

## KEY POINTS

- Countering trade-based money laundering (TBML) is critical to promote trade transparency, which builds confidence and predictability in global supply chains.
- Suspicious transaction reports are a critical tool in countering TBML but are not designed to capture intelligence-rich data available in trade transactions.
- The Asian Development Bank collaborated with the United Nations Office on Drugs and Crime in implementing a pilot in five countries to (i) create suspicious transaction reports tailored to trade transactions, (ii) deliver extensive TBML training, and (iii) advance collaboration between agencies and countries in fighting TBML.
- During the pilot, each of the five countries identified more suspected TBML, improved data collection and analysis, and gathered important insights on TBML-susceptible goods and trade routes.

## Transforming the Fight Against Trade-Based Money Laundering: New Data and Partnerships

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### INTRODUCTION

International trade is a powerful tool to advance development and reduce poverty. At the same time, trade is attractive for money laundering because of the complexity and volume of international trade and trade financing instruments, which can be used to hide the origin of individual transactions and make trade-based money laundering (TBML) challenging to identify and prevent.

Trade-based money laundering is the practice of hiding illegal sources of money by moving it through trade transactions to make it appear like they come from legitimate activities. It involves the transfer of funds, or value, across borders and relates directly to criminal or terrorist activity, helping to fund such activity, or helping to move or hide proceeds originating from criminal activity. Trade can enable the movement of large amounts of money in a single transaction, making it attractive to criminals and terrorists seeking to launder funds.

Note: In this publication, “\$” refers to United States dollars.

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Trade-based money laundering is a form of “white collar crime” that involves tragic human costs and consequences, which is massively underestimated and underreported. Countering TBML is critical in building trust, confidence, and predictability in global supply chains to promote trade transparency while fighting serious underlying criminal and terrorist activity. The result is a more robust international trade system better equipped to deliver the economic growth and jobs required to support international development and to achieve the Sustainable Development Goals.

There are common methods of perpetrating TBML, mostly by lying about or changing the price, quantity, or quality of goods that are imported or exported so that shipment value can be understated or overstated. The difference between the actual and stated value of goods represents the amount laundered through a particular transaction, which can flow either to the importing jurisdiction or the exporting jurisdiction, depending on the way the transaction is structured.

Financial intelligence units (FIUs) play a crucial role in detecting and combating financial crimes. There are various types of FIUs with different scope and structure. Most FIUs are attached to a country’s central bank, but the common function across all types of FIUs is receiving, analyzing, and disseminating suspicious transaction reports (STRs).<sup>1</sup> Better-quality, actionable intelligence can be provided to FIUs and law enforcement.

This brief presents the results of a TBML pilot conducted by the Asian Development Bank’s (ADB) Trade and Supply Chain Finance Program. The pilot introduced new data, training, and collaboration in Bangladesh, Mongolia, Nepal, Pakistan, and Sri Lanka to enhance the detection and investigation of TBML crimes. This initiative was a joint effort with the United Nations Office on Drugs and Crime (UNODC) goAML team, and the FIUs of these five countries.

## THE PILOT: IMPROVING SUSPICIOUS TRANSACTION REPORTING IN TRADE

### Challenges

Despite the anecdotally high human cost of TBML, it is generally not a high priority in the work of police, intelligence agencies, and prosecutors, in part because investigations are complex, involve long timelines, and typically cross multiple jurisdictions. The Financial Action Task Force (FATF) notes that TBML techniques differ around the world and that they are often used together with other money laundering methods, making it harder to trace the money trail. The World Economic Forum estimates that the economic and tax losses from trade-based money laundering in developing countries alone exceeded \$9 trillion between 2008 and 2017.

### Understanding the Trade-Based Money Laundering Problem

The scale of trade-based money laundering (TBML) points to a serious problem. The think tank Global Financial Integrity estimates the gap between developing and advanced economies’ export and import “value gap” declarations at \$8.7 trillion for 2008–2017.<sup>a</sup> The “global value gap” reflects the unexplained difference between officially reported import and export flows involving countries that trade together and serves as a good proxy to measure potential trade-based money laundering. When two countries trade, the value of inward flows into the importing country should mirror the value of outward flows from the exporting country. When the differences between these numbers are material and cannot be reconciled, there are reasonable grounds to suspect misrepresentation of the value of goods traded; therefore, potential money laundering activity.

The “global value gap” of the Global Financial Integrity is the most widely used; however, estimates vary significantly because most countries do not have reliable statistics on TBML. This limits global awareness of the problem and hinders government efforts to implement new and effective TBML countermeasures. The challenge in measuring the problem, and fully understanding related criminal activity and its impact, make it difficult for authorities to prioritize complex and expensive international investigations to combat TBML. In addition, practices to collect and combine the statistics and data relevant to TBML vary among jurisdictions. According to the Asia/Pacific Group on Money Laundering’s (APG) 2012 TBML report, statistics relating to TBML are not separated from other forms of money laundering.<sup>b</sup> This is still true more than a decade later. The data needed to combat TBML remains scattered over different domestic sectors. The APG report recommends common formatting of TBML statistics and their reporting, so that trends can be more easily detected.

<sup>a</sup> Global Financial Integrity. Trade Integrity. <https://gfin integrity.org/issue/trade-integrity/>.

<sup>b</sup> Financial Action Task Force. APG Typology Report on Trade-Based Money Laundering. 2012. <https://www.fatf-gafi.org/en/publications/Methodsand trends/Trade-based money laundering typologies.html>.

