Transparency International Anti-Corruption Helpdesk Answer

Primary destination countries for illicit money originating in Sri Lanka

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Although difficult to trace by their very nature, illicit financial flows (IFF) coming out from Sri Lanka have benefitted from secrecy and tax havens in various jurisdictions. In this report, some of the characteristics that make Seychelles, Thailand, Singapore, Bangladesh, Mauritius, India, the Maldives, Malaysia, Hong Kong and the British Virgin Islands attractive will be presented, with a particular focus on how they rank in tax haven and secrecy scores, and how they have been misused in the past.

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Query

What are the primary destination countries for dirty money originating in Sri Lanka? What makes these jurisdictions attractive for those looking to transfer and spend ill-gotten gains abroad?

Caveat

There is little information available in public domain on the destination of illicit financial flows from Sri Lanka. As such, this Helpdesk paper uses Tax Justice Network's Illicit Financial Flows Vulnerability Tracker, which lists Sri Lanka's trading partners which are most vulnerable to IFFs, to map out most jurisdictions discussed under the third section. As this Helpdesk answer relies mainly on the Tax Justice Network's tracker, it does not cover all types of illicit financial flows – in particular, flows connected to corruption and organised crime may not be adequately captured.

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Main points

— Lax regulations that allow beneficial owners to remain hidden make jurisdictions attractive as they are able to create shell companies through which flow their funds and evade taxes or launder money.

— Tax treaties that in principle should avoid double taxation and low tax rates make certain jurisdictions attractive for tax evasion purposes.

— As Chinese involvement in Hong Kong grows, Singapore competes to become the main destination for IFFs in Asia.

— Cryptocurrency opens new possibilities for IFFs to go undetected, but much remains to be studied regarding its use for this purpose.

Introduction

Illicit financial flows (IFFs) are defined as "(f)inancial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross country borders" (UNTAD and UNODC 2020). A flow is considered illicit if it was generated, transferred or used illicitly. It is important to mention that the origin might be legal or illegal, as well as its destiny (OECD 2014), but with a financial flow step that is illicit.

Transparency International recognizes as important sources of IFFs: corruption; criminal activities and tax evasion; and transfer mispricing. IFFs are closely related to corruption, since corruption is both a source of IFFs and an enabler of money laundering; and secrecy jurisdictions enable corrupt officials to hide any public money they stole (Meyer Dove and Mullard 2019). This becomes particularly problematic if corrupt individuals are at the highest political levels, since it becomes difficult to identify and stop IFFs, as these individuals can control and abuse official channels, like sovereign wealth funds (OECD 2014).

IFFs may also include proceeds from organised crime and illegal trade that can be channelled abroad to safe havens or laundered to reinvest in legal markets (UNCTAD and UNODC 2020).There are several methods to launder such dirty money. It can be laundered through financial and non-financial institutions willing to accept illicit funds or those institutions can be misused to do so. Illegal money can be used to purchase goods that are afterwards re-sold and thus help hide the origin of the money; it can be laundered through casinos; smuggled in suitcases across borders; taken out of the country through fake import and export invoices by legitimate companies; and it can even be transferred through the diplomatic courier system (OECD 2014).

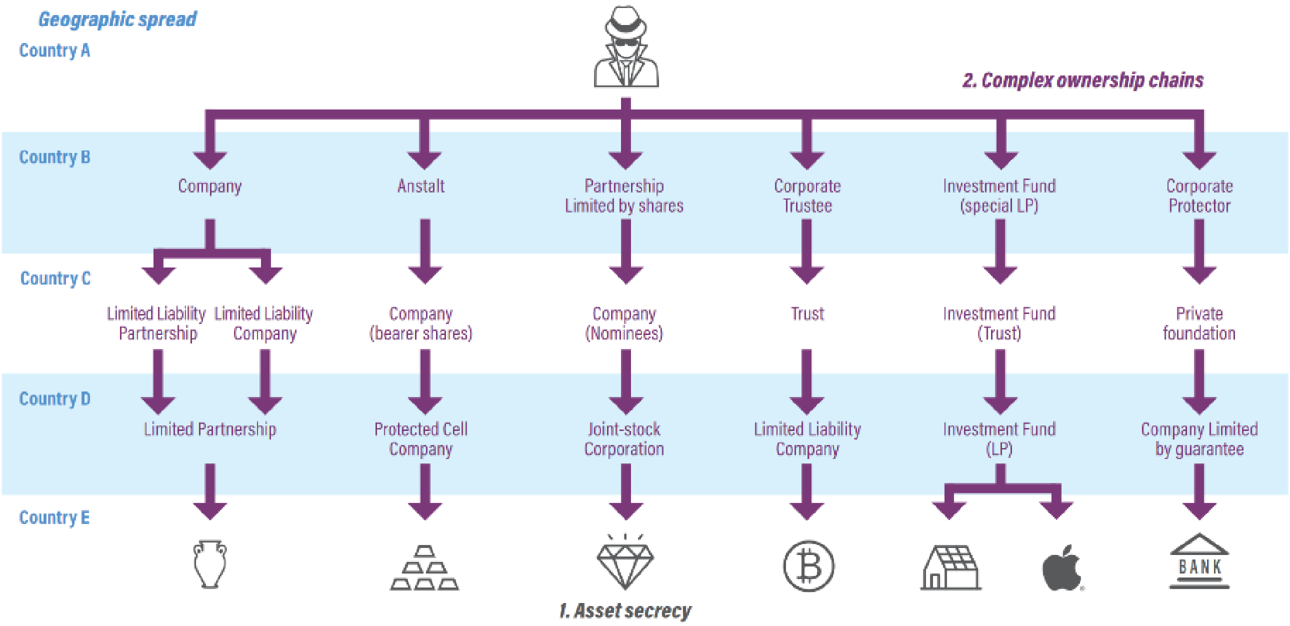
Tax havens offer low tax rates for foreign individuals and companies but also extreme secrecy of ownership (Meyer Dove and Mullard 2019). Individuals can conceal their identities through different methods, like using corporate vehicles or other legal structures, such as trusts and gatekeepers (persons nominated to control the legal entity, like lawyers) to blur beneficial ownership (OECD 2014), some countries do not even collect the data that could help trace back beneficial ownership (Meyer Dove and Mullard 2019). According to an OECD report, big corruption and money-laundering cases always used corporate vehicles (2014).

