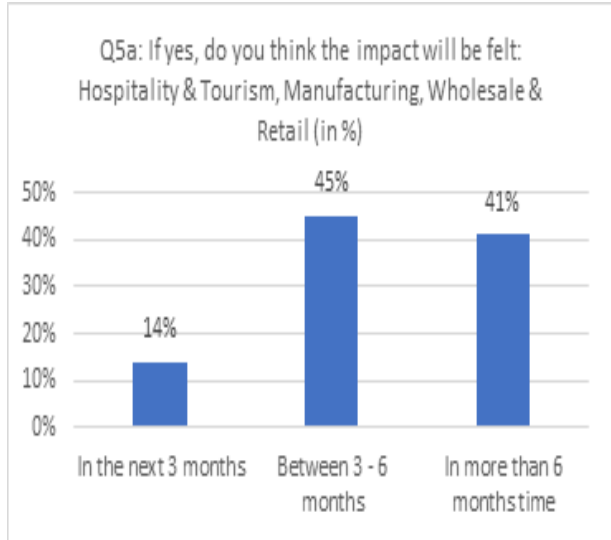
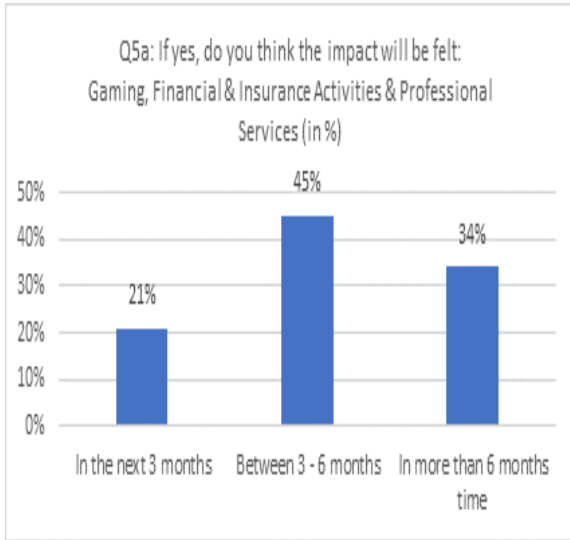
The majority of survey respondents (71%) state that Malta's grey listing by the FATF will affect their business. 11% state that the grey-listing will not affect their business and 18% are still uncertain.



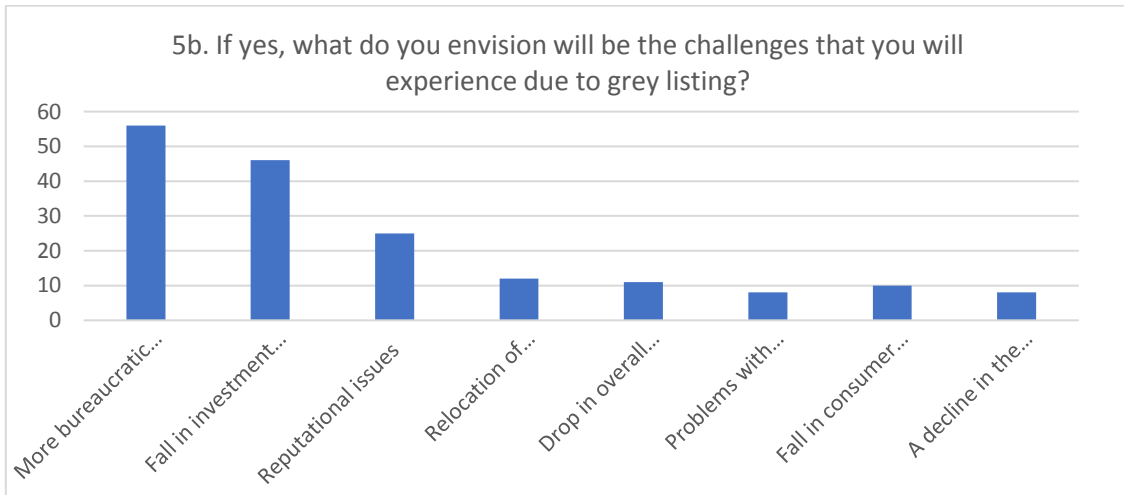
Out of those that believe the grey-listing will impact their business (136 participants), 17% think that the impact will be felt in the next 3 months, 46% think that the impact will be felt between 3-6 months, and 38% believe that the impact will be felt in more than 6-months' time.

When analysed by sector, companies from the Gaming, Financial, Insurance and Professional sectors have stated that they anticipate that Malta's grey listing by the FATF will affect their business more than companies coming from the Hospitality & Tourism, Manufacturing, and Wholesale & Retail industries.