Other difficulties in identifying and reducing TBML compared with other forms of money laundering include the cross-border nature of the crime, the lack of reliable statistics, and a limited knowledge of trade processes among investigators. Customs agencies and FIUs have competing priorities and limited resources to spot suspicious trade transactions, making TBML difficult for financial institutions, law enforcement, and governments to address.

<sup>1</sup> Also called suspicious activity reports (SARs) or suspicious matter reports (SMRs). There are four types of FIUs identified by the International Monetary Fund and the Egmont Group: (i) administrative FIUs, (ii) law enforcement FIUs, (iii) judicial or prosecutorial FIUs, and (iv) hybrid FIUs. (Source: Egmont Group of Financial Intelligence Units. <https://egmontgroup.org/about/financial-intelligence-units/>.)

A main problem with current STR and TBML-related reporting is that the formats used to report suspicious transactions are designed for use with payment transactions, which have little information besides details of the parties, amount involved, and currency of payment. Some types of trade financing techniques, on the other hand, are backed by many pages of documents that provide a lot of detail about the transaction that can signal potential TBML activities. These include information about the trading parties, the goods, the cargo route, and other transaction-related information. For FIUs and investigators, this is a source of valuable, actionable intelligence.

In developing the pilot, it became clear that FIUs are overwhelmed by “defensive” filings of STRs that are generally poor-quality and low-value. This is the result of banks wanting to avoid missing a potential suspicious (TBML) transaction and being subject to fines or other enforcement action. As the pilot introduced a framework for richer information, filings became more valuable, thereby reducing what FIUs consider “defensive” filings.

### Solution

Considering the complexity of TBML, ADB designed and implemented a pilot to enhance the detection of TBML; raise awareness; and improve collaboration between key parties and across borders in using intelligence-rich trade transaction data in STRs, which are regularly sent to FIUs.

The pilot focused on creating STRs tailored to trade transactions by adding data elements that can be extracted from trade financing transactions. These data elements are common when banks review and verify documents related to traditional trade finance products like documentary letters of credit.<sup>2</sup> Under these transactions, exporters submit various documents (sometimes numbering 20–30 pages or more per shipment) to show compliance with letter of credit terms and conditions so that an exporter can get paid.

The pilot aims to deliver high quality TBML-related STRs by leveraging on data-rich trade documents. Detailed trade data can be the source of important, actionable intelligence, which this ADB pilot aimed to capture through enhancements to STR reporting. An important feature of the solution was the use of the goAML software application, an integrated reporting and analysis system developed by the UNODC. This UNODC system is deployed in more than 70 jurisdictions, including in the five pilot participants.

Implementing the pilot’s new trade-related data elements through the goAML platform facilitated efficient pilot implementation and positions the pilot to potentially scale globally and quickly to the other jurisdictions where goAML is used as the FIU’s comprehensive software and STR reporting platform.

In addition to improving TBML data collection, the pilot delivered training and capacity building and fostered collaboration in the five pilot countries.

### Parties

ADB worked with UNODC’s goAML<sup>3</sup> team and five pilot participants, which are the FIUs of the following countries:

- (i) Bangladesh Financial Intelligence Unit, Government of Bangladesh<sup>4</sup>
- (ii) Financial Information Unit of Mongolia, Government of Mongolia<sup>5</sup>
- (iii) Financial Intelligence Unit of Nepal, Government of Nepal<sup>6</sup>
- (iv) Financial Monitoring Unit, Government of Pakistan<sup>7</sup>
- (v) Financial Intelligence Unit of Sri Lanka, Government of Sri Lanka<sup>8</sup>

All five countries are users of UNODC’s goAML, which facilitated the quick implementation of upgrades to their current STR reporting system to include TBML-specific data fields.

### Methodology

ADB conducted extensive industry consultations on the issue of TBML, followed by analysis of trade transaction data and its potential value in STR completion and filing. Following this analysis, ADB worked closely with UNODC’s goAML experts to propose specific new data elements to be made accessible to banks and other reporting entities that file suspicious transaction reports. goAML facilitates the receipt, processing, and analysis of reports submitted by banks, nonbank financial institutions, and other reporting entities to comply with domestic anti-money laundering and counterfinancing of terrorism laws and regulations.

The proposed goAML update includes the addition of specific, high-value, trade-related data elements.<sup>9</sup> These enhancements enable banks to offer a detailed and compelling account of suspected TBML activities. These data elements align with the types of trade data routinely managed by commercial banks (and ADB’s Trade and Supply Chain Finance team)<sup>10</sup> to deliver trade financing to importers and exports.

<sup>2</sup> Trade Finance Global. Introduction to Letters of Credit | 2024 Guide. <https://www.tradefinanceglobal.com/letters-of-credit/>.

<sup>3</sup> United Nations. goAML Anti-Money Laundering System. <https://unite.un.org/goaml/>.

<sup>4</sup> Bangladesh Bank. Bangladesh Financial Intelligence Unit. <https://www.bb.org.bd/aboutus/dept/bfiu/>.

<sup>5</sup> Mongolbank. Financial Information Unit. <https://fiu.mongolbank.mn/en/>.

<sup>6</sup> Nepal Rastra Bank. Financial Intelligence Unit. <https://www.nrb.org.np/departments/fiu/>.

<sup>7</sup> Financial Monitoring Unit, Government of Pakistan. <https://www.fmu.gov.pk/>.

