



Hidden Capital in Tourism Economy: An Ecology of Money Laundering Risk Through Property in Bali

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ABSTRACT

Purpose

This study examines how money laundering risks are produced and normalized in tourism-driven property markets, focusing on Bali’s real estate sector, where foreign ownership restrictions and uneven enforcement shape informal ownership practices and anti-money laundering (AML) vulnerabilities.

Design/methodology/approach

The study adopts a qualitative research design based on semi-structured interviews with key actors involved in real estate transactions and governance, complemented by document analysis and court case review. An ecological analytical framework is employed to analyze how economic pressures, regulatory constraints, informal ownership practices and gatekeeper power relations interact to shape money laundering vulnerabilities in the property sector.

Findings

The findings show that money laundering risk arises not only from loopholes, but from regulatory limitations, uneven enforcement, normalized informal practices, and weak gatekeeping. Nominee arrangements, undercapitalized corporate vehicles, and sham marriages function as ownership-substitution mechanisms that obscure beneficial ownership and weaken source-of-funds verification. These practices are reinforced by uneven Know Your Customer (KYC) implementation, limited AML coverage of non-financial professionals, and trading influence Politically Exposed Persons (PEPs).

Originality/Value

This study reconceptualizes real estate-based money laundering as a systemic phenomenon embedded in tourism economies, rather than as a linear or bank-centric compliance failure. Because money laundering operates through multiple sectors and asset classes, this article examines real estate as one strategic channel within a broader ecosystem of illicit financial flows. It provides one of the first ecological analyses of laundering risk in a tourism-dependent property market in the Global South and highlights the need for ecosystem-level anti-money laundering interventions that extend beyond the financial sector.

Keywords: *Money Laundering; Real Estate; Tourism Economy; Beneficial Ownership; Gatekeepers; Bali*

1. Introduction

Money laundering is a complex and evolving phenomenon that continues to adapt to regulatory pressure across sectors and jurisdictions (Korejo et al., 2021; Gerbrands et al., 2022). Rather than an autonomous crime, money laundering is widely understood as a post-offence mechanism that conceals illicit proceeds and integrates them into the formal economy. In corruption studies, laundering is linked to predicate offences such as bribery, embezzlement, fraud, tax crimes, drug trafficking, and environmental crimes, without which grand and systemic corruption cannot be sustained (Levi & Reuter, 2006; FATF, 2025; Contrerasa & Villa-Pérezb, 2025). The United Nations Office on Drugs and Crime also notes that large-scale corruption depends on effective laundering channels, particularly where illicit wealth is transferred across borders or embedded in high-value assets capable of long-term wealth storage (UNODC, 2012). Conventionally, money laundering involves three interrelated stages, namely placement, layering, and integration, through which illicit funds are progressively distanced from their criminal source and reintroduced into the legitimate economy (*Pusat Pelaporan dan Analisis Transaksi Keuangan/PPATK*, 2021).

Within this broader framework, political and bureaucratic corruption often generates proceeds that are laundered through real estate and land markets, which are attractive because of their high values, pricing flexibility, and weak ownership transparency (Levi & Reuter, 2006; Transparency International, 2025). The literature consistently shows that bribes, kickbacks, and embezzled public funds are commonly channeled through shell companies, nominee arrangements, and politically connected intermediaries, enabling public officials and their associates to obscure beneficial ownership while retaining effective control over assets (Levi & Reuter, 2006; Gilmour, 2020; Aristodemou, 2024).

Real estate is now widely recognized as a high-risk sector for money laundering. Unger et al. (2011) argue that property transactions provide ideal conditions for laundering due to their capital intensity, limited disclosure requirements, and the ease with which complex ownership structures can be constructed. In Southeast Asia, studies by Goredema (2011) and Levi & Antonopoulos (2021) highlight how informal agreements, undercapitalized companies, and nominee practices enable actors to bypass formal scrutiny. More recent scholarship reinforces this assessment, emphasizing that limited oversight of non-financial gatekeepers and persistent

gaps in beneficial ownership regulation allow corrupt proceeds to be integrated into the formal economy with minimal detection (Barone, 2023; Angélico et al., 2025; Baronak-Atkins, 2025). In Global South contexts, these risks are amplified by informality, cash-based property transactions, and rapid urban development, with recent synthesis research demonstrating that in emerging economies such risks are embedded in real estate markets shaped by regulatory fragmentation and development pressures rather than isolated criminal schemes or compliance failures (Angélico et al., 2025; Dote-Pardo & Severino-González, 2025). This article examines real estate as one strategic channel within a broader ecosystem of illicit financial flows. In tourism-dependent settings such as Bali, property markets sit at the intersection of foreign investment demand, land scarcity, informal ownership practices, and uneven oversight.

2. Context: Bali’s Tourism-Led Property Boom and Regulatory Environment

Bali is internationally recognized for its cultural heritage, coastal landscapes, and distinctive natural environment, attracting millions of local and international visitors annually, making it Indonesia’s leading tourism destination (Hitchcock & Darma Putra, 2007). The regional economy is highly dependent on tourism, with relatively limited diversification into manufacturing or extractive sectors. Following the COVID-19 pandemic, Bali experienced a rapid tourism recovery, with foreign visitor arrivals increasing from approximately 5.4 million in 2023 to around 7 million in 2024. This rebound has been accompanied by intensified investment in tourism-related real estate, including villas, resorts, and hospitality infrastructure.

Recent investment statistics also show the scale of capital flowing into Bali. Realised investment in the province increased sharply over the 2020–2025 period, rising from Rp9.66 trillion in 2020 to Rp12.95 trillion in 2021, easing slightly to Rp12.45 trillion in 2022, and then accelerating to Rp18.92 trillion in 2023, Rp36.52 trillion in 2024, and Rp42.82 trillion in 2025 (BKPM, 2025). In other words, Bali’s realized investment more than quadrupled within five years, reflecting cumulative growth of about 343.4 percent, with the sharpest increase occurring between 2023 and 2024. This pattern is consistent with Bali’s post-pandemic recovery, in which investment rebounded strongly alongside the revival of tourism and related service activities. Although these figures do not capture all property-specific transactions, they help illustrate the scale of capital entering Bali’s economy and the broader environment in which tourism-related real estate has expanded. In practice, foreign capital in Bali’s property market is likely higher

than official figures suggest, since some investors enter through long-term leases, locally registered companies, nominee structures, or marriage-based ownership arrangements that may not appear clearly in formal investment statistics.