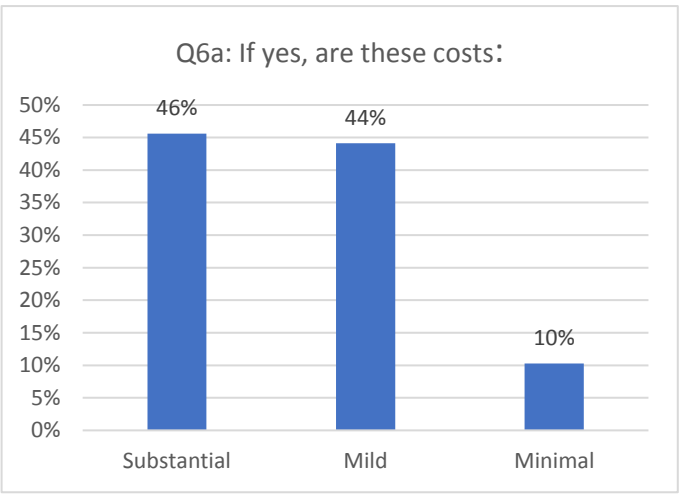
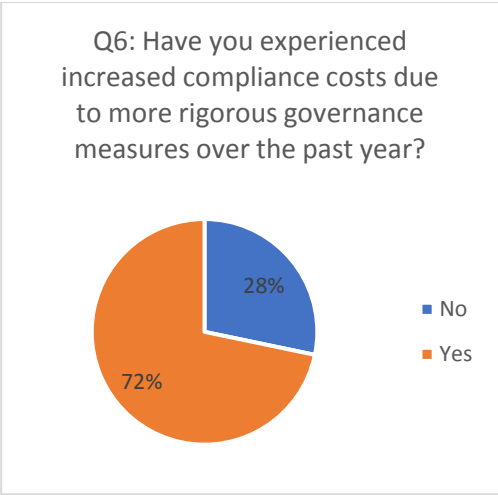
When asked about what do they envision will be the challenges that companies will experience due to grey listing, the majority of companies stated that they fear more bureaucracy and higher compliance costs, followed by a fall in investment and exports. More than 20 companies have shown concerns on reputational issues and others commented on relocation of companies; drop in overall economic activity; problems with suppliers; a fall in consumer confidence, as well as a decline in the i-gaming and financial services sector.



### 1.6 Increased compliance costs

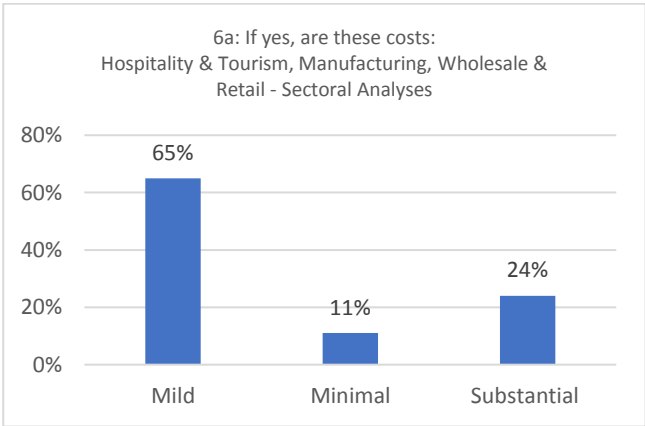
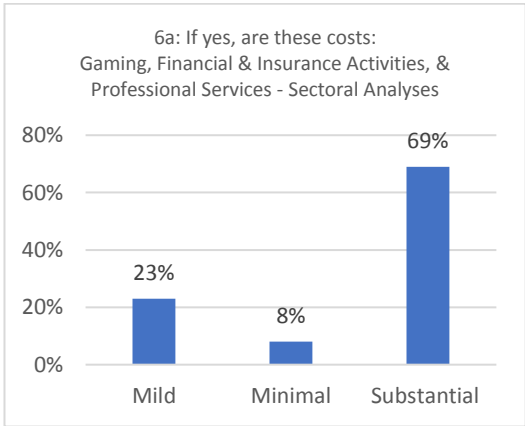
When asked about whether companies have experienced increased compliance costs due to more rigorous governance measures over the past year, 72% of companies stated 'Yes' while 28% stated 'No'.





