Whose money and whose interest?
Illicit money flys off Bangladesh

1. Illicit Financial Flows and Bangladesh Perspective

Illicit financial flows are cross-border transfer of funds that are illegally earned, transferred or utilized. It can be generated in a many different ways that are not revealed in national accounts or balance of payments figures. And it includes trade mispricing, bribery, money laundering, crimes, corruption, smuggling etc. Both companies and individuals can lead this illicit financial flows from one country to another. The outflow of capital is facilitated by a shadow international financial system, especially offshore financial centres, tax secrecy jurisdictions that is famously known as 'tax havens'.

More than 200 Multinational companies (MNCs) have been working in Bangladesh and allegedly evading the due taxes through transfer pricing and other tricks and the country is losing a huge amount of revenue every year. MNCs usually evade taxes through the abuse of transfer pricing or mispricing in different ways including capital flight, transfer of dividend and profit to its permanent establishments including over and under-invoicing during transactions of goods and services within their associated enterprises.

According to the report of Washington-based Global Financial Integrity (GFI) 2012, a total of $14.059 billion had been siphoned off Bangladesh within 10 years since 2001 through trade mis-invoicing, corruption, bribery and tax evasion. Out of this money, $10.597 billion [almost 75%] was transferred through under- and over-invoicing of exported and imported goods. The NBR (National Board of Revenue) said that Multinational companies siphon about US$1.8 billion off the country each year due to the weak monitoring mechanism and this is how the government has been depriving of some BDT 10 billion ($310 million) in tax revenues.

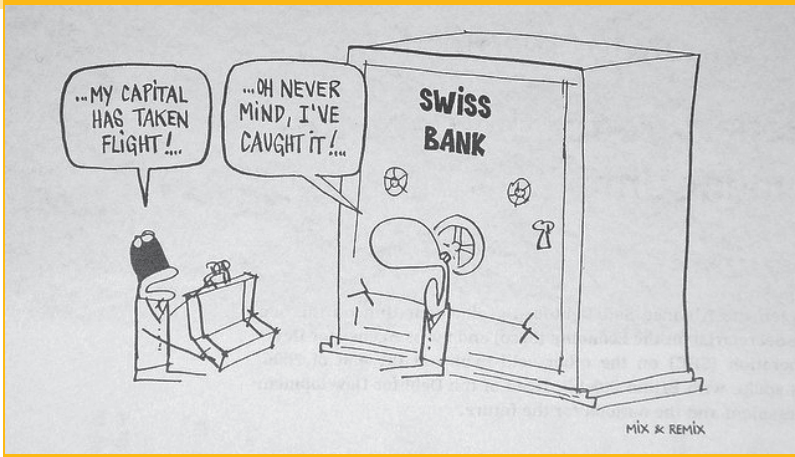
UK based research organization Tax Justice Network (TJN) mentioned in their research paper that, a total of $25.50 billion had been drawn off Bangladesh in 36 years from 1976 to 2010 to the tax heavens. This amount was higher than the national budget of FY 2012-13 and also the 99% of total foreign loan in 2010.

An UNDP study revealed that Bangladesh counts millions of dollars in capital flight every year owing to leakage in the balance of payments and trade mis-invoicing by businesses. Over the last four decades, the country lost $800 million per year in an average through capital flight driven by balance of payment leakages, mis-invoicing and unreported remittances. The study also said that total capital flight from Bangladesh accounts for 30.4% of its GDP of over $100 billion in 2010.