IFFs can leave the country in different ways, from something as simple as private individual transfers without having paid taxes, to complex hide schemes that set up multi-jurisdictional structures to hide actual ownership (OECD 2014).

Some common methods used in IFFs include:

- Aggressive tax planning: taking advantage of a tax system or of the mismatches between tax systems, for example using them for double non-taxation. (FACTI 2021)
- Base erosion and profit shifting: strategies to make profits disappear for tax purposes or to shift them to countries where the activity is non-existent or low but taxes are lower, which results in very low or no corporate tax being paid. (FACTI 2021)
- Hiding the beneficial owner: hiding the identity of the individual or group that truly benefits from a trust, corporation or account.
- Designated non-financial businesses and professions (DNFBPs): lawyers, accountants and similar which enable illicit wealth (FACTI 2021)
- The use of haven countries: countries where assets can be held with little to no scrutiny.

- Offshore indirect transfer: sale of an entity owning an asset, when the sale is conducted not in the country of the asset (FACTI 2021)
- The use of shell banks: a shell bank is a bank without physical presence or employees in the country (FACTI 2021)
- Tax treaty shopping: trying to obtain the benefits of a tax agreement between two jurisdictions without being a resident of either (FACTI 2021)
- Trade mis-invoicing: falsifying the price or quantity of imports or exports to accrue money in another jurisdiction (FACTI 2021)



Source: FACTI Panel

Figure 1: schematic diagram of three types of secrecy (FACTI 2021)

Finally, the rise in cryptocurrencies pose a risk of for their involvement in IFFs-related activities. Back in 2014, a FATF report identified several potential risks regarding convertible virtual currencies. They can increase money laundering and financing of terrorism risks because they can be used to make cross-border transfers and can involve several entities, making compliance harder and access to records difficult. Among other risks, cryptocurrencies can allow greater anonymity since they can be traded on the Internet, can permit exchanges that do not identify the funding source properly, and cryptocurrency accounts can lack names or other identification attached to them. Furthermore, law enforcement will have a hard time targeting one central location to investigate or seize assets in IFFs involving cryptocurrency (FATF 2014).

Sri Lanka and Illicit Financial Flows (IFFs)

According to the vulnerability tracker of Illicit Financial Flows (IFFs) of the Tax Justice Network (TJN), Sri Lanka ranks mid-high at the financial secrecy index, being number 39 out of 133 countries globally, and with a score of 72 (where 100 is the worst) on financial secrecy haven. According to the tracker, the country is responsible for 0.85% of the global financial secrecy. However, it is more vulnerable to outward foreign direct investment on its illicit financial flows, with a vulnerability score of 64 out of 100. The trading partners most responsible for this vulnerability according to the TJN are Singapore, Bangladesh and Mauritius (IFF 2018j).

Among other indicators, Sri Lanka performs poorly on automatic information exchange and bilateral treaties indicators that facilitate financial information exchange (TJN 2020j), meaning Sri Lanka does not share this information easily. And although money does leave the country, Sri Lanka is also itself a destiny for IFF. In 2020, secret documents revealed global banks had flagged Sri Lanka as a high-risk jurisdiction for money laundering and financial crimes (Alecci 2020a; Times Online 2020).

Sri Lanka's geographic location has also contributed to the country's exposure to illicit activities. Since several important sea-lanes are in its proximity, Sri Lanka is exposed to drug and human trafficking. Yet, years of civil war as well as the fact that Sri Lanka is not an important regional centre, have not made of it an attractive destiny for private sector flows, although the growth of tourism in the archipelago has started to change that (Know Your Country 2018). Authorities do not consider Sri Lanka an end point for the crime related funds, but rather believe that most of those funds are laundered back to their source jurisdictions, end destinations or other transit points (Know Your Country 2018).

