SRI LANKA
NATIONAL RISK ASSESSMENT

on

Money Laundering
Terrorist Financing
Proliferation Financing

2024/25
Executive Summary

A. OVERVIEW

Sri Lanka's National Risk Assessment (NRA) is an exercise conducted to identify, assess and understand the country's exposure to Money Laundering (ML), Terrorism Financing (TF) and Proliferation Financing (PF) risks. The assessment represents the country's collective understanding of ML/TF/PF risks based on threats and vulnerabilities. The NRA, which is conducted in line with FATF Recommendation 1, provides the foundation for adopting a Risk-Based Approach (RBA) to implement Anti-Money Laundering/ Countering the Financing of Terrorism/ Countering Proliferation Financing (AML/CFT/CPF) strategies and to allocate resources efficiently in order to effectively manage and mitigate identified risks.

The NRA is coordinated by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka (CBSL), under the policy guidance of the country's AML/CFT National Coordinating Committee (NCC), with the participation of multi-agency working groups (WGs) comprising expert representatives from key public and private sector stakeholder institutions. The NRA is supported by the highest level political commitment.

The country's first NRA was conducted in 2014, following the revision of the Financial Action Task Force (FATF) Recommendations in 2012. The second NRA was carried out during 2021/22, incorporating data from 2015 to 2022 and was completed despite the challenges posed by the COVID-19 pandemic and economic instability.

This NRA 2024/25, which incorporates information from 2023 to 2025, is Sri Lanka's third NRA, and includes the first PF risk assessment of the country marking another significant milestone in Sri Lanka's ongoing commitment to strengthen its AML/CFT/CPF system.

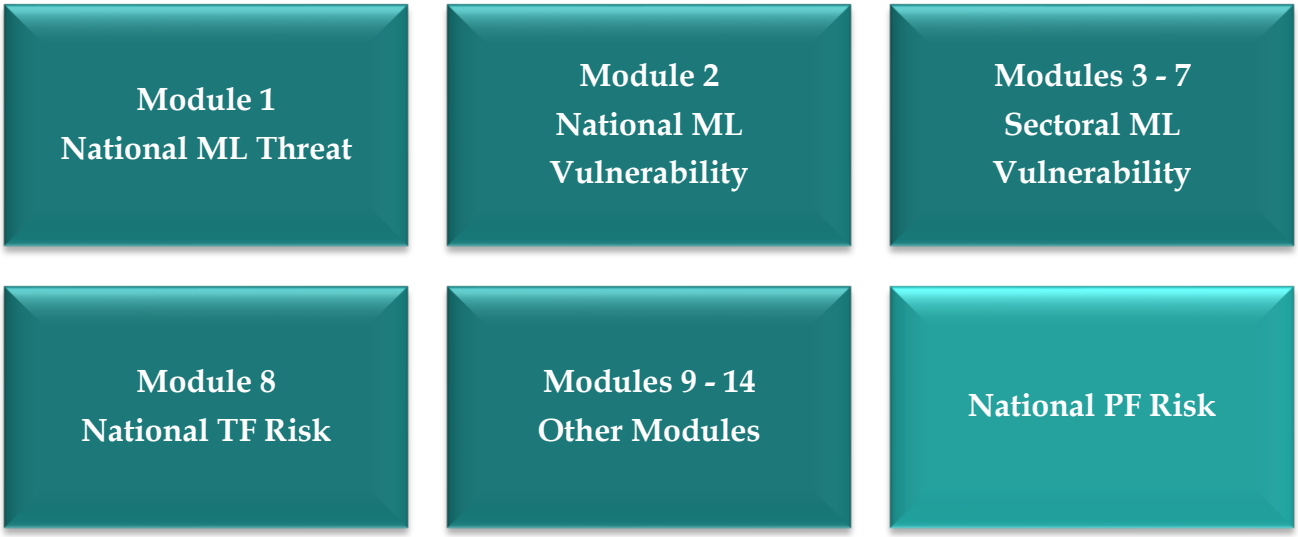
This report presents the executive summary of the NRA 2024/25.

B. COORDINATION, DATA COLLECTION AND ANALYSIS

The assessment was carried out with the participation of nearly 200 experts representing 86 governmental organizations, private sector institutions, the CBSL and the FIU. The FIU led the coordination of the NRA. The NRA was further enriched by market perspectives and consideration of global and regional ML/TF/PF contexts.

As in the case of previous NRAs, the NRA 2024/25 also employed the WB methodology. In addition to the 13 modules covered in the NRA 2021/22, the current NRA covers Tax Crimes Module and PF risk assessment, using the WB methodology and a self-assessment methodology, respectively, totalling into 15 key assessment areas, for which 15 Working Groups (WGs) were formed to carry out the assessment.