The property boom has brought sustained price growth of 7–15% and rising transaction volumes. While officially recorded investment data capture part of this trend, they are unlikely to reflect the full scale of foreign capital exposure in Bali's property market, particularly where control is exercised through indirect ownership structures, nominee arrangements, long-term leasing, corporate layering, or other ownership-substitution mechanisms. In this sense, foreign ownership restrictions do not remove foreign demand from the market; rather, they shape the legal and practical pathways through which that demand is expressed. This helps explain why mechanisms such as nominee arrangements and sham marriages have become so significant in Bali's tourism-property economy. High-value real estate markets are widely recognized as vulnerable to money laundering, as they can absorb large inflows of capital, obscure the origin of funds, and convert illicit proceeds into income-generating or wealth-storing assets, particularly where oversight capacity and transparency mechanisms are limited (Angélico et al., 2025).

Although there are no official statistics that quantify the scale of money laundering through property in Bali, corruption prosecutions and investigative reporting indicate recurring patterns of asset concealment through land and real estate ownership. Media coverage and law enforcement disclosures suggest that property in Bali has frequently been used by PEP, business elites, and civil servants as a repository for assets linked to corruption cases. One illustrative case involves a private actor convicted in a corruption scheme related to the procurement of medical equipment for a provincial referral hospital, resulting in state losses of approximately IDR 95 billion. Following the investigation, authorities confiscated at least seventeen land and building assets located in Bali, reinforcing concerns about the role of property in laundering corruption proceeds.

Civil society organizations, including Indonesian Corruption Watch and Bali Corruption Watch, have similarly identified Bali as an attractive destination for concealing illicit wealth through land and property investment. Based on qualitative monitoring and advocacy work, these organizations report that assets linked to corrupt defendants are most often held in land and buildings, a pattern that reflects both the rapid appreciation of property values and the sector's ability to conceal beneficial ownership. While these assessments do not rely on comprehensive

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3 statistical data, they point to a broader pattern in which tourism-led growth generates not only
4 economic opportunity but also hidden financial risks.

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6 These risks are further shaped by Indonesia’s land and investment regulatory framework.
7 Government Regulation No. 18 of 2021 on Management Rights, Land Rights, Strata Titles, and
8 Land Registration, together with the Job Creation Law, has streamlined land-use and investment
9 procedures, including for foreign participation in the property and tourism sectors, while
10 maintaining constitutional restrictions on outright foreign land ownership. As a result, foreign
11 nationals cannot hold unrestricted freehold title over land in Indonesia and must instead rely on
12 limited, time-bound rights – such as *Hak Pakai* (Right to Use) and, in certain circumstances, *Hak*
13 *Guna Bangunan* (Right to Build) – typically through residence status, licensing arrangements, or
14 foreign investment companies (Harianti et al., 2024). Formal legality in property acquisition
15 therefore depends not only on land registration, but also on the legal vehicle through which
16 control is exercised. In practice, this framework does not eliminate foreign demand for property;
17 rather, it redirects that demand into indirect, layered, or nominee-based arrangements that may
18 appear formally compliant while obscuring beneficial ownership and the true controlling party.

19
20 In practice, this regulatory configuration has encouraged a variety of legal and semi-
21 formal structuring strategies, including long-term leases, strata title arrangements, and informal
22 nominee practices. While recent reforms have facilitated capital inflows and accelerated property
23 development, they have also increased the speed and scale of transactions, placing additional
24 strain on land administration, regulatory supervision, and anti-money laundering oversight.
25 Drawing on socio-legal analyses of contemporary Bali (Wardana, 2019), this study places these
26 dynamics within a broader political economy of commodification, examining how informal
27 property arrangements interact with evolving legal frameworks to produce enduring
28 vulnerabilities to illicit financial flows.

29
30 Accordingly, this research asks: **how do tourism-driven property markets, regulatory**
31 **reforms, and informal practices interact to create an ecology of money laundering risk in**
32 **Bali?** By conceptualizing money laundering as an embedded and relational process, it
33 contributes to debates on illicit finance in tourism-dependent and emerging economies. This
34 approach builds on foundational insights into the role of legal structures and professional
35 enablers in facilitating laundering (van der Does de Willebois et al., 2011; Reuter et al., 2018)
36 while extending more recent scholarship that highlights how regulatory fragmentation,
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informality, and development pressures shape money laundering risks and constrain the effectiveness of technocratic AML responses in emerging markets (Gueddari et al., 2023; Dote-Pardo & Severino-González, 2025). In doing so, the study offers policy-relevant insights for strengthening financial integrity beyond narrow compliance-focused interventions.

3. Literature Review

3.1 Money Laundering and Real Estate

A substantial body of research identifies real estate as a high-risk sector for money laundering because it combines high transaction values, valuation discretion, ownership opacity, and reliance on intermediaries whose due diligence is unevenly supervised (Remeur, 2019; Teichmann, 2018; FATF, 2024; Transparency International, 2025). Real estate enables illicit proceeds to be converted into durable assets that provide both financial returns and social legitimacy, while layered ownership structures, often involving corporate vehicles, trusts, or nominees, can obstruct identification of the true controlling party (FATF, 2024; Transparency International, 2025).

Recent studies also examine market effects and governance vulnerabilities. On the market side, laundering can distort property prices and transaction dynamics. Novaro et al. (2022) find that money laundering linked to “entrepreneurial” crimes can generate upward distortions in housing prices, particularly where illicit retail markets are stronger. Modelling work focused on Italy similarly treats real estate laundering as an endogenous driver of transaction volume and price dynamics, positioning the property market as an attractive channel for organized crime to recycle proceeds while influencing market outcomes (Barone, 2023). In parallel, policy-oriented research highlights how opaque inflows can contribute to “ghost” or under-occupied luxury property segments in global cities, raising distributional concerns and political pressure for reforms (Angélico et al., 2025).