Similar to drug and trafficking money, it is likely that the proceeds of corruption are laundered offshore (Know Your Country 2018). In general, kleptocrats have incentives to hide their money in other jurisdictions. This protects them from the possibility of a new regime seizing their assets, it provides them access to foreign goods (and the possibility to diversify their investments), and can also ingratiate the kleptocrats with authorities in a country that could eventually serve as a safe haven for them (OECD 2014).

Since money laundering and other sources of IFFs, like tax evasion, are clandestine by nature, it is hard to determine with certainty where and how does illicit money from Sri Lanka end up. Offshore entities are often used to further obscure both the origin of the money and the beneficiary of the funds. However, leaks, like the Panama and Swiss Papers, and the study of trade gaps can help determine some of this information. For example, the Swiss leaks data shows approximately US$58.3 million associated with clients connected to Sri Lanka.[1] The Global Financial Integrity estimates the potential inflows from trade mis-invoicing with advanced economies at US$2,002 million and the outflows at US$750 million (GFI 2019a). The Tax Justice Network considers Sri

[1] *See https://projects.icij.org/swiss-leaks/countries/rankings*

Lanka to be particularly vulnerable to outward direct investment (stocks held abroad) and the countries with the biggest share of said vulnerability are Singapore, Bangladesh, Mauritius, India and Malaysia (IFF 2018j).

Individuals place their illicit funds in other countries both to avoid scrutiny and to diversify their portfolios and spread the risk, which means they will choose countries with stable and predictable financial systems, and weak anti-money laundering regimes (OECD 2014). Common destinations for IFFs originating in Sri Lanka are Seychelles, Thailand, Singapore, Bangladesh, Mauritius, India, Malaysia, The Maldives, Hong Kong and the British Virgin Islands. The secrecy and lax tax rates of these destinations make them attractive destinies, which will be described in more detail for each of these jurisdictions in the next section.

Finally, the growing prevalence of cryptocurrency poses new challenges to IFFs and has already been used for money laundering purposes (Forbes 2021). In Sri Lanka, although foreign currency exchange laws prohibit purchasing virtual assets with credit cards, cryptocurrency is unregulated and has seen an important rise. The Paxful platform saw a 730% rise between April 2020 and April 2021 and according to the platform the trading volume in January through March of 2021 surpassed the total volume traded in 2020 (Coindesk 2021). Cryptocurrency could be used to transfer funds to offshore entities and convert it there in regular currency and raises several challenges that will be briefly addressed in the final section of the document.

The jurisdictions that attract IFFs from Sri Lanka

There is very little information in public domain on destination jurisdictions for IFFs from Sri Lanka. Nonetheless, this Helpdesk paper uses Sri Lanka's interactive country profile on the Illicit Financial Flows Vulnerability Tracker as a source of evidence on IFFs from Sri Lanka. The Vulnerability Tracker assesses Sri Lanka's vulnerability to illicit flows across different channels, including trade, foreign direct investments, bank deposits and portfolio investment – looking at inbound and outbound for each. Outward direct investment is regarded as the most vulnerable channel, with major destinations including Singapore, Bangladesh, Mauritius, India, Malaysia, Maldives and Hong Kong – which are discussed in this section.