Figure 1: Key Assessment Areas



Areas of ML/TF/PF Risk Assessment

- Module 1: National Money Laundering Threat
- Module 2: National Money Laundering Vulnerability
- Module 3: Banking Sector Vulnerability
- Module 4: Securities Sector Vulnerability
- Module 5: Insurance Sector Vulnerability
- Module 6: Other Financial Institutions Vulnerability
- Module 7: Designated Non-Finance Businesses and Professions Vulnerability
- Module 8: National Terrorist Financing Risk
- Module 9: Financial Inclusion Product Risk
- Module 10: Environmental and Natural Resource Crimes Risk
- Module 11: Non-Profit Organizations at Risk of Abuse for Terrorist Financing
- Module 12: Legal Persons, Legal Arrangements and Beneficial Ownership-related Risk
- Module 13: Virtual Assets and Virtual Assets Service Providers Risk
- Module 14: Tax Crimes and Vulnerability
- National Proliferation Financing Risk Assessment

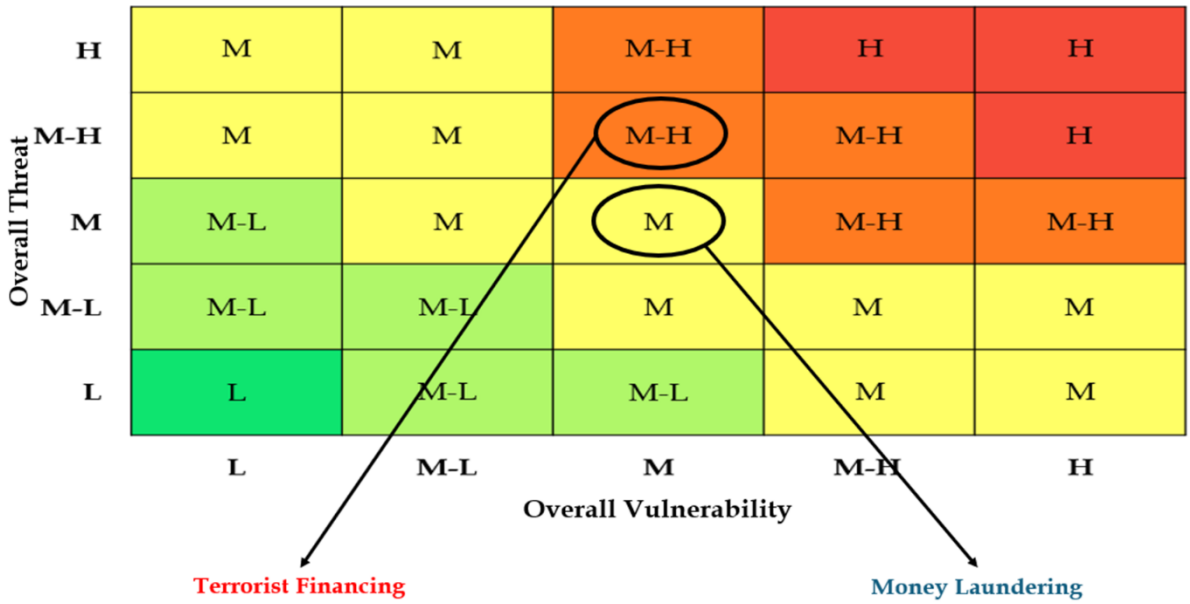
The NRA data collection combined both primary and secondary sources to ensure a comprehensive assessment. Primary information was gathered through structured questionnaires distributed to Financial Institutions (FIs), Designated Non-Financial Businesses and Professions (DNFBPs), Non-Profit Organizations (NPOs), supervisory authorities, Law Enforcement Agencies (LEAs), and other relevant stakeholders, supported by interviews, expert consultations, round table discussions, meetings, and public-private partnerships between the FIU with the Association of Compliance Officers of Licensed Banks (ACOB) and the Finance Houses Association (FHA). Secondary data included quantitative and qualitative inputs from the FIU, LEAs, prosecutors, judges, regulators, and supervisory authorities, along with domestic and international reports, institutional publications, legal statutes, and open-source materials. Supervisory findings from AML/CFT on-site examinations and off-site monitoring were incorporated into sectoral assessments, while insights on unregulated or informal sectors were drawn from expert opinions, desk-based research, and published studies. The best international practices were also considered to strengthen the overall evaluation.

The gathered data and information were analysed using the WB's ML/TF risk assessment tool and the PF risk assessment methodology. The ML/TF/PF risks were assessed as a composite of threat and vulnerability. Based on the results, each WG separately drafted the module reports.

C. KEY FINDINGS

C.1. Overall National ML/TF Risk

Figure 2: Overall National ML/TF Risk



National ML Risk

Sri Lanka's overall national ML threat was assessed as Medium, mainly using major proceeds generating unlawful activities (predicate offences) as a proxy. The overall national ML vulnerability was also assessed as Medium considering the national combating ability and sectoral ML vulnerabilities. Accordingly, **Sri Lanka's national ML risk**, which is a composite of national ML threat and vulnerability, was assessed as **Medium**.