On the governance side, scholarship increasingly emphasizes that real estate laundering is sustained by information gaps rather than weak criminalization. The central gap is often beneficial ownership transparency, because property can be held through legal entities or complex arrangements that sever the link between the person who controls the asset and the name recorded on a registry (Transparency International, 2025; Matras, 2025). An IMF policy paper argues for a sectoral and targeted approach to beneficial ownership transparency, noting

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that ownership information becomes most useful for AML when it is designed for operational use – verification, access, and interoperability – rather than nominal disclosure alone (Rossi et al., 2025). In Europe, legal analysis of beneficial ownership registers similarly shows that fragmentation in definitions and register practices can undermine the effectiveness of transparency regimes even when registers formally exist (Matras, 2025).

A second governance issue concerns gatekeepers in real estate transactions. Real estate agents, lawyers, notaries, accountants, and trust and company service providers occupy critical control points, yet implementation and supervision vary significantly across jurisdictions (FATF, 2024). Real estate AML cannot be reduced to bank compliance because many key decisions on structuring, title, and documentation occur earlier in the transaction chain. In Global South contexts, these vulnerabilities are compounded where beneficial ownership transparency is weak, land administration is fragmented, and important actors remain outside AML coverage (Angélico et al., 2025; Chaikin, 2025). This implies that vulnerabilities are not simply the result of missing laws; rather, they arise from a mismatch between the formal AML framework and real estate market realities, combined with selective regulatory coverage, fragmented land administration, and uneven enforcement capacity (Angélico et al., 2025; FATF, 2024).

Finally, regulatory trends indicate growing recognition that real estate is a critical AML frontier. For example, the United States has moved toward broader reporting requirements for certain residential real estate transfers, reflecting policy concern about non-financed purchases and the use of legal entities or trusts to obscure ownership (FinCEN, 2024). Such reforms highlight a wider shift: real estate is increasingly treated as a systemic risk to financial integrity, requiring both ownership transparency and gatekeeper accountability (FATF, 2025; Transparency International, 2025).

3.2 Tourism Economies and Illicit Financial Flows

Tourism-led economies generate distinctive conditions for illicit financial flows because they combine rapid capital inflows, politically prioritized investment facilitation, and high-value property development that can function as both an investment vehicle and a store of value. In such contexts, demand for villas, hospitality assets, and land conversion often accelerates faster than the capacity of regulatory and supervisory institutions, creating opportunities for funds of

uncertain origin to be absorbed into property markets with limited scrutiny (Angélico et al., 2025).

Recent scholarship reflects a conceptual shift from a narrow focus on “money laundering” toward broader concerns with illicit finance, particularly in environments characterized by regulatory arbitrage (Benson, 2025), professional intermediation, and cross-border capital mobility. Studies emphasize that tourism destinations – especially in the Global South – are structurally exposed to these risks due to their reliance on foreign investment, discretionary permitting processes, and political incentives to sustain growth. Comparative research highlights how governance gaps, uneven enforcement, and the prioritization of investment promotion can position tourism-oriented property markets as receptive channels for illicit capital (Transparency International, 2025).

Southeast Asia features prominently in this literature, with regional analyses documenting how legal pluralism, fragmented land administration, and weak beneficial ownership transparency intersect with tourism expansion to create persistent vulnerabilities. In these settings, informal practices and hybrid legal arrangements often emerge as functional responses to regulatory constraints but simultaneously undermine transparency and accountability. Rather than operating entirely outside the law, such practices frequently exist in the interstices between formal regulation and market demand, complicating the detection of illicit financial activity.

A recurring theme in this body of work is the role of informal or semi-formal ownership arrangements – such as nominee structures, layered corporate vehicles, and trust-like arrangements – in facilitating access to property markets while obscuring control over assets. While these mechanisms may serve practical purposes for investors facing legal restrictions or bureaucratic complexity, they also weaken the traceability of ownership and the effectiveness of anti-money laundering controls. In tourism-driven real estate markets, these arrangements are particularly attractive because property can generate rental income, appreciate in value, and confer social legitimacy, regardless of the origin of the underlying funds.

Importantly, recent scholarship suggests that illicit financial risks in tourism-driven economies cannot be explained solely as a problem of missing laws or weak criminal sanctions. Instead, vulnerabilities are produced through the interaction of rapid market expansion, regulatory design choices, and uneven supervisory/enforcement capacity, including the ways

state institutions may implicitly permit or normalize certain value flows (Brugger, 2024). Where land governance is fragmented and oversight bodies are overstretched, formal AML frameworks – especially in real estate – often fail to match the actual organization of property markets and the actors who move transactions forward (Angélico et al., 2025; FATF, 2023). In such settings, illicit finance can become embedded within routine economic activity, facilitated and normalized through professional gatekeepers, intermediaries, and standard transaction practices rather than exceptional criminal events (Barone, 2023).

This perspective underscores the need to move beyond technocratic accounts of compliance failure and toward a relational understanding of illicit finance. By situating money laundering within the broader political economy of tourism development, the literature points to the importance of examining how incentives, institutions, and informal practices co-evolve, an approach that informs the analytical framework adopted in this study.

4. Conceptual Framework

This study conceptualizes money laundering through real estate not as a linear or isolated criminal process, but as an ecological phenomenon produced by the interaction of economic pressures, regulatory constraints, informal practices, and professional power relations. Building on the literature on real estate-based money laundering, tourism-led development, and governance in the Global South, the framework moves beyond bank-centric and compliance-focused models that treat laundering primarily as a failure of individual actors or institutions. Instead, it emphasizes how laundering risk is structurally generated and normalized within high-growth property markets.