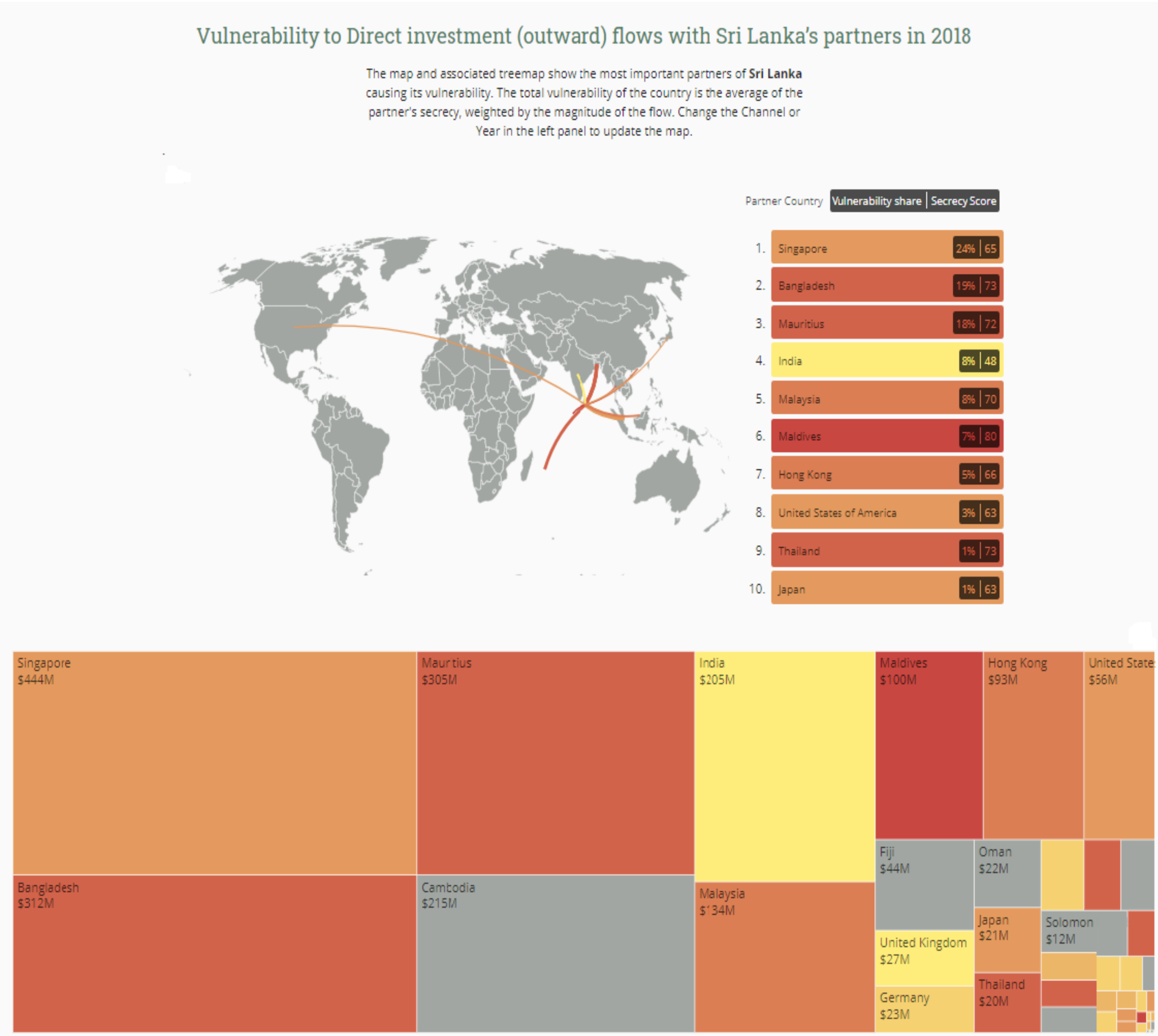


Figure 2: Illicit Financial Flows Vulnerability Tracker- Sri Lanka (IFF 2018j).

Singapore

Singapore is competing with Hong Kong to be Asia's leading offshore financial centre. It mainly serves Southeast Asia, while Hong Kong serves China and North Asia, but recent political developments and increasing Chinese control over Hong Kong have made some investors wary and are now turning to Singapore to keep their assets (TJN 2020b).

Additionally, the island-state attracts US and UK funds. It has become the largest commodity trading centre in the region, and it overtook Tokyo to become the largest foreign exchange trading centre in Asia. In 2018, Singapore had US$3.4 trillion in assets under management, of which 80% were sourced from outside the country (TJN 2020b).

While it has made some progress in enforcement and compliance regarding money-laundering, and signed the OECD's Common Reporting Standard, Singapore still offers a number of secrecy facilities that help tax avoidance and evasion. Singapore has benefitted from its historical role as the trading hub for Southeast Asia and its particular authoritarian path, where press freedom was not allowed to mess with the financial market (TJN 2020b).

Singapore ranks at number 9 in the global corporate tax haven rank, with a score of 85; and is number 5 in the global financial secrecy rank, with a score of 65 (IFF 2018e). The jurisdiction is very vulnerable to illicit financial flows through inward FDI and it represents US$15 billion of tax lost by other countries, being responsible for 3.42% of global tax losses (IFF 2018e) and for 3.87% of the world's corporate tax abuse risks (TJN – Corporate Tax Haven Index). Its bank secrecy laws and lack of routine reporting also make it an attractive destination for all kinds of illegal funds (TJN 2020b) and has been considered a top hub to evade paying taxes (Khadem 2015).

Since the late 1990s and early 2000s, the island-state has deliberately taken actions, such as reinforcing financial secrecy, to attract certain types of funds, particularly those that were not in Hong Kong's sphere of influence. Not surprisingly, Singapore has been implicated both in the Panama Papers and Offshore Leaks, as well as in the 1Malaysia Development Berhad (1MDB) sovereign wealth fund (TJN 2020b), that saw money drained off from the fund to private purposes.

Singapore has played a deliberate role as a dirty-money centre, as certain actions show. For example, the country refused to help extradite Indonesians believed to have drained off state funds in the 90s, and it is thought to be where corrupt people from the Asia Pacific region launder their money (TJN 2020b). Back in 2006, an economist in Morgan Stanley mentioned in an internal mail that Singapore was a success story thanks to being the money laundering centre for corrupt Indonesians; and in 2013, a Malaysian tax lawyer referred to Singapore as having a Chinese wall, that made it impossible for Malaysian authorities to gain information out of Singapore (TJN 2020b).

Although it has made recent efforts to comply with international standards, it still has a number of secrecy offerings, including the Private trust Company (PTC) that acts as a trustee for secretive funds (TJN 2020b).