National TF Risk

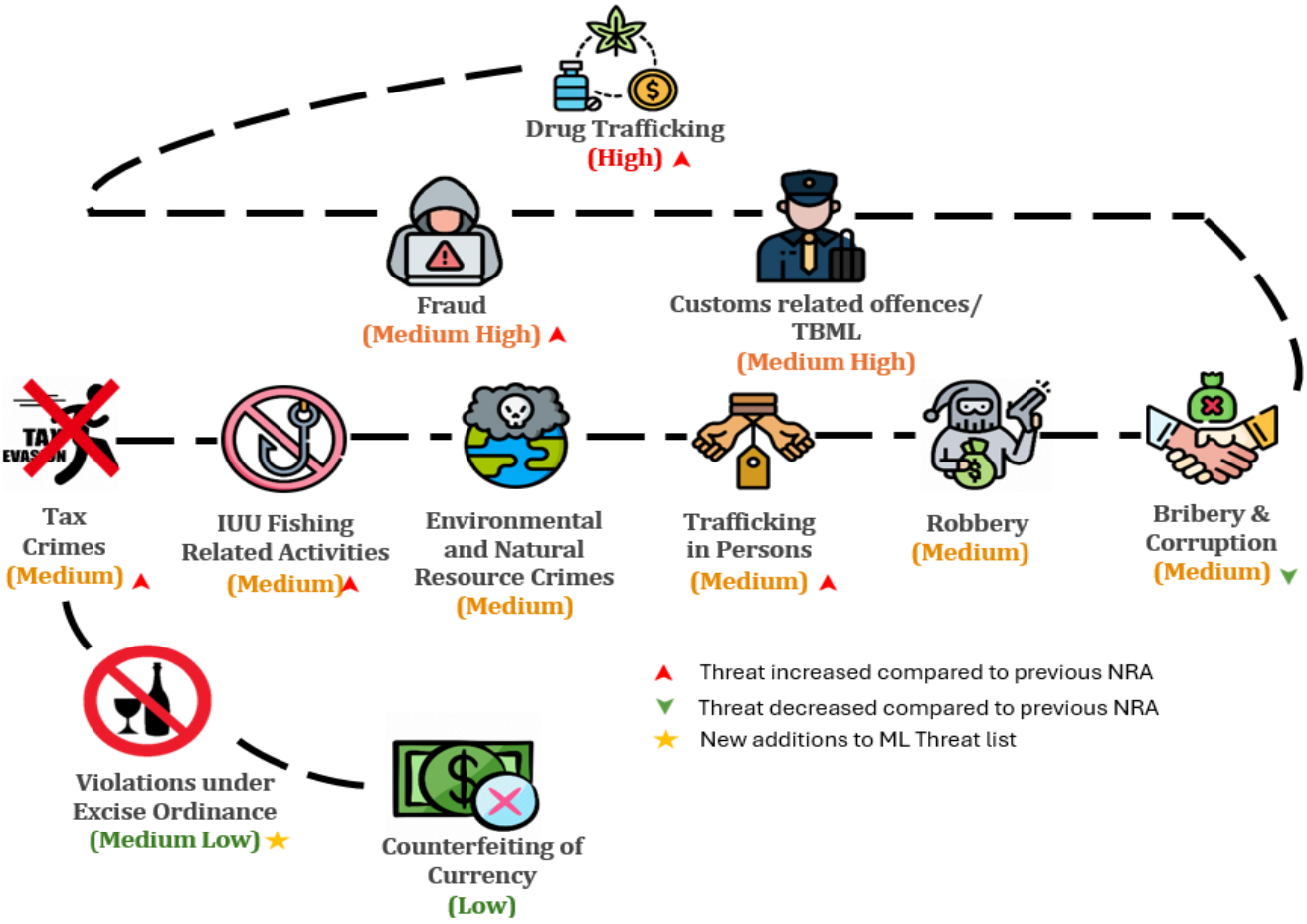
In a similar manner, **Sri Lanka's national TF risk** was assessed as **Medium-High**.

National ML/TF Risk Rating	Risk Definition
H: High	Significant overall threats and vulnerabilities make the country highly susceptible to ML/TF, requiring enhanced mitigation measures and strong supervisory oversight to manage the high risks.
M-H: Medium High	Considerable ML/TF risks exist, though less severe than high risk. Threats and vulnerabilities are notable and require focused mitigation strategies and increased monitoring to prevent Medium High risks.
M: Medium	A balanced ML/TF risk profile where threats and vulnerabilities are present but manageable. Existing controls are generally effective, though continued monitoring, oversights and targeted outreach is required.
M-L: Medium Low	Limited ML/TF risks with strong preventive measures and controls in place. Both threat and vulnerabilities are minor and can be addressed through routine monitoring, standard supervisory practices and awareness, where necessary.
L: Low	Minimal exposure to ML/TF threats and vulnerabilities. The risk environment is stable, with robust controls ensuring effective prevention and mitigation, requiring only a basic oversight and awareness.