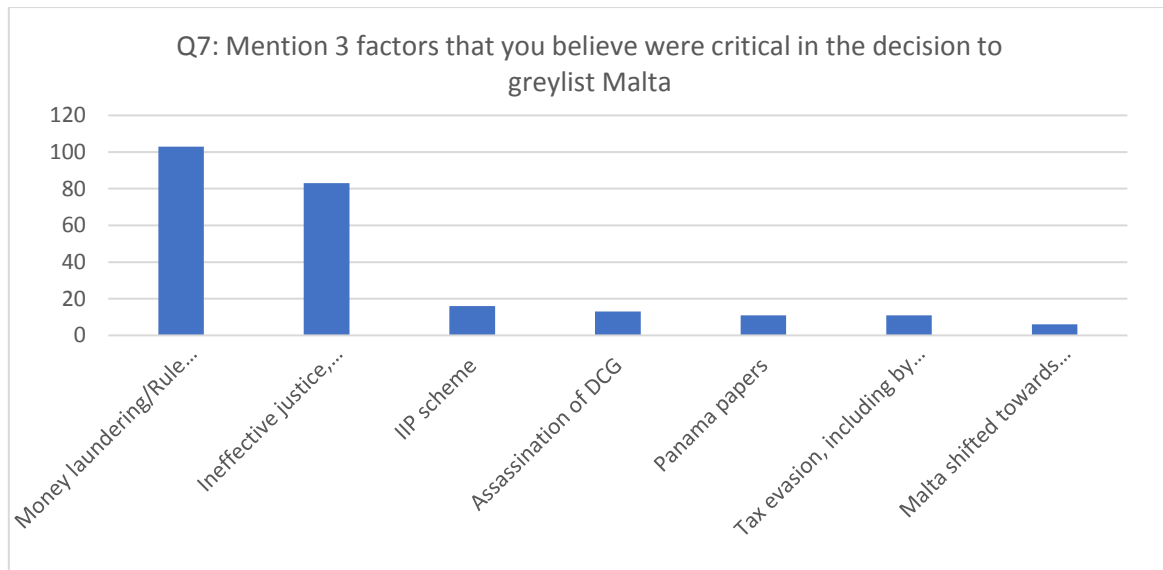
Out of the 72% (136 respondents) that answered in the affirmative, 46% stated that costs have been 'substantial' and 44% stated that costs have been 'mild'. 10% of respondents stated that costs were minimal.

When analysed by sector, 69% of companies from the Gaming, Financial, Insurance and Professional Services state that these costs are substantial, opposed to 24% of companies from the Hospitality & Tourism, Manufacturing, Wholesale & Retail. In the latter sectors, 65% of companies stated that the costs related to compliance is mild.



**1.7 Factors that are critical in the decision to Malta's grey listing**

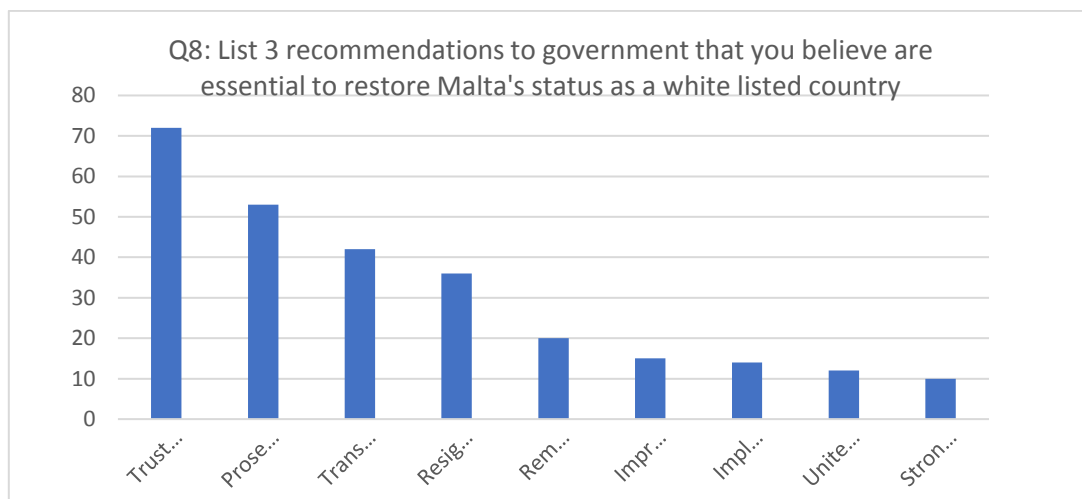
When asked about factors that companies believe were critical in the decision to grey list Malta, the majority of survey respondents claimed that it is due to money laundering, rule of law, institutional corruption, bad governance and lack of transparency. More than 80 companies claimed that it is due to ineffective justice, selective enforcement and weak institutions. Other commented on IIP scheme, assassination of Daphne Caruana Galizia, Panama papers, tax evasion and Malta's shift towards investments in risky businesses such as Crypto and Blockchain.