Its tax exemptions are broad, with foreign-sourced income received in Singapore by a non-resident being exempt from tax, and there are no taxes on capital gains, gifts or estate, among others. Furthermore, as it has tax treaties with other countries, it has become a turntable, where capital enters Singapore and exists it through shell companies and then re-enters its country of origin as foreign investment with the benefits this might entail (TJN 2020b). In particular, it has a tax treaty with Sri Lanka (PwC 2021) and since Sri Lankan citizens do not a visa for travelling to Singapore, this can make it an attractive jurisdiction.

It is also likely that Singapore's attractiveness in the region as an Asian offshore centre will grow stronger if political instability continues in Hong Kong. Some reports already point in the direction of capital fleeing from Hong Kong to Singapore (TJN 2020b).

Bangladesh

Bangladesh has a score of 73 on financial secrecy haven and is ranked 54 on global financial secrecy. It is considered most vulnerable to illicit financial flows through inward FDI (IFF 2018f) and scores poorly (100) in the following indicators: recorded company ownership, limited partnership transparency, public company ownership, public company accounts, country-by-country reporting, legal entity identifier, tax court secrecy, automatic information exchange and bilateral treaties. It also scores 90 on 'avoids promoting tax evasion indicator' (TJN 2020e).

The Global Financial Integrity estimates an IFF inflow to Bangladesh of US$2,363 million, (GFI 2019a). All of these indicators show Bangladesh can be an attractive jurisdiction even though it has not figured prominently in any of the offshore leaks.

Bangladesh and Sri Lanka have a tax treaty (PwC 2021), but it requires Sri Lankans to apply for a tourist visa to enter the country.

Mauritius

Mauritius ranks number 15 for tax havens in the world with a score of 81.4 and is responsible for 2.29% of the world's corporate tax abuse risks (TJN – Corporate Tax Haven Index). It scores 100 in several secrecy indicators: trust and foundations register, recorded company ownership, other wealth ownership, public company ownership, corporate tax disclosure, tax court secrecy, among others (TJN 2020f). Mauritius is also responsible for 2.3% of the global tax havenry. And although its financial secrecy ranking is not as bad, at number 51, Mauritius financial secrecy score is 7 out of 100 (IFF 2018a).

Globally, Mauritius is responsible for 0.33% of tax losses, accounting US$961 million by enabling global corporate tax abuse and US$432 million by enabling private tax evasion. The country is also highly vulnerable to inward FDI of illicit flows and the three most responsible trading partners for this vulnerability are the United States, the Cayman Islands and Singapore (IFF 2018a).

One of the reasons Mauritius attracts inflows is due to their international agreements (46 tax treaties) that allow companies to pay minimal taxes on the island (in the 1990s, Mauritius introduced an income tax rate of 15% that can be driven down to an effective 3% rate), while actually conducting their business in countries with which they have the treaties and avoiding or reducing the taxes they pay there (Fitzgibbon 2019; TJN 2020f). This happens particularly with poorer African states, since 18 of Mauritius' double-taxation treaties are with African states (TJN 2020f).

Mauritus has embraced its position as "gateway to Africa", and is seeking to add double-taxation treaties with an additional 16 African countries (TJN 2020f). For companies that want to operate in Africa but avoid being taxed there, Mauritius is an attractive jurisdiction to set up shop.

Companies have also taken advantage of Mauritius' treaty with India, and in 2013 the latter's Ministry of Finance estimated that the country was losing US$600 million annually through roundtripping associated with the island, as companies located to Mauritius to invest in India an avoid paying capital gains in either. Roundtripping is the strategy of shifting capital offshore and getting it back to the source country disguised as foreign direct investment (TJN 2020f).

The island has, in theory, a corporate tax rate of 15% (but it can be reduced), and has no taxes on capital gains, interests and royalties for global business companies. Among other tax incentives there is an 8-year tax holiday for companies with a global headquarters administration licence (TJN 2020f). Mauritius is also known for its opacity, and transactions both to and from Mauritius are hidden in confidential financial reports (Fitzgibbon 2019).

All these factors provide incentives for companies to relocate to Mauritius and enjoy the lack of foreign exchange controls as well as weak capitalisation rules. The attractiveness of the island is best illustrated by the fact that the Paradise Papers leak showed that more than half a million of the 13.4 million secret records from offshore law firm Appleby came from its Mauritius office (TJN 2020f).

However, as international pressure grew and the leaks showed the extent of the misuse, some improvement have began to show in the country (ESAAMLG 2020). Companies located in Mauritius are now required to have a physical presence and at least 10 employees (TJN 2020f) and the Bank of Mauritius and its Financial Services Commission have started applying a test on beneficial owners, including checking criminal records (ESAAMLG 2020).

It has begun serious work with the Financial Action Task Force – FATF, to strengthen its anti-money laundering and combating the financing of terrorism – AML/CFT regime and made several key reforms including ensuring access to beneficial ownership information (FATF 2021a) and the implementation of risk-based supervision frameworks for AML/CFT (ESAAMLG 2020).

Similarly, new provisions are in place to restrain currency transferred via cash couriers if they suspect money laundering or terrorism financing; and customs are now required to retain all written records (like Currency Declaration Forms) and send all declarations to the Financial Intelligence Unit (ESAAMLG 2020).