<sup>8</sup> Financial Intelligence Unit of Sri Lanka. Central Bank of Sri Lanka. <https://www.fiusrilanka.gov.lk/> (accessed 28 August 2024).

<sup>9</sup> The results of this project apply well to document-intensive trade financing techniques that support about \$2 trillion in annual trade. It is not clear yet how they can be applied to other techniques such as those covered by supply chain finance.

<sup>10</sup> ADB’s Trade and Supply Chain Finance Program delivered \$69.5 billion in trade and supply chain finance through 70,000+ transactions from 2009 to 2023. See ADB. Trade and Supply Chain Finance Program (TSCFP). <https://www.adb.org/what-we-do/trade-supply-chain-finance-program>.

The pilot required the five jurisdictions to incorporate specific data related to trade-based money laundering through the goAML platform they use in the STR process. These data elements include (i) TBML indicators; (ii) identification of all trading parties (such as importers, exporters, banks, and insurance companies); and (iii) transaction details (such as descriptions of traded goods or services, shipping routes, and vessel information). Prior to the pilot, STR forms required by FIUs from banks and other reporting

entities lacked dedicated fields capturing these trade-relevant details. Ensuring that the new fields are formatted and clearly labelled enables detection and analysis that would not be possible with free-form unstructured data fields.

Table 1 captures a comprehensive list of the specific data elements added to STRs during the pilot.<sup>11</sup>

Table 1: Trade Data Elements Added in the Pilot

Category/Data Element	Information Source (analysis derived from the review)
<b>TBML Indicators</b> 1. Documents Giving Rise to Suspicion <u>Drop-down options:</u> Know Your Customer (KYC) Forms, Letter of Credit, Commercial invoice, Draft, Certificate of Origin, Transport Document, Trade Transaction Profile, Other 2. Suspicious Transaction Report (STR) / Suspicious Activity Report (SAR) Code (“What is the suspected illicit activity”) <u>Drop-down options:</u> Animal Trade, Fraud, Human Trafficking, Money Laundering, Narcotics Trafficking, Sanctions, Dual-Use Goods, Other 3. Trade-Based Money Laundering Technique (“How or what is the method used”) <u>Drop-down options:</u> Overinvoicing, Underinvoicing, Split Invoicing, Overshipment, Undershipment, Misdeclaration of Goods, Phantom Shipment, Black Market Peso Exchange, Surrogate Shopping, Third Party Invoice Settlement, Shell Companies, Other	KYC forms, Letter of Credit, Commercial invoice, Draft, other bank records  KYC forms, Letter of Credit, Commercial invoice, Draft, other bank records  KYC forms, Letter of Credit, Commercial invoice, Draft, other bank records
<b>Party Identification</b> Other than on the client, the STR report should include identification of the following trade transaction participants: 1. Letter of Credit Applicant (Importer) 2. Letter of Credit Beneficiary (Exporter) 3. Issuing Bank 4. Confirming Bank 5. Nominated Bank 6. Beneficiary’s Bank 7. Other transaction counterparties	Letter of Credit, Commercial invoice, Draft Letter of Credit, Commercial invoice, Draft Letter of Credit Letter of Credit Letter of Credit Letter of Credit Letter of Credit
<b>Transaction Data</b> 1. Transaction and Documentation 2. Goods or Services Description 3. Transaction Amount and Currency 4. Unit Price 5. Quantity Shipped and Unit of Measure 6. Harmonized Customs Code 7. Country Origin of Goods (proxy for Loading Port) 8. Country Destination of Goods (proxy for Destination Port)	Letter of Credit, Commercial invoice, Bill of lading, Packing list Letter of Credit, Commercial invoice, Bill of lading, Packing list Letter of Credit, Commercial invoice, Bill of lading Commercial invoice <i>(or derive by dividing total amount by quantity shipped)</i> Letter of Credit, Commercial invoice, Bill of lading, Packing list Letter of Credit, Commercial invoice, Bill of lading Letter of Credit, Commercial invoice, Bill of lading Letter of Credit, Commercial invoice, Bill of lading

Note: In column 2, “Information Source” identifies the specific type of trade documents typically received by banks from which the relevant data element may be derived.

Source: ADB Private Sector Operations Department (Trade and Supply Chain Division).

<sup>11</sup> The initial set of proposed data points was approved by pilot participants as well as by trade finance experts and industry stakeholders. The data can greatly enrich analysis, investigations, and prosecutions when it is cross-referenced and reported to authorities (who can share with domestic partners and police or intelligence agencies in other countries). Note: One of the widely used trade financing instruments is the letter of credit. A letter of credit is issued by a bank on behalf of an importer (buyer), serving as a promise to pay the exporter (seller) provided that all letter of credit terms and conditions are met.

In addition to insights gained by verifying trade documentation, banks typically collect detailed “know your customer” information and transaction data (see Table 1, column 2) from importers seeking financing. Banks verify and screen the client due diligence forms, letter of credit applications, and related documents, such as invoices, drafts, bills of lading, and packing lists before they could approve any proposed trade financing deals. By analyzing these records, banks gain valuable insights to detect potential TBML activities.

Given that banks handle such transactions routinely, their trade and business compliance staff review these documents before making payment or financing decisions. These experienced professionals are well-equipped to spot suspicious trade patterns and trends that may suggest potential TBML activities.