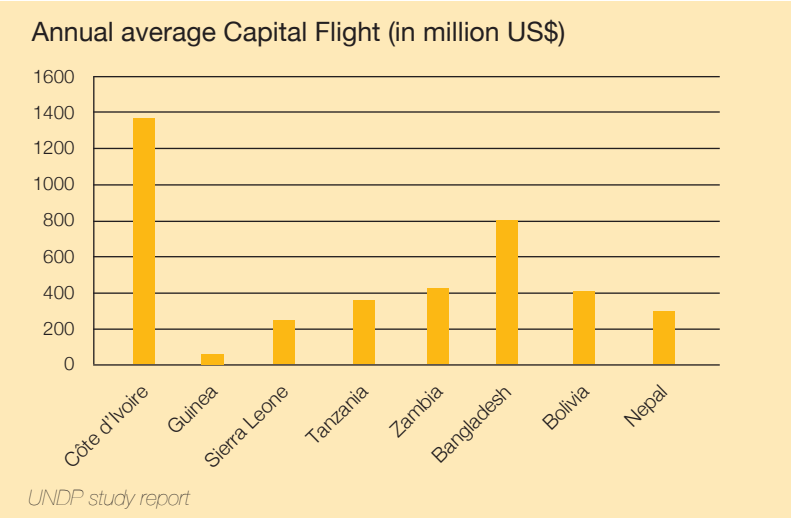
The amount of such losses is $977 million in the fiscal year 2011-12, $764 million in 2012-13 and $676 million in the first six months of 2013-14, according to the government's Economic Review 2014.

2. Global scenario of illicit flows

Tax Justice Network-UK has said in their Financial Secrecy Index (FSI)-2013 that OECD member countries and their satellites are the main recipients of these illicit flows and this financial flow mostly, come from the developing and poor countries. The report said that



Capital flight cartoon - mix and remix (https://www.flickr.com/photos/taxjustice/3952062693/)



UNDP study report

a trillion-dollar figure (illicit money) flows out of developing countries every year against the global foreign aid of US$130 billion. That means, Developing countries pay back US$10 for every dollars of aid provided by OECD countries. The FSI-2013 report said that an estimated $21 to $32 trillion of private financial wealth is located, untaxed or lightly taxed, in secrecy jurisdictions around the world. Illicit cross-border financial flows are being added up to an estimated $1-$1.6 trillion each year.

Washington-based Global Financial Integrity (GFI) said in their report (released on 11th December 2013) that the developing countries has lost US$947 billion in 2011 (13.7% over than 2010) and US$5.9 trillion in 2002-2011 (average 10.2% per year over the decade) as illicit outflows and it has been generated by crime, corruption, tax evasion and other illegal activities. The study found that Asia accounted for 40% of total illicit money drawn off the developing world, with China losing the highest amount US$1.08 trillion, while Africa's share is only around 7% in 2011. As a percentage of GDP, Sub-Saharan Africa suffered the biggest loss of illicit capital, average 5.7% of their GDP annually.

Since 1970, African countries alone are estimated to have lost over $1 trillion by capital flight, dwarfing their current external debts of 'just' $190 billion and making Africa a major net creditor to the world. But those assets are in the hands of a few wealthy people, protected by offshore secrecy, while the broad African populations are shouldering the debts.

The top 10 countries as per degree are China, Russia, Mexico, Malaysia, India, Saudi Arabia, Brazil, Indonesia, Iraq and Nigeria. Report said, globally trade mis-invoicing accounted for 80% of cumulative illegal flows from the developing countries over this period. The rest of the unlawful transfers took place through corruption, bribery, theft and kickbacks. All these money are going to the secrecy jurisdictions i.e. to the tax heaven countries and the world's biggest banks.

3. Deposits and settlers are increasing in Tax Havens

The central bank of Switzerland, Swiss National Bank, disclosed recently in its annual report that 'secret' money from Bangladesh deposited in different Swiss banks rose by 62 percent year-on-year in 2013. The deposits, which stood at BDT 32.36 billion (US$415 million) at the end of 2013, were BDT 19.91 billion (US$255 million) in 2012, showed in the latest data of the Swiss National Bank. It means when the illicit financial flows from developed countries to Switzerland is declining at a record low rate, it is skyrocketing from Bangladesh. There are information of illicit financial flow from Bangladesh to Canada and Malaysia too.