However, as none of its Tax Information Exchange Agreements are with African jurisdictions (TJN 2020F), Mauritius could continue to be an important entry point for business in the region.

Sri Lanka also has a tax treaty with Mauritius (PwC 2021) and Sri Lankans can get a visa on arrival, making it an attractive destination. Reports have shown the use of companies located in Mauritius, like Six Senses Mauritius Ltd, to invest in Sri Lanka (Reuter 2019).

India

India is ranked 47 on the financial secrecy index and has a score of 48 out of 100 (IFF 2018g). A big part of India's economy is informal. This means informal finance is large, and agents will legitimise unaccounted transactions for a fee, although the government has been trying to curtail malpractices and formalise the Indian economy (TJN 2020g).

The use of shell companies was also spread in India, but recently their operations have begun to be investigated. Legal measures have also been put in place to prevent shell companies from hiding money and regulation in general has become stricter and now significant beneficial owners have to be disclosed (TJN 2020g).

Mauritius is the preferred route to move money for Indian clients. Similarly, investors from OECD countries channel their investments into India through Mauritius as it permits tax evasion, but an amendment to the tax treaty between these two countries has tried to address this issue (TJN 2020g).

One important method for cross-border transfers that can go undetected is the use of the hawala system. The system moves money between brokers in different places, with money not actually leaving one place for another, but being settled between brokers. Although Hawala is forbidden in India, some estimates that between 30% and 40% of the recorded remittance transfers might pass through this channel, where money does not move across borders, but is managed through local agents with balances (TJN 2020g). Both Hawala and benami, which entails the registration of assets in the name of someone else (relative or employee), help disguise financial transactions (TJN 2020g).

India's IFF inflow is estimated to be US$29.648 millions (GFI 2019a) and in 2017 India had an average value trade gap with advanced economies of US$36.1 billion (GFI 2019b), a significant high number. The estimated tax revenue losses of India for 2016 due to trade mis-invoicing could have been as high as US$13.0, about 5.5% of the Indian government's total revenue collections for said year (GFI 2019b).

India and Sri Lanka have a tax treaty (PwC 2021), and although Sri Lankans are not allowed to transfer funds overseas through the Hawala system, there is no prohibition against receiving funds through the Hawala system in Sri Lanka (Thennakoon 2019). Finally, Sri Lankan nationals need a visa to enter India, but it can be applied to electronically.

Maldives

Although the IFF does not have information regarding the Maldives' tax haven index, the archipelago has a financial secrecy haven score of 80 (IFF 2018b). The score is particularly high, even if the jurisdiction does not account for that much of the global market for offshore financial services. It has a score of 80 in banking secrecy, 90 in recorded company ownership, 91 in anti-money laundering (meaning it is not meeting the recommendations of the Financial Action Task Force – FATF) and 100 in several indicators including public company ownership, public company accounts, legal entity identifier, tax court secrecy. Public transparency in the Maldives is minimal (Belford & Rasheed 2018).

The Maldives' IFF inflow might not appear to be too high, with an estimate of US$32 million (GFI 2019a), but the value gap of the archipelago is 27.4% of their total bilateral trade with the 36 advanced economies over a 10-year period (GFI 2020) which is quite significant.

The Maldives does not have a withhold tax treaty with Sri Lanka (PwC 2021) but Sri Lanka is among the Maldives' trading partners most responsible for its vulnerability in inward direct investment, only second to Thailand (IFF 2018b). A recent scandal in the Maldives also involved Sri Lanka, when former tourism minister Adeeb leased out 50 islands and lagoons without the legally required public tenders. The money from these leases was embezzled by Adeeb and others (Belford & Rasheed 2018). Among the implicated companies there are several with links to Sri Lank, like Sun Siyam, that also owns a Sri Lankan hotel, Aitken Spence and Lanka Orix Leasing Company, two Sri Lankan conglomerates and Japan's Belluna that acquired one island with Sri Lanka's Asia Capital (Belford & Rasheed 2018).

Malaysia

Malaysia ranks number 32 at the global financial secrecy index with a score of 70, which makes the country responsible for 1% of the global financial secrecy. It is particularly vulnerable to inward FDI (IFF 2018h).

In general, Malaysia scores poorly on most secrecy indicators, with scores of 100 in most ownership registration indicators (TJN 2020i). Non surprisingly, Malaysia appears linked to offshore entities in different leaks and members of the government were revealed to own offshore companies in Singapore and the British Virgin Islands (Razak et al 2013).

The estimated IFF inflow was US$ 20,649 million (GFI 2019a) and the country has a trade average value gap of US$36.7 in its trade with 36 advanced economies (GFI 2020). However, Malaysia has begun improving its regulation, and will start requiring most companies to disclose beneficial ownership (Alecci 2020b) in part as a response to the 1MDB scandal, when billions were syphoned from the national fund often using offshore accounts.

Malaysia and Sri Lanka have a withhold tax treaty (PwC 2021). Malaysia requires a visa for Sri Lankans seeking to enter the country but it can be applied for online.