### Implementation

The pilot engaged in a series of discussions and capacity-building workshops. These workshops involved representatives from banks, customs, and law enforcement agencies in each of the five countries. Figure 1 summarizes the major activities carried out by the pilot.

The pilot group (central banks and/or FIUs of the five pilot countries) set up separate reporting capabilities to track the newly introduced TBML-related suspicious transaction reports. The pilot’s impact, domestically and for cross-border TBML data analysis, was significant. Equally important was the dialogue, sharing of experiences, best practices, and case studies derived from the pilot. These learnings will be important in any global rollout (see section on “Next Steps”) of trade-relevant STRs and active efforts to identify and combat TBML.

## PILOT DATA AND OBSERVATIONS

The pilot demonstrated the value of adding trade-related data elements to STRs, which increased the number and improved the quality of TBML-related STRs in four of the five pilot group countries. The pilot demonstrated the importance of cooperation between reporting entities, FIUs, central bank (regulators) customs, law enforcement agencies, and prosecutors in each country.

Importantly, in the context of TBML and its inherent requirement for cross-border investigations, the pilot promoted cross-border sharing of data, reporting, and best practices, recognizing the sensitivities, and related legal challenges<sup>12</sup> associated with such collaboration.

The pilot ran for 18 months (January 2022 to June 2023) and delivered the following results:

- (i) More and better quality TBML-related STRs were filed and reported by all countries, except for Sri Lanka.<sup>13</sup> In one country, the pilot confirmed the existence of TBML, which had previously gone undetected due to data and reporting limitations. The filed STRs included higher-quality, actionable information, such as detailed descriptions of the goods involved; names of exporters, importers, vessels, ports, banks; countries involved in the transactions; reasons for suspicion; and other TBML-related red flags.
- (ii) Analysis of the goods and trade routes linked to TBML was made possible, which can help focus (limited) monitoring and law enforcement resources and attention to where TBML is most likely to occur. This type of analysis aligns with the recommended “know your sector” (KYS) approach to countering TBML.<sup>14</sup> The KYS approach suggests that regulators, banks, and law enforcement agencies should have a risk profiling of each sector and determine which ones are at higher risk for TBML.
- (iii) More clarity on the common techniques used in TBML was gained, as banks provided details on the methods and documents that raised suspicion. The pilot demonstrated how enhanced trade-related STRs can guide authorities to crimes related to TBML, and improve investigations and intelligence.

### Bangladesh

Bangladesh is one of the biggest issuers of letters of credit in the world. During the pilot period, Bangladesh reported a 148% increase in the number of TBML-related STRs filed by banks and received by authorities. Pre-pilot, Bangladesh FIU recorded only 63 TBML-related STRs from 2020 to 2021, which represents an average of 31.5 STRs annually. During the pilot, Bangladesh FIU saw an increase of 117 TBML-related STRs from January 2022 to June 2023. Ten commercial banks in Bangladesh participated in the pilot.

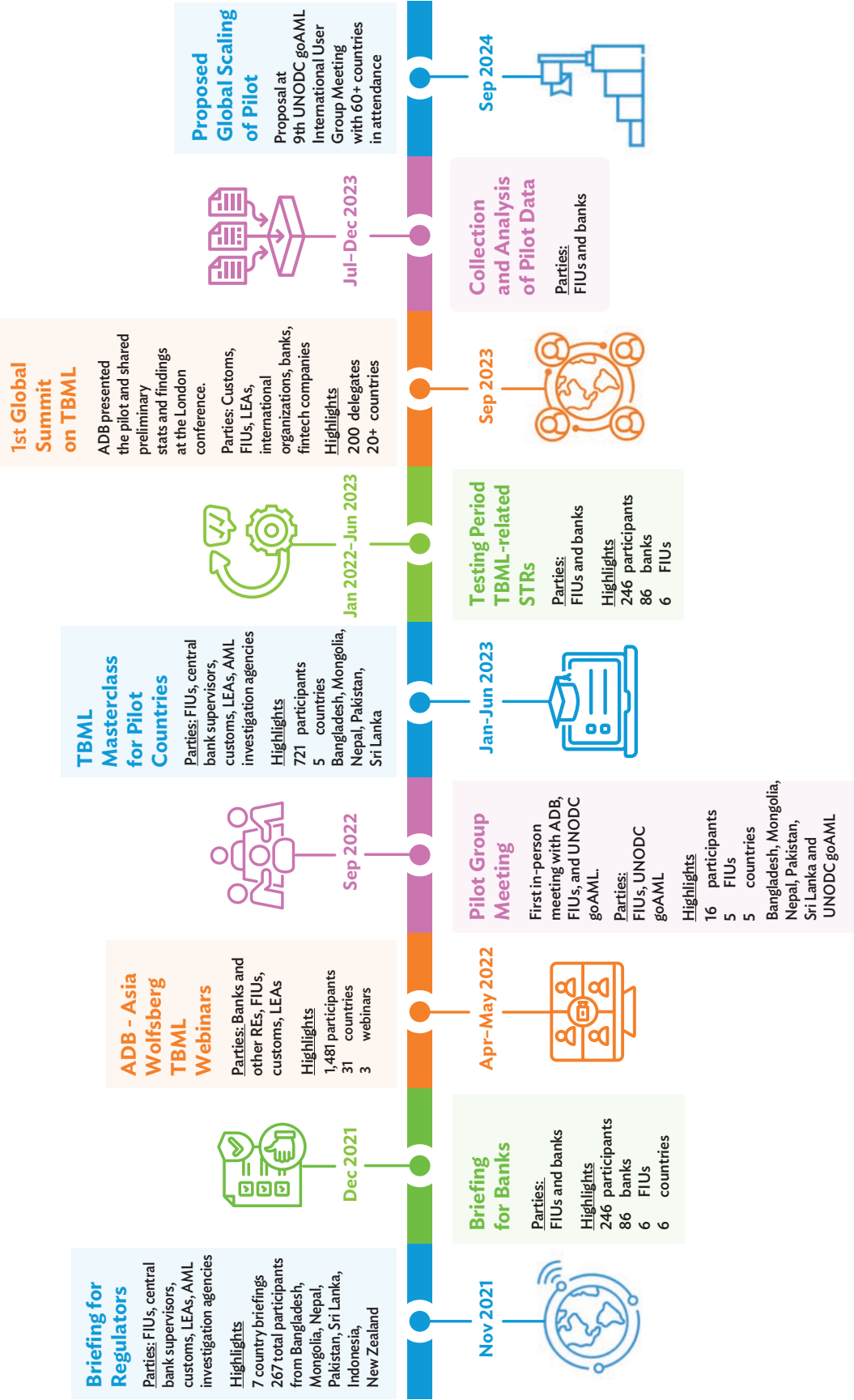
<sup>12</sup> The FATF acknowledges the challenges related to cross-border information sharing in the context of anti-money laundering and countering the financing of terrorism. To quote from one of FATF’s guidance notes: “Money laundering, terrorist financing, and other forms of financial crime do not stop at national borders but can have links to several countries and financial institutions. To put a stop to it, it is crucial that information concerning financial activity with possible links to crime and terrorism is shared in a timely and effective manner between and with both public and private sectors. However, a number of legal constraints and operational challenges can prevent effective exchange of information between different financial institutions belonging to the same group as well as information sharing between financial institutions that are not part of the same group.” The FATF emphasizes the importance of overcoming these obstacles to enhance the fight against illicit financial activities. (Source: Financial Action Task Force. FATF Guidance—Private Sector Information Sharing. <https://www.fatf-gafi.org/en/publications/Fatfgeneral/Guidance-information-sharing.html>.)