C.2. Summary of National ML Threats

Figure 3: National ML Threat Levels

Most Prevalent Serious Offences Generating Proceeds of Crime



National ML Threat Rating	Threat Definition
H: High	High probability that the criminal activities generate substantial illicit proceeds, with strong evidence of cross-border flows, Organized Criminal Networks (OCNs) that make the country highly exposed to ML.
M-H: Medium High	Above average probability of criminal activity with considerable level of illicit financial flows, though less pervasive than in high-threat scenarios. These threats still require heightened monitoring and targeted enforcement actions.
M: Medium	A moderate level of probability of criminal activity and an average level of illicit proceeds observed. While ML threats are present, they are generally manageable with existing enforcement and preventive measures.
M-L: Medium Low	Limited criminal activity and relatively less illicit financial flows are detected. Strong preventive systems and enforcement capacity reduce the likelihood of ML threat escalating.
L: Low	Minimal/low probability of criminal activity and negligible illicit proceeds being generated. Very low exposure to ML threat, with robust controls and enforcement ensuring effective deterrence.

Sri Lanka's Notable Crime Types

Drug Trafficking

- Sri Lanka remains a transit country for drug trafficking with an emerging trend of Methamphetamine-type synthetic opioid trafficking driving a **High** ML threat.
- Small-scale cocaine trafficking targeting onward destinations observed, mostly concealed in items, and smuggled via air couriers.
- Shift in modus operandi using communication platforms complicates investigations.
- Major LEA crackdowns on transnational organized crime have intensified, leading to significant arrests and seizures that have curbed the market to some extent. Gang-related violence linked to heroin trafficking continues to challenge these enforcement gains.

Fraud

- Large value transactions, increased frequency of incidents reported, and linked abuse of FI products/channels indicate a **Medium-High** ML threat.
- Several recent investigations into 'scam farms' led by foreign scammers, targeting largely foreign nationals denote a developing threat known as 'pig-butchering'.
- Evolving trends highlight fraudulent activity promoted via social media, instant messaging and chat sites.
- Focused investigation, detection and disruption efforts, at the national level, including CBSL and LEA efforts together with increased public awareness have yielded high results.

Customs related Offences/TBML*

- High number of incidents, large penalties imposed are indicative of a channel of trade-based goods which is linked to illicit financial flow movements.
- Recent countermeasures by SL Customs, banks, and Inland Revenue Department reflective of the national efforts to mitigate illicit flows.
- Limited referrals by SL Customs to ML investigating LEAs and low penetration of ML investigation into customs offences make this threat **Medium-High.**

*Trade-Based Money Laundering

Sri Lanka's Other Crime Types

Bribery & Corruption

- Strengthened investigations linked to bribery, corruption and asset cases supported by new legislation since September 2023.
- High profile cases and grand corruption cases are investigated using a fresh approach by CIABOC*.
- These efforts have favourably shifted public opinion, supporting eradication efforts.
- ML investigative powers, prosecutions, and disruptive actions positively reflect towards **Medium** level ML threat.

*Commission to Investigate Allegations of Bribery or Corruption.

Trafficking in Persons

- Human trafficking incidents largely visible as forced labour, sexual exploitation, smuggling of migrants (transit and destination trafficking).
- Isolated incidents of organ trafficking and trafficking for forced criminality.
- The threat emanating from human trafficking had moderately amplified due to the country's socio-economic and geopolitical realities.
- Financial gains from exploitation by rogue recruitment agents, forged documentation, and racketeering targeting marginalized communities.
- Despite incidents, convictions remain low, with low ML proceeds traced. The ML threat is assessed to be **Medium**.

Robbery

- Robbery, housebreaking, and extortion remained consistent throughout the period.
- Notable increase in stages of detection, investigation, prosecution, and conviction due to economic pressures seen in 2023 and later returned closer to the annual average levels.
- Compared to high number of investigations, prosecutions remain limited, and conviction levels are low.
- The minimum scale and complexity of laundering proceeds from robbery, proceeds generated aimed at consumption patterns, and enforcement trends, denote the ML threat as **Medium**.

Environmental & Natural Resource (ENV-NR) Crimes

- Wildlife, forestry, fisheries, mining, waste and pollution, and other related offences were assessed.
- Crimes related to the ENV-NR sector demonstrate a likelihood of occurrence and exert a moderate impact on the environmental ecosystem and the criminal landscape.
- Administrative sanctions, investigations, prosecutions, and convictions have been executed for ENV-NR crimes during the period, 2022-2025.
- The findings of the assessment of ENV-NR Crime Risk Module reflect the ML threat as **Medium**.

IUU* Fishing Related Activities

- Sri Lanka's maritime routes could be misused for other predicate offences such as person trafficking and drug trafficking, with some interlinkages with IUU fishing activities.
- Observed incidents report duplicitous involvement of maritime/ fishing vessels and personnel with OCNs.
- Vulnerabilities occur from multi-day fishing crafts, low monitoring of landings at fishery harbours, etc.
- Stronger mitigative mechanism commenced with the integration of SL Navy, Coastguard, Customs.
- Due to Southern route, fishery trade, high cash intensiveness, and informal market the threat level is assessed as **Medium**.

