

## **WHY DOES TRADE-BASED MONEY LAUNDERING MATTER TO SRI LANKA?**

### **A note on an international workshop conducted by ADB**

In January 2023 with the intervention of the Financial Intelligence Unit (FIU), a golden opportunity was turned out for officials of Financial Intelligence Unit (FIU), respective staff who engage in international trade transactions in commercial banks and other financial institutions, several officers of SL Customs and investigators to improve their knowledge on a topical issue, i.e., “Trade-Based Money Laundering (TBML)”. A two-day workshop was held on TBML at the Center for Banking Studies at Rajagiriya, Sri Lanka on the 25th and 26th of January 2023. The workshop was held for Sri Lanka by the Asian Development Bank (ADB) under the sponsorship of their Trade and Supply Chain Finance Program (TSCFP) as per a request made by Ms. Enoka Mohotti, Director of the FIU – and as part of ADB’s ongoing TBML pilot implementation in five countries, including Sri Lanka, to improve TBML detection and analysis. The TBML pilot co-leads from the ADB, Ms. Catherine Estrada and Mr. Alexander Malaket attended the event, as well as the TSCFP Relationship Manager for Sri Lanka, Ms. Neha Noronha. The TBML workshop entitled “Countering Trade-Based Money Laundering Master Class” featured two international subject matter experts, Mr. Nathan Lynch and Mr. Gavin Coles, who were engaged by the ADB to deliver the program (two sights received from the experts have also been included in this note). The same program will be rolled out to four other countries which are part of the TBML pilot, namely Bangladesh, Mongolia, Nepal, and Pakistan.

Content of the workshop: During day 01 of the workshop, the participants got an opportunity to get a good basic knowledge about TBML. Accordingly, the topics covered were “what is Trade-Based Money Laundering including definitions, what are the reasons for TBML is being common in almost every country, Techniques of TBML, TBML case studies, TBML and related activities in Sri Lanka, benefits of curtailing TBML, the challenges to be faced by Sri Lanka in reducing TBML”. The second day was entirely dedicated to providing necessary training to the law enforcement units for their investigative work and parallel training to the officers analyzing the financial information of the FIU Sri Lanka.

What is TBML: Trade-Based Money Laundering or TBML is an illegal activity that has been done since the past by abusing world trade to conceal the source of the wealth which is earned through criminal and illegal activity which often involves victims with tragic consequences.

TBML is Everywhere: As per an assessment done by the Financial Action Task Force (FATF), the global policy-making body against Money Laundering & Terrorism Financing, the TBML has been identified as one of the 3 main methods used for money laundering in the world. TBML has been happening in every country for a very long time. In Sri Lanka, the threat of occurrence of money laundering through trade activities has been identified in the past as well as recent money laundering and terrorist financing (ML & TF) risk assessments.

Techniques of TBML: TBML is proven to be conducted in many ways. The six common techniques of laundering money under the guise of trade transactions are (1). Over-invoicing and underinvoicing, (2). Split invoicing or reductive invoicing, (3). Multiple or duplicate invoicing”, (4). Mis-labeling or false description of goods, (5). Over-shipment or under-shipment, (6). Cuckoo payments, surrogate shopping Diagou and informal payments.

TBML and Sri Lanka: TBML is crucial in Sri Lanka because of its higher exposure to trade related activities and due to country’s geo-global position. Sri Lanka is a high import country. It also exports to well

developed, larger markets like the USA, UK, India, Italy and Germany, which may contain some of the higher risk goods for TBML such as gem, tea, clothing, used rubber tiers etc, Criminal groups target weakest links in the global trading networks to launder the proceeds they generate through crimes. Hence, Sri Lanka as a jurisdiction needs better controls to manage the risk of TBML.

Benefits of Curtailing TBML: Reducing the risks of TBML through proper controls, Sri Lanka could prevent losses, damages, and the tragic effects of the underlying criminal activities, as well as gain advantages by reducing losses of country's tax revenue, lessening possible damages of importation of illegal items, preventing country from risk of blacklisting its banks for correspondent relationships with international banks, increasing the potential of foreign investment into Sri Lanka, prevent TBML from increasing the cost for legitimate trade into/ out of Sri Lanka. Also controlling money laundering through trade activities lead to control corruptions of law enforcement, regulatory bodies and political systems. More importantly Sri Lanka can maintain its reputation at the global market and can have a regular import and export market with a limited TBML threat. Ultimately, Sri Lanka as a country will contribute the global fight against money laundering by misusing trade industry. ADB is a one such global institutions provide required skills for countries to detect, identify and control money laundering attempts through trade activities.

“It is important for the ADB TSCFP to be active in this space as it continues to promote trade transparency which is critical in building a robust and resilient global trade and supply chains. The ADB-led TBML Pilot aims to address the information gap around trade-based money laundering by pioneering a project that is designed to provide high-value actionable intelligence for regulators and law enforcement agencies.” – Catherine Daza Estrada, ADB

The challenges to be faced by Sri Lanka in reducing TBML: Controlling money laundering through international trade is of course a challenge for Sri Lanka. First, we need to understand that trade is highly important to Sri Lanka. It is also important to understand that there is a high volume of legitimate trade activities and TBML is also occurred amongst them. When it comes to controlling, resources for compliance, identifying, analyzing, investigating and also prosecuting are the forefront which requires a considerable amount of human as well as other resources such as monitoring and reporting systems, IT facilities, etc. Accordingly, Sri Lanka has a limited ability to apply sufficient resources to all trade transactions specially to separate criminal monies which are co-mingled with legitimate money. Also, the country requires cross LEA unit skills and powers to stand against criminal acts. High fluidity of item values in a globalized world is another challenge in identifying real markets values of goods. Further, difficulties such as bank STRs often focus on the end transaction, disparity in knowledge level between LEAs and private sector entities specially on financial instruments such as letter of credit, and other trade related documents such as bill of lading, insurance, and knowledge on freight forwarding services, ship to ship transfer are some of real gaps. Also, investigators and prosecutors' knowledge level is important to understand the policy changes into trade and foreign exchange market which could be done by regulators.

“The Sri Lankan Central Bank has initiated a stringent system of capital controls to try to stabilise the nation's currency. For AML teams, it is critical to consider that capital controls will drive legitimate customers into the black economy to move funds across borders. Financial intelligence units and police will now have to add Sri Lanka to the list of countries that are highly likely to be linked to cuckoo smurfing.” – Nathan Lynch, Trainer at ADB 'Countering TBML Master Class.

Public- Private Partnership: To get the advantages to curtailing TBML, a strong public- private partnership (PPP) was presented by resource persons as a top solution. A PPP means the collaboration between

government agencies and private-sector companies that could be used to identifying, investigating and disrupting TBML. Accordingly, the private sector and the public sector should work together in a proper method and with the necessary technical facilities to prevent TBML.

Conclusion: It was emphasized that international trade is very important for Sri Lankan economy. Therefore, in securing country's trade activities from harmful, illegal acts like TBML human resources of financial institutions, customs authorities, financial intelligence units, and law enforcement agencies must be carefully trained and equipped with the necessary technology. The final message of the workshop was to work collectively by the public and private sector in achieving successful results to reduce TBML efforts

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