<sup>13</sup> Sri Lanka was an outlier due to a severe economic crisis in 2022 that reduced trade levels. In addition, the FIU of Sri Lanka was transitioning to the goAML system, requiring banks to adjust. However, once the pilot expanded to include all Sri Lankan banks, their results aligned with that of other countries.

<sup>14</sup> The Netherlands’ Anti Money Laundering Centre suggested this KYS approach in combating TBML after working on a public-private partnership to understand TBML risks specific to the country’s automotive sector. See p. 62 of FATF-Egmont Group. 2020. *Trade-Based Money Laundering: Trends and Developments*. <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Trade-Based-Money-Laundering-Trends-and-Developments.pdf>.



Figure 1: Pilot Timeline and Milestones



ADB = Asian Development Bank, AML = anti-money laundering, FIUs = financial intelligence units, LEAs = law enforcement agencies, TBML = trade-based money laundering, UNODC = United Nations Office on Drugs and Crime.

Note: Actual start and end dates of the testing period varied per country but ADB conducted its analysis based on the data submitted by the pilot countries in July 2023. Where there was not enough data available, the observation period was extended to June/July 2024 as in the case of Pakistan and Sri Lanka.

Source: ADB Private Sector Operations Department (Trade and Supply Chain Division).

In terms of goods considered at higher risk for TBML in Bangladesh, the following were identified: capital machinery; high-tax products (e.g., large screen smart TVs, wines, etc.); leather goods; IT equipment; and agricultural products (Table 2).

Bangladesh's trade links that might require ongoing scrutiny in terms of potential TBML exposure connect to British Virgin Islands; Hong Kong, China; India; Singapore; Thailand; United Arab Emirates; and the United States.

Bangladesh FIU identified quantity and price manipulation as two of the common techniques used in TBML in their trade flows. They highlighted the following red flags reported by banks: (i) inconsistent documentation, (ii) falsely described goods, (iii) related party transactions, and (iv) transactions involving shell companies and banks.

Higher numbers of TBML-related STRs and improved quality and detail in STRs were attributed to the pilot. In addition to the pilot's introduction of trade-related data elements in STR reporting, the pilot's multiple training sessions, and the Bangladesh FIU's early launch (relative to other jurisdictions) of TBML guidelines in 2019, contributed to the results.

### Mongolia

Mongolia deployed goAML for the first time in the second half of 2022, which enabled the country's FIU to introduce the TBML pilot. From September 2022 to April 2024, FIU-Mongolia recorded a total of 28 STRs related to TBML. In comparison, it received only three TBML-related STRs from 2020 to 2022. All 12 banks in Mongolia participated in the pilot.

Reporting entities other than banks are now initiating identification of TBML-related STRs in Mongolia, such as notaries and virtual asset service providers. As stated by FIU-Mongolia, this demonstrates that reporting entities' awareness of TBML indicators has greatly improved as a result of the pilot.

According to FIU-Mongolia, the low number of TBML-related STRs does not mean that this type of criminal activity is not taking place. In fact, in Mongolia's 2020 National Risk Assessment (mandated by the Financial Action Task Force, or FATF), the foreign trade sector has a "medium-high" risk rating in terms of being exploited for money laundering.