*Illegal Unreported and Unregulated

Tax Crimes

- Both direct and indirect taxes were considered in the tax crime threat assessment.
- The return compliance for direct and indirect taxes prevailed at moderate levels during the assessment period reflecting Medium level compliance behaviour of taxpayers.
- Sri Lanka's first National Taxpayer Perception Study – 2024 and Global Organized Crime Index – 2023, suggest the existence of tax evasion in the country, with a moderate level of prevalence and impact compared to regional peers.
- With the establishment of new Tax Crimes Investigation Unit within the Inland Revenue Department, several tax crimes investigations have been initiated during 2024 and 2025.
- The finding of the assessment of Tax Crime Module reflects the ML threat as **Medium**.

Violations under Excise Ordinance

- Between 2019 and 2024, cannabis possession was the most frequent detections made by Excise Dept., followed by few detections of Heroin.
- Overall scale and frequency of detections suggest a lower level of financial complexity and most crime typologies depict consumption patterns.
- Given the relatively moderate volume of seizures, and lower values involved in prosecutions, the ML threat is rated as **Medium-Low**.

Counterfeiting of Currency

- Lower number of incidents relating to the offence type, with early detections thwarting laundering attempts, if any.
- Given the relatively moderate volume of seizures, and value involved in prosecutions, the ML threat remains as **Low**.

C.3. Summary of National ML Vulnerability

Figure 4: National ML Vulnerability

National ML Vulnerability Rating	Vulnerability Definition
H: High	The country faces significant and systematic exposure to ML. National combating ability is weak and/or sectoral vulnerability is high, resulting in major gaps in prevention, detection, and enforcement.
M-H: Medium High	The country has material vulnerabilities caused by notable weaknesses in national combating ability or in one or more significant sectors. While some controls exist, they are not sufficiently effective to mitigate key risks.
M: Medium	National and sectoral controls mitigate several risks, but meaningful vulnerabilities remain, either due to uneven implementation or specific sectoral weaknesses.
M-L: Medium Low	Controls at national and sectoral levels are generally strong and effective, with only limited vulnerabilities. Identified gaps are contained, monitored, and subject to active mitigation.
L: Low	The country has a robust, mature, and consistently effective AML framework, supported by strong sectoral controls. Vulnerabilities are minimal and well managed.

National ML Vulnerability

Sri Lanka's national vulnerability to ML was assessed by examining the country's overall capacity to mitigate and respond to sectoral vulnerabilities. The assessment reviewed the effectiveness of the domestic legal and institutional framework, including the capabilities of prosecutors, LEAs including the SL Police, IRD, SL Customs, and the CIABOC. Key aspects considered were the adequacy of laws, levels of training, integrity, resource availability, and inter-agency coordination.

The assessment noted progress in strengthening the AML framework, with improved legal and regulatory structures and the establishment of dedicated AML/CFT units within competent authorities and inter-agency working groups. Further, increased capacity and awareness among reporting institutions and stakeholders due to AML/CFT training and outreach programs, improved inter-agency information and intelligence sharing, including adoption of new technologies, among other improvements have been observed during the assessment.

Despite these advancements, Sri Lanka's overall vulnerability to ML remains at a **Medium** level, reflecting the need to address existing gaps, such as the need for a fully centralized digital database and addressing resource constraints that impact ML investigations and prosecutions.

D.5. SUMMARY OF SECTORAL ML/TF RISK

Figure 5: Sectoral ML Risk

Medium-High

- Banks
- Finance Companies
- Casinos
- Real Estate
- Dealers in Precious Metals and Stones
- Informal Money Transfer Services

Medium

- Stockbrokers
- Primary Dealers
- Insurance
- Trust and Company Service Providers
- Lawyers and Notaries
- MVTS Providers

Medium-Low

- Accountants
- Unit Trust & Investment Managers
- E-money service providers
- Co-operative societies
- Samurdhi Banks
- Unregulated Micro-Finance Institutions
- Informal Pawnbrokers
- Informal Money Lenders
- Restricted Dealers
- Licensed Micro Finance Companies

Low

- Leasing Companies

Figure 6: Sectoral TF Risk

Medium

- Informal Money Transfer Services

Medium-Low

- Banking
- Finance Companies
- MVTS Providers
- Stockbrokers
- Primary Dealers
- Insurance
- E-money Service Providers
- Co-operative Societies
- Samurdhi Banks
- Restricted Dealers
- Licensed Micro Finance Companies
- Leasing Companies
- Real Estate
- Casinos
- Lawyers and Notaries
- Dealers in Precious Metals and Stones
- Accountants
- Trust and Company Service Providers
- Unregulated Micro-Finance Institutions
- Informal Pawnbrokers
- Informal Money Lenders

Banking Sector

ML Risk – Medium High

The banking sector is assessed as having a **Medium-High** ML risk, driven by a High threat level and Medium vulnerability. While strong AML/CFT frameworks, risk-based supervision, and robust STR reporting mitigate risks, residual vulnerabilities remain due to enforcement limitations, gaps in customer verification infrastructure, and inherent risk associated with certain products. Further, the Banking sector and its products such as term deposits are linked to majority of identified ML cases. Given the scale of such cases, financial asset concentration, transaction values, the threat level of the sector remains high.

TF Risk – Medium Low

The banking sector's TF risk has marginally increased to **Medium-Low**, mainly attributed to an increase in the country's overall TF threat level, while the sector's control framework has remained unchanged.