Tourism-dependent economies such as Bali create distinctive structural conditions that intensify laundering risk. Rapid capital inflows, post-pandemic investment surges, and the treatment of real estate as a store of value increase transaction volumes and compress due-diligence timelines. At the same time, restrictions on foreign land ownership, fragmented land governance, and partial AML coverage – particularly for designated non-financial businesses and professions – generate incentives for informal compliance strategies. These regulatory constraints do not eliminate investment demand; rather, they reshape how investment is conducted in practice.

Within this context, informal ownership is used as an umbrella term for arrangements in which formal legal title diverges from effective control or beneficial interest. Within this broader category, nominee (name-lending) arrangements and sham marriages are treated as distinct but related ownership-substitution mechanisms, while undercapitalized corporate vehicles and third-party payment practices may be layered around them. These practices operate within and around formal legal structures rather than outside them entirely. These practices are not marginal or exceptional. They are socially normalized mechanisms that reconcile high investment pressure with legal and institutional constraints. Their normalization weakens beneficial ownership transparency and complicates source-of-funds verification, thereby creating persistent vulnerabilities to money laundering through property.

Professional gatekeepers, namely notaries, land deed officials, real estate agents, and developers, occupy critical relational positions within this ecology. Although some gatekeepers are formally subject to AML obligations, weak incentives for robust KYC implementation, competitive market pressures, and exposure to trading of influence and Politically Exposed Person (PEP) risk undermine effective compliance in practice. Rather than functioning as neutral safeguards, gatekeepers mediate and, in some cases, normalize informal practices, reinforcing feedback loops between market demand, regulatory gaps, and laundering risk.

[Figure 1 about here]

Figure 1 presents this ecological conceptual framework. The framework uses reciprocal relationships to highlight mutual reinforcement and feedback loops rather than linear causation. Structural economic drivers, regulatory constraints, informal practices, and gatekeeper power relations interact continuously, producing systemic vulnerabilities, including obscured beneficial ownership, weak source-of-funds verification, and low detection and enforcement risk. This framework guides the empirical analysis in the subsequent sections and provides an analytical lens for understanding why real estate-based money laundering persists in tourism-driven economies despite the presence of formal AML regulations.

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3 **5. Methodology**
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5 This study adopts a qualitative research design to examine how money laundering risks are
6 produced and normalized within Bali’s tourism-driven real estate sector. Qualitative methods are
7 particularly appropriate for investigating informal practices, discretionary decision-making, and
8 governance dynamics that are difficult to capture through quantitative data alone.
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13 **5.1 Data Collection**
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15 Primary data were collected through semi-structured interviews conducted between 2024 and
16 2025 in key tourism and property development areas in Bali. A total of 20 interviews were
17 conducted with actors directly involved in real estate transactions and governance, including
18 notaries, land deed officials, real estate agents, property developers, legal consultants, regulators,
19 private sector, academia and civil society observers. This sample size is consistent with
20 qualitative saturation in elite and professional interview-based research, where access is limited
21 and interviews are information-rich. Interviewees were selected using purposive and snowball
22 sampling to capture a range of professional roles and perspectives within the property transaction
23 ecosystem.
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31 Interviews focused on transaction practices, ownership arrangements, due diligence
32 procedures, and perceptions of regulatory enforcement. Given the sensitivity of money
33 laundering and corruption-related topics, interviews were conducted under conditions of
34 confidentiality, and all identifying information has been anonymized.
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38 Triangulation between interviews, documentary sources, and regulatory texts was used to
39 enhance analytical credibility and reduce reliance on single-source accounts. In addition to
40 interviews, the study draws on document analysis, including land and investment regulations,
41 AML policy documents, court decisions, media reports, and publications by oversight bodies and
42 civil society organizations. These sources were used to contextualize interview findings and
43 triangulate reported practices.
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50 **5.2 Data Analysis**
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52 Interview transcripts and documentary materials were analyzed using thematic analysis. Data
53 was coded iteratively to identify recurring patterns related to ownership structures, informal
54 practices, gatekeeper behavior, and regulatory gaps. Initial open coding was followed by focused
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coding aligned with the study's ecological framework, allowing empirical themes to be systematically linked to structural economic drivers, regulatory constraints, informal practices, and power relations. Analytical memos were used to refine categories and assess relationships between themes. This approach enabled the identification of feedback loops and normalization processes that underpin persistent money laundering vulnerabilities in the real estate sector.

As part of ethical considerations, informed consent was obtained from all participants. Given the potential legal and professional risks associated with the topic, particular care was taken to protect participant anonymity and data security. Interview excerpts are paraphrased where necessary to prevent indirect identification.

5.3 Limitations

This study has several limitations. First, the findings are based primarily on qualitative interview data and therefore reflect the perspectives and experiences of selected actors within Bali's real estate sector. While purposive sampling was used to capture diverse roles, the results are not statistically generalized. Second, the sensitivity of money laundering and corruption limited access to detailed financial records and transaction-level data, requiring reliance on reported practices and triangulation with secondary sources. Third, the focus on Bali as a tourism-driven economy means that while the findings are analytically transferable to similar contexts, caution is required in extrapolating conclusions to other jurisdictions with different legal and institutional arrangements.

These limitations notwithstanding, the study provides in-depth insight into the mechanisms through which money laundering risks are produced and sustained in real estate markets characterized by rapid growth, informality, and uneven governance.

6. Findings

This section presents findings from interviews, policy analysis, and selected corruption cases. It shows how illicit financial practices are embedded in routine property transactions in Bali's tourism-driven economy. The findings show that foreign land ownership restrictions, rapid tourism growth, investment pressure, and uneven enforcement have normalized a range of informal practices – such as nominee arrangements, corporate layering, and sham marriages – that simultaneously facilitate investment while obscuring beneficial ownership and source of

funds. These practices interact with institutional incentives and professional norms, creating systemic vulnerabilities to money laundering through real estate.