Hong Kong

Hong Kong ranks quite high in the global corporate tax haven index, at number 7, and at number 4 in the global financial secrecy index. Its secrecy score places it roughly with Panama. The jurisdiction is considered to be responsible for 4.92% of global tax losses (IFF 2018i) and for 4.08% of the world's corporate tax abuse risks (TJN – Corporate Tax Haven Index). It is particularly vulnerable to inward FDI (IFF 2018i).

Hong Kong is a large financial market, with the third largest stock exchange in Asia after Tokyo and Shanghai. The jurisdiction offers tax exemptions, transfer pricing facilities, the use of opaque companies and trusts that can help tax evasion and other crimes. It has been resistant to global transparency initiatives, more so than Singapore, which is the other main offshore player in the region. Hong Kong was always the Chinese-speaking offshore centre, but its secrecy structures are often combined with structures in other jurisdictions for added concealment. As mentioned earlier, Hong Kong focuses more in attracting offshore capital from north Asia and China, with Singapore focusing on Southeast Asia (TJN 2020a). Hong Kong was one of the most active centres for the creation of shell companies by Mossack Fonseca. The Offshore Leaks Database of ICIJ (that comprises the Panama Papers, Paradise Papers, Bahamas Leaks and Offshore Leaks) gives 100 offshore entities that use Hong Kong as their jurisdiction.

Hong Kong and Singapore have also been attracting more wealth since in 2009 G20 leaders promised to crackdown on bank secrecy, which diverted illegal and abusive financial activities from Western centres, like Switzerland, towards these Asian tax havens (TJN 2020a).

The trust administration industry is big, and they have laws that could make it easier for settlors of trusts to pretend to give away assets. Hong Kong has also functioned as a round-tripping table particularly for China, whereas investors move capital to Hong Kong, and thanks to their offshore secrecy then bring it back to China (or another jurisdiction) as foreign investment in order to obtain privileges for foreigners (TJN 2020a).

Some amendments have been made to curb this, but they are not considered enough, and more importantly, there is still no requirement to list beneficial owners in a public registry (TJN 2020a).

As mentioned, the current political situation could hamper its place as an offshore financial services hub, which could lose to Singapore and with China indicating its interest in building offshore capacity in Macau (TJN 2020a).

Sri Lanka and Hong Kong have a withhold tax treaty but is limited to the avoidance of double taxation of income from international transport by air. Sri Lankans need a visa to enter Hong Kong, unless they have an official or diplomatic passport.

Seychelles

Seychelles is regarded as a secrecy jurisdiction. Its secrecy score of 70 out of 100 is high, compared to the global average of 64. More worryingly, it has very high secrecy scores in certain indicators, with a score of 100 (the highest, and thus worst, possible score) in recorded company ownership; limited partnership transparency; public company ownership; public company accounts; country-by-country reporting; legal entity identifier; and avoids promoting tax evasion (which assesses if worldwide capital income is included in the country's tax base and whether it grants unilateral tax credits). It scores badly (75 or more) on trust and foundations register; corporate tax disclosure; tax administration capacity; consistent personal income tax; and tax court secrecy as well. Seychelles ranks 49 in the tax haven global rank with a score of 68/100 (IFF 2018c; TJN – Corporate Tax Haven Index).

In general, the country has poor secrecy rankings, combined with lax tax regulation, making it an attractive destiny for IFFs, but its average is compensated by its good score on bilateral treaties and automatic information exchange, which measure the international treaties that promote financial information exchange and which Seychelles has signed (TJN 2020c).

The report looking into trade related IFF puts its value gap at 38.3% of the total trade of the country (GFI 2020). FinCEN's sample of suspicious transfers to Seychelles show that it is an important destination of funds, with US$ 25,692,223 received and US$14,100,000 sent, in a sample of 112 suspicious transactions. The transactions were conducted through BMI Offshore Bank, Barclays Bank and Barclays Bank Seychelles Ltd. (ICIJ-FinCEN).

Seychelles' maintains an offshore industry that attracts corruption and money laundering as an undercover journalism investigation showed in 2012 (Shaxson 2014), when two undercover journalists were easily provided with information on how to set up a company in Seychelles that would hide the identity of the beneficial owner (who they claimed was a Zimbabwean government liaison), through setting an intricate ownership structure (Shaer et al 2014).

On top of Seychelles lax secrecy and tax regulations, the jurisdiction has a tax treaty with Sri Lanka (PwC 2021) and Sri Lankans can enter Seychelles and gain a tourist visa upon arrival.

Thailand

Thailand ranks high in the financial secrecy global rank at number 17 and a financial secrecy haven score of 73, making the country responsible for 1.3% share of the global financial secrecy (IFF 2018d). It scores 100 in the following financial secrecy indicators: recorded company ownership, other wealth ownership, limited partnership transparency, public company ownership, country by country reporting, legal entity identifier, avoids promoting tax evasion, tax court secrecy, automatic information exchange and bilateral treaties (TJN 2020d).

This makes Thailand a rather attractive destiny, since it not only allows for high secrecy regarding ownership, but also has not signed international treaties that allow for financial information to be exchanged according to global standards. In the Southeast Asia region, the level of transparency is not particularly high, but Thailand is particularly secretive (Alecci 2020b).