## 1.8 Recommendations to government to restore Malta's status

A set of recommendations were given by survey respondents on how government can restore Malta's status:

- Trustworthy justice system / enforcement / address corruption / higher ethical standards
- Prosecutions
- Transparency / persons of trust / corporate governance / meritocracy / strengthen institutions
- Resignations / justice of implicated government officials / PEPs / appoint trustworthy appointees
- Remove / radically change IIP
- Improve international lobbying / diplomacy
- Implement recommendations by Moneyval and FATF
- United political front to get out of FATF grey listing / involve financial service sector, social partners and technical people
- Strong independent financial crimes body / checking source of sudden wealth



## Conclusions & Recommendations

Malta's greylisting is perceived to be a real threat to many business organisations. 88% of businesses anticipate that the greylisting will have a negative impact on the economy. 64% replied that it will have a strong impact. 71% of respondents replied that their business will be affected by the greylisting.

We are on a clock: 63% anticipate that the greylisting will affect them within the coming 6 months. The level of uncertainty is not evenly distributed among sectors. It is higher in services sectors than in others.

72% of respondents reported an increase in compliance costs over the past year. Some companies had to employ more people to deal with added the bureaucracy of compliance.

The main reasons attributed to the greylisting are money laundering; defective rule of law and justice system; institutional corruption; lack of transparency and weak institutions. The main recommendations to be removed from the greylisting include having an effective and efficient justice system; prosecution of corrupt politicians, PEPs and businesspeople; resignation of implicated politicians; and the implementation of FATF/Moneyval recommendations.

This survey is exploratory. Its purpose is not to quantify the impact of the grey listing on the economy. It is too early to determine this. However, the findings are highly indicative of the situation. The longer we remain grey listed, the more severe the damage and the longer the recovery. The grey listing occurs at a time when businesses are trying to recover from the blow caused by the COVID pandemic. At this point in time, many employers are facing a shortage of people.

MEA has been flagging governance issues for years. It was vociferous about the IIP scheme, it spoke out on numerous instances when shady deals involving politicians were exposed (e.g.the Montenegro wind farms), and also voiced concerns about phantom jobs in the public sector. For years, MEA has called for better governance systems, for a parliamentary reform and has repeatedly warned the authorities about our deteriorating international reputation.

As part of the FATF action plan, Malta must increase the focus of the FIAU's financial analysis on serious tax offences and related money laundering. It must also increase the use of financial intelligence in pursuing criminal tax and related money laundering cases. MEA suggests that Malta should improve the identification of inaccurate beneficial ownership information provided by Maltese legal persons, and the application of dissuasive, effective and proportionate sanctions on legal persons and subject persons for failure to comply with their beneficial ownership obligations. It should also do this in a practical, comprehensive manner so that the responsibility is borne by all in an equal manner.

As we have done in the past, although this problem is certainly not of our making, we offer our full commitment to our country to resolve the matter in the shortest time possible. However, the first step is to come to our senses and acknowledge that there is actually a very serious threat to the social and economic fabric of our society. The biggest threat is not the grey listing itself, but the conditions which caused it.

## Annex I: Questions

### 1. Number of Employees

- > 10
- 10 – 49
- 50 – 249
- 250 - 499
- >500

### 2. Company Sector

- Agriculture & Fisheries
- Hospitality & Tourism
- Quarrying & Construction
- Professional Services
- Manufacturing
- Public Sector
- Wholesale & Retail
- Electricity, Gas Steam, Air Conditioning & Water Supply
- Transportation
- Education
- Gaming, Financial & Insurance Activities
- Real Estate Activities
- Administrative & Support Services, Info & Communication
- Health & Social Work Activities
- Maritime
- Other

### 3. Is your business geared for:

- The domestic economy
- Export
- Both

### 4. What impact do you think Malta's greylisting by the FATF will have on the Maltese economy?

- No impact whatsoever
- Mild impact
- Strong impact
- Don't Know

5. Do you anticipate that Malta's greylisting by the FATF will affect your business?

- Yes
- No
- Don't Know

5a. If yes, do you think the impact will be felt:

- In the next 3 month
- Between 3 - 6 months
- In more than 6 months time

5b. If yes, what do you envision will be the challenges that you will experience due to grey listing?

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5c. If no, why not?

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6. Have you experienced increased compliance costs due to more rigorous governance measures over the past year?

- Yes
- No

6a. If yes, are these costs:

- Substantial
- Mild
- Minimal

6b. Comment:

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7. Mention 3 factors that you believe were critical in the decision to greylist Malta:

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8. List 3 recommendations to government that you believe are essential to restore Malta's status as a white listed country:

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