6.1 Tourism Growth, Property Market Pressure, and Capital Absorption

Interview findings suggest that Bali’s tourism-dependent growth model has reshaped the island’s property market, turning real estate into a major vehicle for capital absorption. Interviewees consistently emphasized that post-pandemic tourism recovery has intensified demand for villas, boutique hotels, and high-end residential properties, particularly in hotspots such as Canggu, Uluwatu, and Ubud. This surge has increased transaction volumes, accelerated price appreciation, and shortened transaction timelines, thereby reducing the space for substantive due diligence.

Several informants noted that both domestic and foreign buyers are often less concerned with rental yields or long-term returns than with asset placement and capital preservation. In this sense, the tourism-property nexus often acts less as a channel for productive investment than as a mechanism for wealth storage. This market pressure also interacts with institutional capacity constraints. Land offices, notaries, and local regulators face growing workloads without corresponding increases in supervisory resources, so speed and deal completion increasingly take precedence over verification. The result is an enabling environment for transactions characterized by limited transparency regarding beneficial ownership and source of funds.

6.2 Informal ownership and nominee arrangements

One of the most prominent empirical findings concerns the normalization of nominee (name-lending) arrangements as a routine mechanism for foreign property acquisition. Despite being legally precarious and widely recognized as incompatible with Indonesian land law, particularly Law No. 5 of 1960 concerning Basic Agrarian Principles, which restricts ownership rights (*Hak Milik*) to Indonesian citizens and prohibits direct land ownership by foreign nationals, nominee structures persist as a socially embedded solution to foreign ownership restrictions.

Interviewees described nominee agreements not as exceptional or covert strategies, but as standardized informal practices, facilitated by brokers, notaries, and developers. Under these arrangements, legal title is registered in the name of an Indonesian citizen, while control, financing, and economic benefits remain with a foreign beneficial owner. Two dominant

payment models were identified: a) upfront financing by the foreign party prior to construction, and b) profit-sharing arrangements in which foreign investors fund development and receive rental income shares. In this article, nominee arrangements are treated as one important form of informal ownership rather than as its only manifestation. More broadly, informal ownership refers to arrangements in which legal title is separated from effective control or beneficial interest, and later sections show that sham marriages can function as a distinct but related mechanism within the same broader category.

From an AML perspective, nominee arrangements weaken ownership traceability by separating legal titles from effective control. Interviewees emphasized that these arrangements rarely trigger suspicion because they are socially normalized and professionally mediated. Although widely recognized as inconsistent with Indonesian land law, nominee arrangements persist because of weak enforcement, information asymmetries, and brokerage networks that normalize informal compliance (Ridhogusti & Kurniati, 2024).

6.3 Corporate Vehicles and Shell Companies in Property Acquisition

In addition to nominee arrangements, foreign investment companies constitute a second, formally lawful yet substantively vulnerable pathway for property acquisition. Interview data indicate that many such companies are minimally capitalized and lack substantive operational activity beyond holding property assets. Practitioners noted that these entities are often established primarily to satisfy formal investment requirements rather than to conduct genuine business operations. Although such structures may comply with Indonesia's investment law, particularly Law No. 25 of 2007 concerning Investment, weak verification mechanisms may still allow them to function as shell entities capable of absorbing funds of uncertain origin.

Interviewees also stressed that layered ownership structures, sometimes involving offshore shareholders, nominee directors, proxy arrangements, or third-party financing, further obscure ultimate beneficial ownership. In practice, beneficial ownership disclosure is often treated as an administrative formality rather than a substantive verification exercise. Notaries and land deed officials tend to focus on document completeness rather than deeper scrutiny of financial provenance. As a result, corporate vehicles often provide the appearance of compliance while leaving important money laundering risks insufficiently examined.

The findings also show that foreign investment companies rarely operate in isolation from informal practices. Corporate structures are frequently combined with nominee shareholders, proxy arrangements, or third-party financing, producing ownership configurations that complicate traceability and frustrate source-of-funds assessment. Gatekeepers therefore play a decisive role in mediating these risks, yet competitive pressures, time constraints, and exposure to politically connected clients often limit incentives for enhanced scrutiny. For that reason, reforms focused only on corporate transparency are unlikely to reduce real estate-based money laundering in tourism-driven property markets without broader improvements in supervision and gatekeeper accountability.

6.4 Sham marriages as informal ownership strategy

In addition to nominee arrangements and corporate vehicles, interview data reveal that sham marriages between foreign nationals and Indonesian citizens constitute a distinct form of informal ownership for securing de facto control over land and property. Like nominee arrangements, sham marriages separate formal titles from effective control or beneficial interest. However, they do so through marital status and spousal registration rather than through explicit or implicit name-lending outside a marital relationship. In this sense, sham marriages are treated here as a related but analytically distinct ownership-substitution mechanism rather than as a subtype of nominee arrangement.

While AML scholarship has extensively examined corporate vehicles and nominee structures, sham marriages remain underexplored as an informal ownership strategy. The Bali case shows how family-based relations can operate as socially legitimate yet regulatory-evasive forms of ownership substitution within tourism-driven property markets. From an anti-money laundering perspective, sham marriages present distinct challenges because they embed ownership control within private family relations that fall largely outside conventional AML scrutiny. Unlike corporate structures or nominee contracts, marital relationships are rarely subject to enhanced due diligence, even when property acquisitions involve unusually high values or are inconsistent with declared income.

Interviewees emphasized that such practices are facilitated by broader socio-economic pressures faced by local communities. Rising land prices, limited wage growth, and the financial burden associated with religious and social obligations were cited as factors increasing the

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3 willingness of local actors to enter into marriage-based arrangements with foreign investors.
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5 Within the ecological framework, sham marriages illustrate how economic vulnerability and
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7 legal constraints can combine to produce practices that appear socially legitimate while
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9 undermining beneficial ownership transparency.