Securities Sector

ML Risk – Medium

Sri Lanka's securities sector is assessed as having a **Medium** ML risk, driven by high liquidity of listed instruments, moderate inherent exposure, low STR reporting, and capacity constraints. However, strong legal framework and enhancing controls and oversight leads to mitigate the medium risk observed.

TF Risk – Medium Low

The TF risk is assessed as **Medium-Low**, which is an increase from the Low level from the previous assessment due to increase in the country TF threat from Medium to Medium High despite strengthening the controls in the sector and enhanced awareness.

Insurance Sector

ML Risk – Medium

The ML risk of the insurance sector increased due to expanding life insurance products, higher premium volumes, wider intermediary involvement, and growing customer complexity. Although AML controls exist, relatively low STRs reporting and increased exposure to cash transactions heightened the ML risk, resulting in the upward revision of overall ML risk from Medium-Low to **Medium**.

TF Risk – Medium Low

Due to the elevated national TF Threat from Medium to Medium-High, the Insurance sector overall TF Risk marginally increased from Low to **Medium-Low** level with sectoral controls remaining unchanged.

Other Financial Institutions

ML Risk:

Within the Other Financial Institutions (OFIs), finance companies and Informal Money Transfer Services pose a Medium-High ML risk mainly due to their cash-intensive operations/ products, subprime customer segments and the possibility to be misused for illicit fund movements. MVTS providers are assessed as Medium risk, based on ongoing regulatory oversight and legislative initiatives, including the recent MVTS regulations. E-money service providers, co-operative societies, Samurdhi banks, unregulated micro-finance institutions, restricted dealers, and licensed micro-finance companies are assessed as Medium-Low risk, reflecting the existence of agent monitoring mechanisms, close regulatory oversight and the products serving the marginalized community at large. Informal pawnbrokers and informal money lenders are also assessed as Medium-Low risk, largely due to spill-over effects from strengthened regulation of the formal financial sector and the limited product range. Leasing companies are assessed as low risk, owing to limited cash exposure, a smaller number of institutions, and relatively strong regulatory controls.

TF Risk:

TF risk was assessed across four sub-categories of the OFIs. Although the overall TF threat of the country is increased from Medium to Medium-High, the TF risk of the Informal Money Value Transfer Services sector was assessed as Medium and remains unchanged from the NRA 2021/22, mainly due to enhanced controls within the sector. The TF risk of MVTS providers, other regulated FIs, and other unregulated FIs was assessed as Medium-Low and remains unchanged from the NRA 2021/22, as sector-level controls have not undergone significant changes and the exposure to TF being limited.

DNFBP Sectors

ML Risk:

Casinos, Real Estate Agents and Dealers in Precious Metals and Stones (DPMS) are assessed as having Medium-High ML risk. This assessment is driven by medium-high threat in the casino and real estate sectors and medium threat in the DPMS sector, combined with medium-high ML vulnerability across all three sectors. The elevated ML risk in the Casino and DPMS sectors is primarily driven by their cash-intensive nature and the size of the sectors. The ML risk level of Real Estate agents remains unchanged compared to the previous assessment.

Lawyers, Notaries, and other Independent Legal Professionals, as well as Trust and Company Service Providers (TCSPs), are assessed as having Medium ML risk, driven by Medium and Medium-Low threat levels, respectively, combined with Medium levels of vulnerability. Compared to the previous assessment, the ML risk of Lawyers, Notaries, and other Independent Legal Professionals remains unchanged at a Medium level, while the ML risk of TCSPs increased from Medium-Low to medium mainly due to a marginal increase in ML vulnerability.

The ML risk of Accountants is assessed as medium-low, reflecting Medium-Low threat and vulnerability levels. The risk level remains unchanged compared to the previous assessment. Across all DNFBP sectors, anonymity is largely restricted through KYC and professional obligations. However, weaknesses in STR reporting, record-keeping practices, and uneven AML/CFT awareness across certain DNFBP sectors have been identified as key risk areas.

TF Risk:

The TF risk across all DNFBP Sectors has marginally increased to Medium-Low, mainly due to an increase in the country's overall TF threat level, while CFT controls remain broadly unchanged compared to the previous assessment. This increase is further influenced by a slight rise in inherent vulnerability levels observed in certain DNFBP sectors.

D.6. TERRORIST FINANCING RISK ASSESSMENT

TF Risk

Sri Lanka's overall TF risk is assessed as **Medium-High**, driven by an increase in threat level to Medium-High while vulnerability remains at an unchanged Medium level.

The country continues to face evolving threats from both extremist and separatist networks, supported by possible diaspora funding, digital radicalization, regional spillover risks, and the use of informal and emerging financial channels.

While the legislative framework is strong and law enforcement has actively pursued terrorism-related investigations and asset forfeitures, TF-specific prosecutions remain limited. Operational and supervisory improvements are evident in certain areas, particularly among larger financial institutions, yet practical challenges persist in enforcement, sectoral compliance (especially among DNFBPs and medium and smaller financial institutions), asset recovery and informal remittance systems, though now regulated, remain at an early stage of oversight.

