Money Laundering in Sri Lanka: Examining Socio-Economic Consequences, Social Conflicts, and Regulatory Challenges

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Money Laundering (ML) is a transnational offence involving multiple participants. As much as the crime in nature is perplexing, the investigatory process is complex as well. ML can happen in many ways including arms smuggling, human trafficking, illegal currency exchange, and pyramid schemes. Due to its abhorrent nature, ML has disastrous consequences on the economy and society. In economics, it causes tax evasion, distorts markets, and erodes financial institutions. Socially it increases crime rates and causes inequality and corruption. Sri Lanka due to its strategic geographic position faces ML threats. In light of that, the paper examines the socio-economic consequences of ML in Sri Lanka, with a specific focus on its impact on social conflicts, which served as the research problem. The objectives derived are to understand how ML implies social and economic settings, to identify how it contributes to social conflicts, to explore the current legal and regulatory challenges and weaknesses that persist, and to identify the potential measures to mitigate the socio-economic impact of ML in Sri Lanka. The researchers have utilized a qualitative methodology and both primary and secondary data have been utilized to analyse the setting and arrive at conclusions. Primary data was collected by conducting structured semi-structured interviews with Anti Money Laundering specialists in banking and non-banking financial institutions. Whereas secondary data was collected by perusing scholarly articles. In the end, researchers have showcased that despite numerous initiatives by the Financial Investigation Unit (FIU) of the Central Bank of Sri Lanka (CBSL) and other investigatory units, lapses in the legal frameworks hinder the judicial process causing social disruption as well as economic divisions.

Keywords: *money laundering, social conflicts, socio-economic consequences, economic instability*