10 The findings further suggest that sham marriages are frequently combined with other
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12 informal and formal mechanisms, including nominee agreements and corporate vehicles, creating
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14 layered ownership structures that are particularly resistant to detection. Gatekeepers (such as
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16 notaries and land deed officials) involved in property transactions rarely have the mandate or
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18 capacity to assess the substantive nature of marital relationships, reinforcing the invisibility of
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20 these arrangements within AML systems. Taken together, sham marriages are best understood as
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22 a distinct but related form of informal ownership within Bali's property market.
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24 **6.5 Gatekeepers, Know Your Customer gaps, and enforcement weaknesses**

25 The findings reveal profound asymmetries in AML knowledge, incentives, and enforcement
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27 across professional gatekeepers. Notaries and land deed officials are formally subject to KYC
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29 obligations and suspicious transaction reporting requirements. Interviews confirm that these
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31 professionals conduct client interviews and submit reports through designated AML platforms.
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33 However, compliance is widely perceived as procedural rather than substantive. Several
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35 informants highlighted that notaries and land deed officials often lack access to comprehensive
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37 financial information, limiting their ability to assess source-of-funds credibility. Competitive
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39 pressures within an oversaturated professional market further discourage rigorous scrutiny, as
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41 excessive questioning risks client loss.

42 By contrast, real estate agents, brokers, and developers, who frequently initiate
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44 transactions and structure deals, are largely excluded from AML training and supervision. There
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46 are no mandatory AML competency requirements for these actors, despite their central role in
47
48 matching buyers and sellers and facilitating informal arrangements. As a result, early-stage
49
50 transaction decisions occur in a regulatory vacuum, long before banks or formal reporting
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52 entities become involved. This fragmented gatekeeper landscape undermines the effectiveness of
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54 Indonesia's AML framework by concentrating compliance obligations at later transactional
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56 stages, while leaving high-risk structuring decisions effectively unsupervised.
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Table 1 summarizes the key gatekeepers involved in real estate transactions in Bali and highlights their respective roles and vulnerabilities from an anti-money laundering perspective.

[Table 1 about here]

6.6 Legal Culture and the Normalization of Informality

Beyond formal regulatory gaps, the findings point to a transactional legal culture that prioritizes deal completion over compliance. Interviewees consistently emphasized that property transactions are widely viewed as commercial opportunities rather than governance risks. In this environment, questions regarding the origin of funds or beneficial ownership are commonly perceived as obstacles to transactions rather than safeguards against financial crime.

Oversight practices reinforce this orientation. Professional supervision by relevant ministries and professional associations is largely reactive, activated primarily in response to complaints, disputes, or public scandals rather than through routine or risk-based monitoring. As a result, informal arrangements, such as nominee structures, undocumented payments, and strategic legal workarounds, persist not because they are concealed, but because they are institutionally tolerated and socially normalized within the property market.

These findings indicate that money laundering risk in Bali’s real estate sector is shaped by the interaction of informality, weak gatekeeper incentives, and uneven enforcement within a tourism-driven economy characterized by rapid capital inflows and high-value transactions. The result is a permissive environment in which opaque ownership structures and informal transaction practices become routine, reducing the likelihood of scrutiny.

These practices weaken transparency, undermine confidence in land governance, and make real estate attractive for integrating illicit proceeds from multiple predicate offences, including corruption, fraud, tax crimes, environmental crimes, drug trafficking, and other illicit activities.

7. Discussion

7.1 An Ecology of Money Laundering Risk in Tourism-Driven Property Markets

Money laundering through real estate in Bali is not best understood as the product of isolated loopholes or the misconduct of a small number of actors. Rather, the Bali case shows how

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3 tourism-led growth, legal restrictions, uneven anti-money laundering coverage, and normalized
4 informal practices interact to produce a durable ecology of laundering risk. The significance of
5 this ecology lies in how it embeds laundering vulnerabilities in routine market processes rather
6 than exceptional criminal transactions.
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10 An ecological lens moves analysis beyond actor and compliance-centered explanations.
11 In Bali, rules, market pressures, and enforcement asymmetries collectively produce informality
12 as a rational response. Informal ownership strategies are not marginal deviations but integral to
13 the functioning of the tourism-driven property market. This aligns with broader Global South
14 scholarship showing that illicit finance is often sustained by mismatches between legal design
15 and market practice rather than by the simple absence of law.
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20 The ecological framework also draws attention to feedback loops. As informal practices
21 become normalized, enforcement agencies face increasing difficulty distinguishing legitimate
22 from suspicious transactions. This lowers detection risk and further entrenches informality,
23 allowing laundering risk to become self-reinforcing and embedded in everyday market
24 operations rather than confined to exceptional criminal cases.
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31 **7.2 Trading of Influence, Politically Exposed Persons, and Gatekeeper Failure**

32 Trading of influence must be understood as more than episodic corruption. In Bali, it operates
33 within a governance landscape characterized by legal pluralism and fragmented authority, where
34 overlapping customary, administrative, and political jurisdictions generate persistent governance
35 gaps (Wardana, 2019). These gaps are routinely exploited by actors with privileged access to
36 political or regulatory power, enabling informal land arrangements, discretionary approvals, and
37 selective enforcement that facilitate opaque financial transactions.
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43 Within the real estate sector, trading of influence functions as a central mechanism
44 linking tourism expansion, regulatory discretion, and laundering risk. Influence is exercised not
45 only through overt bribery, but through personal networks, informal mediation, and discretionary
46 decision-making embedded in everyday administrative practice. This allows politically
47 connected actors – whether officeholders or informal power brokers – to shape land-use
48 decisions, licensing outcomes, and investment pathways in ways that benefit connected investors
49 while weakening transparency.
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From an AML perspective, these dynamics are particularly problematic when they intersect with high-value property transactions involving PEPs. The findings indicate that PEP-linked property acquisitions may appear formally compliant while substantively concealing illicit proceeds, including corruption-related assets but not limited to them. Gatekeepers operating within dense political–economic networks face strong incentives to prioritize access, speed, and client relationships over enhanced due diligence. As a result, PEP-related risks are frequently under-identified or normalized rather than treated as triggers for heightened scrutiny.