D.7. ML/TF RISK OF OTHER KEY AREAS

Legal Persons

ML Risk – Medium High

TF Risk - Medium

Risks of Companies, Societies and Foundations have been considered and out of legal persons considered more than 95% comprises of private Ltd companies. Lack of transparency relating to BO disclosures have been identified as key risk area.

Entity Risk Assessment of Legal Persons

Entity Type	ML Risk	TF Risk
Private Ltd	**Medium High**	**Medium**
Public Ltd	**Medium**	**Medium Low**
Guarantee Ltd	**Medium**	**Medium**
Overseas/ Sufficient link	**Medium**	**Medium Low**
Offshore	**Medium**	**Medium Low**
Associations	**Medium**	**Medium Low**
Foundations	**Medium High**	**Medium**
Societies	**Medium Low**	**Medium Low**

Legal Arrangements

ML/TF Risk – Medium

Risks of Express Trusts and Wakf have been considered. Compared to countries in the region, use of legal arrangements in Sri Lanka is very limited. Relative size, absence of complex structures, limited foreign exposure and BO transparency have led to the reduction of the risk level of legal arrangements.

VASPs

ML/TF Risk

P2P Platforms & Non-custodial wallets: **Medium**

Custodial wallets & Fiat/Virtual Conversion: **Low**

Sri Lanka's VA ecosystem remains at an early stage, marked by increasing public interest and the use of VAs largely for speculative investment, while a comprehensive legal and regulatory framework for VAs and VASPs is still absent. The lack of formal registration, licensing, supervision, and enforceable AML/CFT obligations for VASPs constitutes a major vulnerability within the sector. Nevertheless, LEAs continue to conduct investigations related to VAs freezing VAs held in foreign platforms where necessary and international information-sharing arrangements are in place with major foreign VASPs operating in or providing services to Sri Lanka.

Financial Inclusion Products/Services

ML/TF Risk

Microloans, SME Loans, Group Lending, Regular Savings and Fixed Deposits, Microinsurance, Deposit-backed Loans, Pawning: **Low**

The risk assessment found that most prevalent products/services pose a **Low** ML/TF risk due to clearly defined features which are less susceptible for ML/TF abuse, limited transaction volumes, and strong AML/CFT control measures. Products with low risk are mostly accessed by low-income, rural, or underserved populations and typically used for specific purposes like housing, agriculture, and entrepreneurship. These products involve face-to-face interactions, are restricted to residents, and are subject to local regulatory oversight, risk assessments, customer verification procedures, staff training and regular audits, minimizing the potential for misuse.

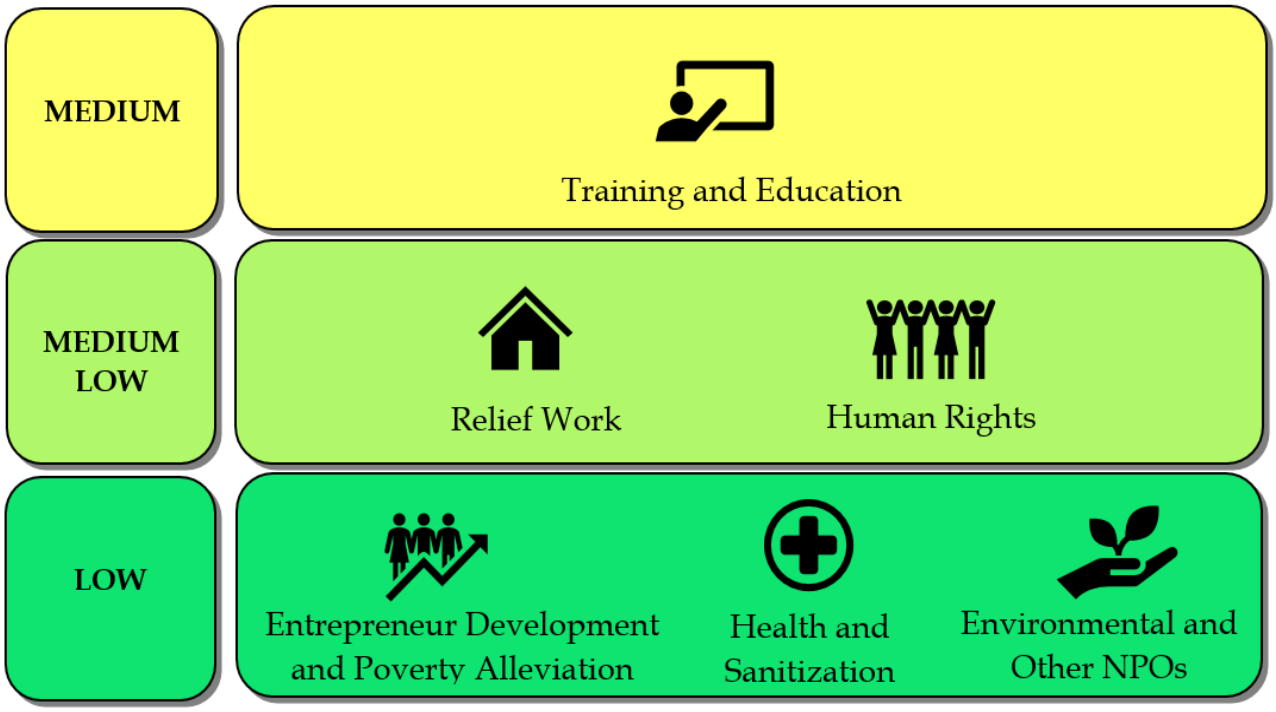
MVTS, Remittance and sale/purchase of foreign currency, Finance Leasing: **Medium**