To comply with the OECD (Organization for Economic Cooperation and Development) principles, Switzerland offered Bangladesh DTAA (Double Taxing Avoidance and Agreement) during 2007 where Bangladesh should have asked for including bank accounts information but the then government didn't show any interest for that clause. The Swiss Finance Minister said to the House of Representatives in a press release dated 23rd September 2009, "Bangladesh has not been interested in an amendment. It is a typical example of a country saying that it is not interested, or not yet interested, in the OECD standard (tax information exchange on request)."

To settle in Malaysia under its 'My Second Home (MM2H)' programme, one needs to show liquid assets worth at least about BDT 122 million (US$ 0.16 million) and offshore income of about BDT 0.25 million (US$ 3,141) per month. Since the programme was launched (in 2002) till April 2014, some 25,500 people from across the world migrated to the country. Of them, 2,874 (11%) are from Bangladesh, according to the Malaysian government website. This means, Bangladeshis laundered about BDT 35 billion (US$ 448 million) at least to have their second home in Malaysia and none was required to take approval from the authority in Bangladesh, as Malaysia does not inquire about the source of the money. Similarly, a citizen of Bangladesh can get residence permit in the US or Canada by showing liquid assets worth $500,000 (BDT 38.7 million). Statistics are hard to come by, but reportedly hundreds of wealthy Bangladeshis have made these two countries their second home. Again, the US and Canada will not inquire where the money has come from, experts say.

4. Tackling Illicit Financial Outflows

With a vision of largest networks of DTAA (Double Taxation Avoidance Agreement, at present with 88 countries) and TIEA (Tax Information Exchange Agreement), India has planned for TIEA with 22 priority jurisdictions. Among these, negotiation completed with 17 countries and 9 TIEA have been signed with Agrentina, Bahamas, Bermuda, British Virgin Islands, Cayman Island, Jersey, Guernsey and Liberia. India has drawn out five strategies to tackle the illicit money outflow and these are: (i) Joining the Global Crusade against black money, (ii) Creating an appropriate legislative framework, iii) Setting up institutions for dealing with illicit money, iv) Developing system for implementation and v) Imparting skills to the manpower for effective actions.

Under cross country information exchange agreement, The Director of International Taxation, India has collected taxation from cross-border transaction as per following.

Fiscal Year	Collected Tax by DIT, India (billion INR)
2002-03	13.56
2003-04	1.29
2004-05	44.18
2005-06	80.49
2006-07	91.47
2007-08	117.90
2008-09	157.40
2009-10	161.98
2010-11	215.09
2011-12	274.42

Source: White Paper on Black Money, India-2012

It's a good news that Bangladesh has signed agreements with financial intelligence units of 24 countries after it became a member of the EGMONT Group, the global anti-money laundering body. Bangladesh Bank, the National Board of Revenue (NBR) and the Anti-Corruption Commission (ACC) should work jointly to find out a mechanism to stop capital flight and also to collect data on commodity and machinery prices in overseas markets to stop under and over-invoicing trends of the big multinational companies as well as the national ones. This would help to check tax evasion and capital flight. On the other hand, multilateral development agencies likely to play a vital role in combating illicit financial flows from developing countries as it seriously undermines the human rights and development justice.

The World Bank, IMF, several UN Agencies, European Commission and others may involve in different aspects for combating this outflows. The technical expertise and capacity could be:

i) Building up relevant capacities on financial crimes, taxation, capital flight, money laundering etc in developing countries;
ii) Building political commitment to combat economic and financial crimes in developing countries;
iii) Developing exchange of tax information agreement especially with the countries where rich prefer to deposit their wealth;
iv) Building transfer pricing capacities;
v) Research on illicit financial flows and find out the major trends and areas to watch;
vi) Maintaining political momentum within OECD countries;
vii) Undertaking proper risk assessment in developing countries.

equitybd

Equity and Justice Working Group, Bangladesh
House-13 (Metro Melody, 1st Floor), Road-2, Shyamoli, Dhaka-1207
Ph: +88-02-8125181, 9118435, Fax: +88-02-9129395,
Email: info@equitybd.org, Web: **www.equitybd.org**

Supported by tax justice network