This dynamic exposes a structural weakness in AML regimes centered on designated non-financial businesses and professions. While notaries and land deed officials are formally designated as gatekeepers, their capacity to act independently is constrained by competitive pressures, limited financial visibility, and institutional cultures that discourage confrontation. At the same time, real estate agents and developers, who often initiate and structure transactions, remain largely outside AML supervision. Trading of influence therefore does not merely exploit regulatory gaps; it reshapes gatekeeper behavior, transforming compliance obligations into procedural formalities rather than substantive safeguards.

7.3 Informality, Legal Culture, and the Limits of Bank-Centric AML Models

The Bali case highlights the limits of bank-centric AML models because key decisions on ownership, control, and asset integration are often made by brokers, developers, and intermediaries before banks or formal reporting entities become involved. This finding reinforces critiques in Global South AML scholarship that emphasize regulatory misalignment rather than simple regulatory absence. Indonesia’s anti-money laundering regime is principally governed by Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering. Yet, enforcement remains uneven because reporting and compliance obligations are concentrated at later transactional stages and imposed on actors with limited leverage over deal structuring. Informality therefore persists not simply because rules are missing, but because existing legal and AML arrangements are only partially aligned with how property markets function in practice.

Legal culture further amplifies this misalignment. The normalization of informality reflects a transactional ethos in which deal completion is prioritized over verification, and questioning clients about the origin of funds is perceived as commercially risky. Oversight

mechanisms that rely primarily on ex post complaints or public scandals reinforce this culture, signaling that non-compliance carries limited immediate consequences. Within such an environment, money laundering risk becomes routinized rather than exceptional, embedded in ordinary market practice rather than confined to clearly criminal transactions.

7.4 Implications for AML Governance in Tourism Economies

The findings have broader implications for AML governance in tourism-dependent economies beyond Bali. First, beneficial ownership transparency in the property sector must be strengthened beyond formal registration requirements. Greater scrutiny is needed where property is acquired through layered corporate structures, nominee arrangements, or other ownership-substitution mechanisms that obscure the identity of the true controlling party. This will require stronger verification practices, better coordination across land, corporate, and AML authorities, and more robust source-of-funds checks in high-value transactions.

Second, AML obligations across property transaction intermediaries must be recalibrated to reflect actual market dynamics. Real estate agents, brokers, and developers should be integrated more fully into AML frameworks through mandatory training, reporting obligations, and enforceable sanctions. Without addressing these early-stage transaction actors, AML regimes will continue to miss some of the most critical points of vulnerability.

Third, politically exposed person (PEP) screening and source-of-funds checks should be strengthened in high-value property transactions, particularly where politically connected actors are linked to tourism-related development, licensing, or land conversion. Formal compliance alone is insufficient where influence, proximity to power, or corporate layering can obscure the origins of capital.

Finally, tourism-led development strategies should explicitly incorporate financial integrity considerations. Effective risk mitigation requires an ecosystem approach that recognizes how land regulation, investment structures, professional intermediation, and informal ownership practices interact in practice. Without this broader institutional alignment, AML measures will remain reactive and fragmented rather than preventive and systemically effective.

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7.5 Implications for AML Scholarship and Governance

This study contributes to the literature by advancing an ecological understanding of money laundering that foregrounds interaction, normalization, and feedback loops rather than isolated compliance failures. By empirically demonstrating how informal ownership strategies – particularly nominee arrangements – operate within tourism-driven property markets, the analysis extends existing scholarship on real estate-based laundering beyond corporate and financial typologies. The findings further show how trading of influence functions as a connective mechanism linking tourism growth, gatekeeper discretion, and AML enforcement gaps in a Global South context.

By situating the Bali case within broader debates on illicit finance and development, the study challenges technocratic and bank-centric AML approaches and underscores the need for governance reforms that address the structural conditions under which laundering risks are produced and sustained.

8. Conclusion

This study shows that money laundering risk in Bali’s real estate sector is not best explained as the product of isolated loopholes or individual misconduct alone, but rather emerges from an interconnected ecology of tourism-led economic pressures, legal constraints, partial regulatory coverage, uneven enforcement, informal ownership practices, and gatekeeper power relations. Within this ecology, real estate functions as a strategic vehicle for integrating illicit or unexplained capital into the formal economy, particularly in high-growth tourism contexts where transaction speed and investment facilitation outpace oversight capacity.

The analysis shows that nominee arrangements, sham marriages, and undercapitalized corporate vehicles are not marginal deviations but normalized responses to foreign investment demand under land ownership restrictions. These practices systematically obscure beneficial ownership and weaken source-of-funds verification, yet they remain difficult to detect within existing AML frameworks. Their persistence is reinforced by uneven KYC implementation, limited AML obligations for key non-financial professionals, and a transactional legal culture that prioritizes deal completion over due diligence. Taken together, these dynamics point not to the absence of regulation, but to a pattern of partial regulatory failure.

The findings also underscore the central role of gatekeepers in mediating these risks. Notaries, land deed officials, real estate agents, and developers occupy critical positions within property transactions, yet their incentives and obligations remain uneven. Some are formally covered by AML rules but have limited visibility over financial provenance; others shape transactions at an early stage while remaining outside meaningful AML supervision. As a result, formally compliant transactions may conceal illicit financial flows, revealing the limits of bank-centered and document-focused AML approaches.

By advancing an ecological framework, this paper reframes real estate-based money laundering as a systemic governance problem rather than a linear laundering process. It also extends empirical understanding of informal ownership strategies that remain underexamined in AML scholarship, particularly in tourism-dependent economies of the Global South. Effective prevention requires ecosystem-level interventions: stronger beneficial ownership verification, broader AML coverage for real estate intermediaries, tighter scrutiny of PEP-linked transactions, and better coordination among land, investment, and financial intelligence authorities. Without such reforms, tourism-driven property markets may continue to function as repositories for hidden capital.

Future research could build on this ecological approach through comparative studies across tourism regions, mixed-method analysis of property transaction data, or closer examination of the social impacts of informal ownership on local communities.