Products carry a **Medium** risk due to the possibility of cross-border transactions, digital usage, and larger transaction thresholds. Despite existing control measures such as transaction monitoring, training, and CDD, these product types require continuous regulatory attention to prevent misuse for illicit activities.

Categories of NPOs at Risk of Abuse for TF

Categories of NPOs registered at the National Level have been assessed as carrying a medium level of risk of abuse for TF compared to the low-level of risk associated with District and Divisional level NPOs. This is mainly due to their receipt of foreign fundings/ operations as part of International NGOs (INGOs)/ activities spread across multiple geographical locations within the country/ higher level of income and the activities or projects conducted annually on community services.

Figure 7: The assessed risk of abuse for TF for the identified 6 categories of National Level NPOs



D.8. SUMMARY OF PROLIFERATION FINANCING (PF) RISK ASSESSMENT

The National PF Risk Assessment (PFRA) analysed the risks related to Targeted Financial Sanctions (TFS) obligations under FATF Recommendations 1 and 7. It evaluates the likelihood of breach, non-implementation, and evasion of sanctions measures imposed by the United Nations Security Council (UNSC) by way of UNSC Resolutions 1718, 2231/1737, and related resolutions, with a focus on domestic systems, sectors, and institutions that may be misused by proliferators.

The global proliferation financing and sanctions evasion threat is recognised as significant, driven by the Democratic People's Republic of Korea (DPRK) and Islamic Republic of Iran's persistent sanctions evasion activities. As identified by the UNSC, FATF, and other relevant global institutions, these States employ sophisticated typologies such as front companies, falsified trade documentation, maritime deception, and the use of digital assets.

Sri Lanka has not been linked to confirmed PF incidents. However, its geostrategic location, financial connectivity, and active trade flows create potential avenues for misuse. The PFRA assessed key stakeholders across government agencies, supervisory authorities, financial institutions, and DNFBPs. The assessment combined contextual analysis, structured questionnaires, stakeholder interviews, data analytics, and references to typologies and case studies drawn from UNSC Panel of Experts reports, FATF documents, and comparable PFRAs conducted in other jurisdictions. Stakeholder risk ratings ranged from Medium Low to Medium High.

The overall PF risk for Sri Lanka is assessed as **Medium**. This rating reflects the combination of a globally significant threat environment and identifiable domestic vulnerabilities, mitigated by relatively strong compliance frameworks within financial institutions and supervisory authorities. The presence of identified gaps in awareness, limited interagency coordination underscores the need for continued vigilance and proactive risk mitigation.

To strengthen national resilience, the PFRA identifies cross-cutting priorities, including enhanced PF awareness and training, standardized automated sanctions screening, improved beneficial ownership transparency, strengthened inter-agency coordination, and the systematic integration of PF risk into supervisory and oversight frameworks, alongside targeted, stakeholder-specific mitigation measures.

Key Recommendations

Figure 8: Key Recommendations

1

Continuous alignment of Sri Lanka's national laws with international AML/CFT/CPF recommendations through regular gap analysis.

2

Enhance efficiency and effectiveness of ML/TF/PF investigations and prosecutions and dedicated mechanisms for asset forfeiture, focusing on broadened ML predicate offences/unlawful activities.

3

Elevate AML/CFT/CPF risk-based supervision framework in Sri Lanka through robust risk calibration and allocation of more resources to oversight of risk elevated sectors.

4

Promote and strengthen overall domestic and international cooperation and coordination.

5

Enhance institutional capacity and promote AML/CFT/CPF awareness through institutionalized capacity building focusing on heightened threat areas.

6

Ensure real time access to up-to-date and accurate AML/CFT/CPF data repositories.

7

Promote financial inclusion in Sri Lanka through risk-calibrated AML/CFT/CPF regime.

8

Prioritize identification of prudential regulator and implement AML/CFT/CPF obligations for VASPs.

9

Further strengthen national cybersecurity protocols.

10

Continued adoption of new technology for real-time transaction monitoring and risk assessment for FIs and DNFBPs.

11

Prioritize implementation of national policy to ensure a secure digital identity system.

12

Implement proportionate control measures in alignment with the findings of new PF risk assessment.

13

Enhance legal framework and institutional capacity in alignment with the findings of heightened TF risk.

14

Enhance institutional capacity in alignment with the elevated threat of drug trafficking.

15

Improve BO transparency of legal persons and legal arrangements.