Based on pilot data, Mongolia identified gas, oil, coal, computers, electronics, protein and vitamin supplements, and virtual assets as higher-risk goods likely to attract TBML activities. Commonly affected trade routes were those involving links to the People's Republic of China, Russian Federation, Singapore, the United Kingdom, and the United States (Table 3).

Common TBML indicators observed during the pilot in Mongolia included discrepancy of data indicated in the contract versus the invoice (e.g., price, invoice number, etc.); incomplete documents and/or false reporting; insufficient information submitted to assess a trade transaction; and presence of an intermediary with an unknown role or having a suspicious part in complex trade movements.

The FIU-Mongolia noted that STRs filed by banks during the pilot showed more precise indicators of TBML, included descriptive reasons, and provided more context.

**Table 2: Bangladesh—Risk Analysis of Trade-Based Money Laundering-Related Suspicious Transaction Reports**

Major goods/commodities	Trade routes	Typologies, Red flags
<ul style="list-style-type: none"> <li>Capital machineries</li> <li>High-tax products (large screen smart TVs, wines, etc.)</li> <li>Leather goods</li> <li>ICT equipment</li> <li>Agricultural products</li> </ul>	<ul style="list-style-type: none"> <li>Singapore</li> <li>United States</li> <li>Canada</li> <li>British Virgin Islands</li> <li>Hong Kong, China</li> <li>United Arab Emirates</li> <li>India</li> <li>Thailand</li> </ul>	<ul style="list-style-type: none"> <li>Mispricing (over/under invoicing)</li> <li>Quantity manipulation</li> <li>Inconsistent documentation</li> <li>Falsely described goods</li> <li>Related party transactions</li> <li>Transactions with shell companies and banks</li> </ul>

ICT = information and communication technology.

Note: Based on pilot data from suspicious transaction reports received from banks during the pilot period (January 2022–June 2023).

Source: Bangladesh Financial Intelligence Unit.

**Table 3: Mongolia—Risk Analysis of Trade-Based Money Laundering–Related Suspicious Transaction Reports**

Goods/commodities	Affected trade routes	Typologies, Red flags
<ul style="list-style-type: none"> <li>Gas and oil</li> <li>Coal</li> <li>Computers and accessories</li> <li>Electronic products</li> <li>Protein and vitamin supplements</li> <li>Virtual assets</li> </ul>	<ul style="list-style-type: none"> <li>Russian Federation</li> <li>Singapore</li> <li>United Kingdom</li> <li>United States</li> <li>People's Republic of China</li> </ul>	<ul style="list-style-type: none"> <li>Discrepancy of information in contract vs. invoice (in terms of price, invoice number, etc.)</li> <li>Incomplete documents and/or false reporting</li> <li>Insufficient information to assess trade transaction</li> <li>Intermediary with unknown role or a suspicious part in complex trade arrangements</li> </ul>

Note: Based on pilot data from suspicious transaction reports received from banks during the pilot period (September 2022–July 2023).

Source: Financial Intelligence Unit of Mongolia.

## Nepal

Prior to the pilot, there was no reporting of STRs identified and linked to trade transactions in Nepal because there was no such category or concept for specific reporting of TBML. After the pilot was introduced, from September 2021 to June 2023, the FIU recorded 14 TBML-related suspicious transaction reports. All 20 banks in Nepal participated in the pilot.

Nepal's trade with India and the People's Republic of China are among the most affected routes in terms of suspected TBML exposure, based on the volume of international trade. The goods and commodities that were commonly linked to suspicious trade transactions were kitchenware, small cardamom, chemicals, and vehicle parts (Table 4).

Arguably the greatest impact of the pilot, according to the Nepal FIU, is that now they receive TBML-related STRs in a separate report type ("STR-TBML"). This has proven useful for the FIU as well as the banks, because now "there is increased focus on trade-related suspicious transactions."

According to the FIU, in Nepal's 2020 National Risk Assessment, TBML is among the issues of serious concern for the government.<sup>15</sup> Statistics are still largely understated and do not accurately reflect the extent of TBML in the country. However, no formal study has been done on the topic.

**Table 4: Nepal—Risk Analysis of Trade-Based Money Laundering–Related Suspicious Transaction Reports**

Goods/commodities	Affected trade routes	Typologies, Red flags
<ul style="list-style-type: none"> <li>Kitchenware</li> <li>Small cardamom</li> <li>Chemicals</li> <li>Vehicle parts</li> </ul>	<ul style="list-style-type: none"> <li>India</li> <li>People's Republic of China</li> </ul>	<ul style="list-style-type: none"> <li>Pricing mismatch</li> <li>Repeated amendment in letters of credit without reasonable justification</li> <li>Underinvoicing detected from insurance documents (i.e., insurance value was much higher than invoice value of goods)</li> <li>False description of goods</li> <li>Complex transactions in the account of importer by many entities and payment in rounded sums</li> </ul>

Note: Based on pilot data from suspicious transaction reports received from banks during the pilot period (September 2021–June 2023).

Source: Financial Intelligence Unit of Nepal.

<sup>15</sup> Nepal National Risk Assessment Report on Money Laundering and Terrorist Financing. 2020. [https://www.nrb.org.np/contents/uploads/2021/07/NRA\\_REPORT\\_2020\\_Summarized.pdf](https://www.nrb.org.np/contents/uploads/2021/07/NRA_REPORT_2020_Summarized.pdf).