And although it has not figure as prominently as other jurisdictions, like Seychelles or Mauritius, in the different offshore leaks, Thailand's IFF inflow is estimated to be US$20,888 million which puts the country among the top 30 developing countries ranked by illicit inflows, for comparison, Panama has an IFF inflow of US$18.3 billion (GFI 2019a). Furthermore, Thailand is estimated to lose 1.1 billion U$S annually due to corporate profit shifting (moving profits to countries with less tax burden) (FACTI 2021).

Although Thailand requires a visa for Sri Lankans that wish to enter, the two countries have a tax treaty (PwC 2021) that might make this jurisdiction attractive.

British Virgin Islands

According to the Offshore Leaks Database, there are three offshore entities in the British Virgin Islands linked to Sri Lanka: Overseas Finance Limited; Teclloyd Ltd.; and Best Cheers Limited. Similarly, most of the intermediaries linked to Sri Lanka have links with offshore entities in the British Virgin Islands and several of the officers linked with Sri Lanka that appear in the leaks, are also connected with the British Virgin Islands.

The British Virgin Islands ranks first in the world for corporate tax haven, with a score of 100/100, which makes it responsible for 6.4% of the global havenry risks. It ranks similarly bad at the financial secrecy index at number 9, with a score of 71/100, which makes it responsible for 1.8% of the global financial secrecy and it is most vulnerable to inward foreign direct investment (IFF 2018k). Unsurprisingly, more than half of the shell companies that were exposed through the Panama Papers leak were registered in this jurisdiction and the FinCEN Files investigation found that one in every five suspicious activity reports concerning money laundering involved British Virgin Islands companies (Fitzgibbon 2021).

The jurisdiction allows owners to hide behind nominees and it is easy, cheap and quick to set up companies; which is effectively a "carte blanche for BVI companies to hide and facilitate all manner of crimes and abuses worldwide" (TJN 2020k). It has almost no taxes and it has become a conduit for financial flows between countries. Particularly, the VISTA trust allows deep secrecy, since there is no need for a physical presence in the British Virgin Islands (TJN 2020k).

The scandals surrounding the leaks built enough pressure that the island has agreed to introduce a public register of owners (Fitzgibbon 2021), but it remains an attractive jurisdiction for offshore companies and similar financial activities.

Illicit Financial Flows and the South Asian Region

From 2008 to 2017, Asia recorded US$476.3 billion of average value gap between countries of the Developing Asia region and 36 advanced economies (GFI 2020). But there is also a growing IFFs south-south exchange (Meyer Dove and Mullard 2019) and the largest value gap in trade mis-voicing between developing country regions for the period was between Developing Asia and the Middle East/North Africa in 2014, amounting to US$63 billion (GFI 2020).

UNODC has found that Southeast Asian countries are in general a common destiny for IFFs, since they offer secrecy regarding ownership of legal entities and wealth. According to U.N. estimates, this region generates around US$100 billion from illegal sources (2020).

In particular, Singapore has become an important destination for money coming from the South Asian region and from Asia in general. With the Chinese national government's growing political control and influence over Hong Kong, tycoons have begun moving their wealth elsewhere, with Singapore being an important destination (The Straits Times. 2019). Singapore has also been the destiny of kleptocratic networks, as right groups and activists have pointed out that money from the Myanmar military has been kept at banks in the island-state (Asia Financial 2021). Unlike Mauritius, which has started addressing several of its secrecy issues, Singapore seems to want to attract what capital is not going to other destinations (TJN 2020b).

Seychelles and the British Virgin Islands have also been used in IFFs from South Asia, as persons from Nepal (CIJ 2019) and India used offshore companies there (Sarin and Porteus 2013; Alecci 2020a; Offshore Leaks Database). For example, revelations showed transfers of 14.46 U$S million to India from a shell company in Seychelles, subsidiary of one of India's most powerful conglomerate, Adani (Alecci 2020a).

As explained in more detail when discussing India and Mauritius, the tax treaty between the two has also created incentives to use Mauritius in order to invest in India. The treaty allows Mauritius the sole right to tax capital gains, which has been exploited by investors and in 2013, almost half of all foreign investment in India came from companies located in the island (Fitzgibbon 2019). As a result, India is coming up with a new treaty to avoid those abuses (TJN 2020f).

The use of tax treaties for this purpose presents several problems for developing countries that already struggle with their own institutional challenges regarding tax evasion but are also trying to juggle taxing multinational enterprises while at the same time providing incentives to attract foreign investment (OECD 2014).

Since the very nature of IFFs is to remain hidden, the exact methods used to move money across borders and exactly how the money can come back to the beneficial owner are constantly being investigated. With that in mind, UNODC has launched a project to measure Illicit Financial Flows in Asia-Pacific to measure IFF associated with criminal activities and illicit tax-related and commercial practices. UNODC has identified challenges regarding the date of the region, and the idea is that this IFF pilot study will help countries improve measures and identify data gaps (UNODC, 2021).

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