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Author contributions

M.S.S. led the conceptual development of the study, wrote the main manuscript text, critically reviewed and revised the entire manuscript, and made substantial intellectual contributions throughout the research

and writing process; K.D.S., I.V., R.R.Y., collected data for specific parts of the manuscript and reviewed these specific excerpts critically; J.P. V., and F.A., contributed to the study through support in refining the research aims, curating and organizing metadata to improve transparency and access to secondary data, and securing funding for the project, and A.A.N collected data for specific parts of the manuscript.

Data availability No datasets were generated or analyzed during the current study.

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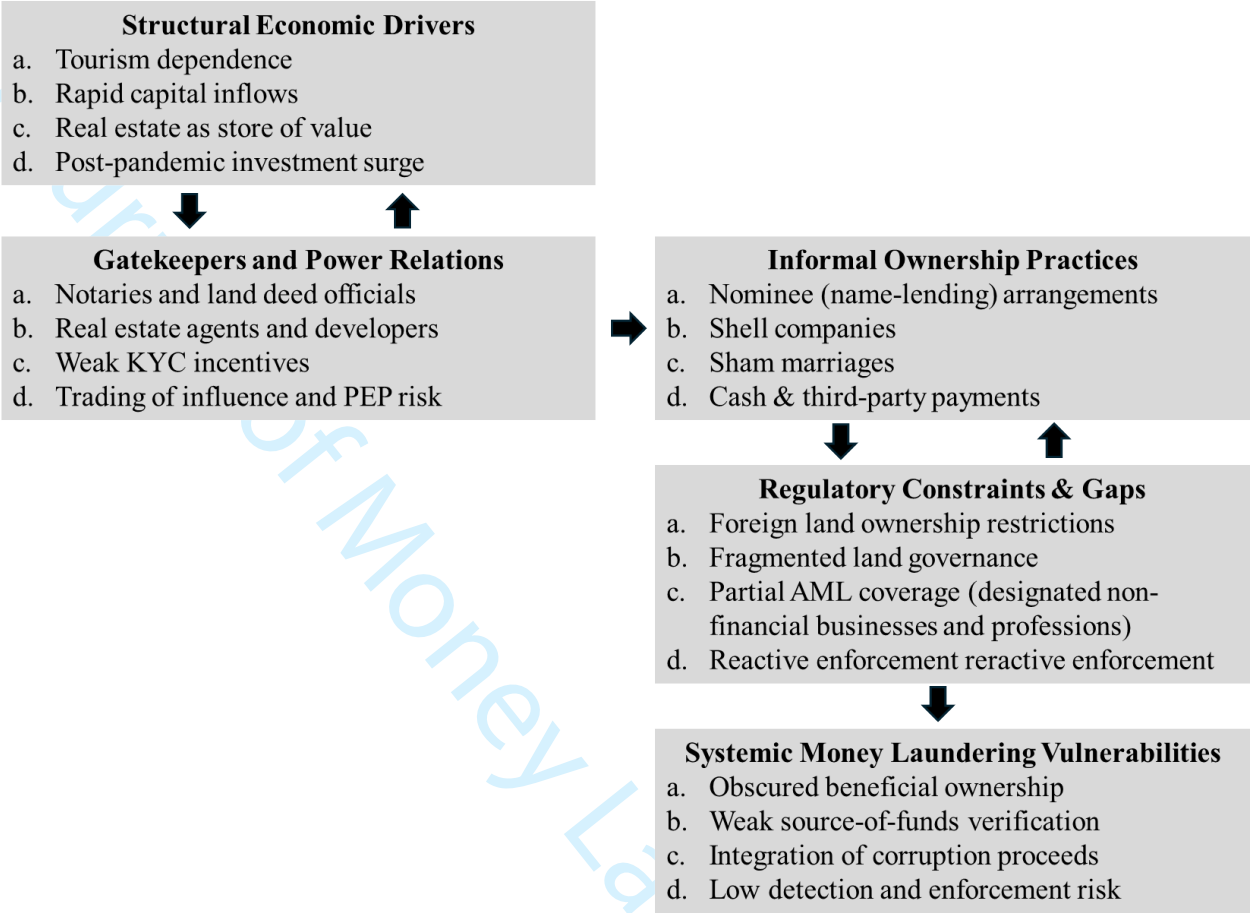


Figure 1. An Ecological Framework of Money Laundering Risk in Bali’s Tourism-Driven Real Estate Sector
Source: Authors own work

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Journal of Money Laundering Control

Table 1. Gatekeepers in Bali’s Real Estate Transaction Ecosystem and AML Vulnerabilities

No	Actors	Roles in property transactions	AML Relevance & Challenges
1.	Notaries (under the guidance of the Ministry of Law)	Draft and legalize sale– purchase agreements, corporate deeds, and related legal instruments	Formally subject to KYC and suspicious transaction reporting; limited access to clients’ financial information; compliance often procedural rather than substantive
2.	Land Deed Officials (under the guidance of the Ministry of Agrarian Affairs and Spatial Planning)	Register land transfers and formalize land rights with the National Land Agency	Critical point for title transfer; verification focuses on documents rather than beneficial ownership; weak detection of nominee arrangements
3.	Real Estate Agents	Match buyers and sellers; market properties; facilitate negotiations	Largely excluded from AML obligations and training; early-stage deal structuring occurs without KYC or source-of-funds scrutiny
4.	Property Developers	Develop and sell villas, apartments, and tourism-related properties	Strong incentives for rapid sales; limited due diligence on buyers; reliance on informal payment arrangements
5	Property Brokers (informal)	Act as intermediaries outside licensed frameworks	Operate beyond formal supervision; facilitate nominee agreements and cash or third-party payments
6.	Lawyers	Provide legal advice in complex or disputed transactions	Not consistently involved in transactions; AML duties unevenly applied; client confidentiality norms limit reporting
7.	Regulators and Professional Bodies	Supervise notaries, land officials, and property professionals	Oversight largely reactive; enforcement triggered by complaints or scandals rather than proactive risk monitoring

Source: Authors own work