## Pakistan

Pakistan's monthly TBML-related STRs volume increased by an average of 398% after the pilot and the resulting implementation activities, based on data provided by Pakistan's Financial Monitoring Unit (FMU).<sup>16</sup> From July 2023 to June 2024, the FMU recorded a monthly average of 191 STRs related to suspicious trade transactions, whereas the monthly average pre-pilot was just 38. Ten of the largest banks in Pakistan participated in the pilot. The pilot numbers are still conservative given that only 10 out of the 40 banks in Pakistan were included in the pilot.

The FMU observed that during the pilot, banks provided more detailed reasons for reporting each TBML-related STR, which suggests that they conducted closer scrutiny of trade documents. The pilot provided greater ease for banks in Pakistan to choose from a dropdown selection of TBML indicators. With the enhancements in goAML data elements and the STR format, Pakistan's FMU saw increased filing of TBML-related STRs by banks and other reporting entities. Furthermore, the FMU received more information requests from law enforcement agencies in Pakistan to collect cross-border data to aid TBML investigations.

Pakistan's FMU identified the types of goods commonly linked to suspicious trade as follows: solar panels, textile, chemicals, rice, and industrial equipment (Table 5). The FMU found that TBML could be used by criminals to move contraband, such as illegal drugs, across borders, but that activity is commonly disguised as other goods linked to legitimate trade. From pilot data, the FMU saw how criminals resort to "underinvoicing" to evade customs duties and taxes while settling remaining balances through accounts maintained abroad.

According to the FMU, banks provided overwhelmingly positive feedback on the enhanced functionality and related processes, citing the ease of reporting trade-related suspicions through the

new STR-TBML data elements. The law enforcement agencies also praised how the initiative has enabled them to utilize the financial intelligence, which aids in the detection and prevention of illicit financial activities.

## Sri Lanka

The ADB pilot coincided with the rollout of the goAML reporting format for banks and other reporting entities in Sri Lanka. Sri Lanka's STR process was significantly enhanced when the supporting technology was changed from an in-house system to goAML.

Sri Lanka was an outlier in the pilot due to a severe economic crisis over the pilot period, including a sovereign default and virtually no foreign exchange reserves. Moreover, the pilot coincided with Sri Lanka's transition to goAML, a time that required a period of adjustment for the financial institutions.

Sri Lanka observed a 19% decline (32 from 2021 to 2023 compared to only 13 in 2023) in TBML-related STRs during the early stages of the pilot. During the pilot period, only 12 of Sri Lanka's 30 banks participated, but in January–July 2024 following the pilot, all 30 banks had access to the pilot's new TBML data elements in goAML. The banks reported 24 STRs, a trending increase in the annual average TBML-related STRs filing of 156% compared to the figures before the pilot.

The FIU highlighted the usefulness of creating a new STR category to isolate and focus on TBML suspicions. The new STR category enabled the FIU to use the detailed trade data (previously not available) to identify patterns and trends in TBML activities.

The analysis of suspected "TBML-affected trade routes"<sup>17</sup> (see Table 6, column 2) allowed Sri Lankan authorities to isolate transactions that could require enhanced due diligence.

**Table 5: Pakistan—Risk Analysis of Trade-Based Money Laundering-Related Suspicious Transaction Reports**

Goods/commodities	Affected trade routes	Typologies, Red flags
<ul style="list-style-type: none"> <li>Solar panels</li> <li>Textiles</li> <li>Chemicals</li> <li>Rice</li> <li>Industrial equipment</li> </ul>	<ul style="list-style-type: none"> <li>Not disclosed</li> </ul>	<ul style="list-style-type: none"> <li>Use of trade instruments to export/import contraband like psychotropic drugs hidden among goods</li> <li>Underinvoicing to evade customs duty/taxes while settling the remaining funds through accounts maintained abroad</li> </ul>

Note: Based on pilot data from suspicious transaction reports received from banks during the pilot period (July 2023–June 2024).

Source: Financial Monitoring Unit, Government of Pakistan.

<sup>16</sup> Pakistan's FMU is the FIU of Pakistan. It acts as an independent intelligence service department of the Government of Pakistan. The director general of the FMU leads this autonomous government body, focusing on anti-money laundering, countering financing of terrorism, and financial intelligence. (Source: Government of Pakistan, Financial Monitoring Unit. <https://www.fmu.gov.pk/about-us/>)

<sup>17</sup> Specific country TBML routes analysis is available with the FIUs, but for the purpose of this brief, some FIUs provided aggregate data per their preference.

Table 6: Sri Lanka—Risk Analysis of Trade-Based Money Laundering-Related Suspicious Transaction Reports

Goods/commodities	Affected Trade Routes	Typologies, Red flags
<ul style="list-style-type: none"> <li>Textile fabric and related materials</li> <li>Vehicle parts</li> <li>Food items</li> <li>Electronics</li> <li>Hardware</li> <li>Stationery</li> </ul>	<ul style="list-style-type: none"> <li>Middle East and North Africa</li> <li>Asia and the Pacific</li> </ul>	<ul style="list-style-type: none"> <li>Indirect connection with high-risk countries or sanctioned entities</li> <li>Transactions without an economic rationale (payments contradicting export amounts)</li> <li>Over/under/split invoicing</li> <li>Forged documents</li> </ul>

Note: Based on pilot data from suspicious transaction reports received from banks during the pilot period (January–July 2023).

Source: Financial Intelligence Unit of Sri Lanka.

## ENGAGEMENT AND COLLABORATION

While a key element of the pilot was to introduce trade-related data elements to STRs, a critical component was capacity building and training, as well as the involvement and cooperation of all stakeholders. The in-country and regional workshops conducted over 2021 to 2023 were vital to the pilot's success. These sessions increased TBML awareness and understanding, and underscored the importance of multisectoral, multiagency, and cross-border cooperation.

- (i) **Training.** Training on trade finance principles and processes for FIUs, customs, and law enforcement agencies helped the government agencies understand what takes place in bank-intermediated trade transactions, what trade documents are collected by banks, and how banks typically screen the information and flag observed discrepancies or suspicious trades.
- (ii) **Webinars.** Online seminars on identifying TBML red flags, (risk) control, and (best) practices for banks increased the banking sector's consciousness of TBML risks and enabled industry experts to share tools and best practices in spotting TBML indicators. ADB collaborated with the Wolfsberg Group's Asian chapter on the successful TBML Webinar Series in 2023.
- (iii) **TBML master classes.** Conducted by international anti-money laundering and countering the financing of terrorism (AML/CFT) experts for banks, FIU staff, customs, and law enforcement agencies, these master classes helped the banks and government agencies align on country-specific TBML risks; understand the capability and limitations of each stakeholder; agree on a collaborative way forward to break information silos, subject to existing laws and regulations; and leverage on each sector or agency's

expertise in tackling TBML investigations. Law enforcement agencies received additional training on TBML-related STRs and other information sources that could aid in TBML detection and investigation.

- (iv) **Workshops.** Case study workshops for regulators and law enforcement agencies were useful to share real cases that were prosecuted due to actionable intelligence and interagency (including FIUs and customs) cooperation. These workshops provided a platform to identify gaps, address challenges, and strategize on overcoming obstacles.
- (v) **Best practices.** International FIU exchanges on best practices strengthened collaboration.

## CONCLUSIONS AND RECOMMENDATIONS

The pilot introduced new trade-related data elements into STRs, resulting in countries reporting a significant increase in the number of suspicious trade transactions—for instance, 398% higher for Pakistan and 148% higher for Bangladesh—and higher-quality information that could translate into increased investigations of potential TBML cases. The pilot also enabled participating countries to identify which goods and trade routes are more susceptible to TBML. This new insight will help authorities understand the current and evolving modus operandi of suspected criminals involved in TBML.

An integral part of the pilot was an awareness-raising and training program on TBML delivered to over 700 participants in the five pilot countries, including bankers, FIU staff, customs, intelligence, and law enforcement officials. Participants in every jurisdiction agreed that TBML is a serious and underreported problem with human and economic impacts, and it needs more attention.

In combating TBML, the pilot study's findings and observations have highlighted these key areas:

- (i) **Data.** Trade-related (quality, actionable) data is required. A major component of the pilot was leveraging valuable data that banks collect in documentary trade transactions. Other innovative solutions are needed to cover “open account” trade, wherein less information is available, and which comprises most of global trade.
- (ii) **Training.** Training is an essential part of an effective plan to fight TBML. Technical aspects such as explanations of criminal activities and improved awareness of priorities and processes among public and private sector actors are important.
- (iii) **Direction.** Private sector participants wanted clear TBML guidance from regulators. They valued such guidance highly, especially when national FIUs provided it and included country-specific risks.
- (iv) **Pricing of goods.** Mispricing goods for the purpose of laundering funds remains a challenge. New technologies could enhance TBML detection and deserve attention.
- (v) **Collaboration.** To address the unique challenges of detecting and prosecuting TBML, FIUs, customs, and law enforcement agencies need to work together. Joint teams of experts from both agencies should be set up and properly resourced for TBML investigations. There are few such teams in the Asia and Pacific region, and there is potential to increase the number globally.<sup>18</sup>
- (vi) **Public-private partnerships (PPP).** In addressing TBML, PPPs are essential. Countries should establish various formal and informal mechanisms for PPPs that target TBML risks.
- (vii) **Investigation.** Actionable STRs are important, but their value lies in the concrete investigative or enforcement actions that follow. What is done with the information is what counts. Studying the impact of TBML-related STRs against investigations (which can lead to prosecution of TBML crimes) and other actions would be valuable to strengthen counter-TBML efforts and should be considered for joint study in international fora.
- (viii) **Scale.** The pilot findings should be shared widely to achieve impact at scale and demonstrate the impact of improved data, training, and collaboration.

### NEXT STEPS

The pilot has highlighted findings that illustrate the need for coordinated action. It will be critical for stakeholders to:

- (i) share the pilot results with FIUs, law enforcement agencies, governments, and other stakeholders; and
- (ii) advocate for global scaling through the UNODC goAML International User Group and international organizations and working groups focused on anti-money laundering and countering the financing of terrorism.

<sup>18</sup> Examples would be Singapore's Anti-Money Laundering and Countering the Financing of Terrorism Industry Partnership and Australia's Fintel Alliance. Singapore's Anti-Money Laundering and Countering the Financing of Terrorism Industry Partnership is a collaboration of the public sector, including the Monetary Authority of Singapore and the Commercial Affairs Department with the private sector, including banks and other financial institutions. They work together to identify and mitigate TBML risks. Similarly, Australia's Fintel Alliance is a public-private partnership led by AUSTRAC, Australia's financial intelligence agency. The Fintel Alliance brings together government agencies and private sector organizations to share intelligence and develop strategies to combat TBML and other financial crimes.

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