



Illicit Financial Flow and our political economy

1. Background

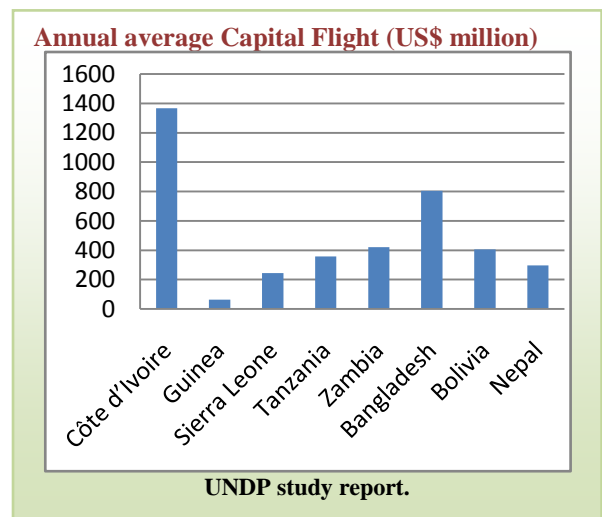
Illicit capital flow from Bangladesh has been one of the crucial issues both in the politics and socio economic sector of Bangladesh. Every year an enormous amount of money is being siphoned off to tax heaven countries illegally. As per latest report-2015 of Global Financial Integrity (GFI) an estimated of US\$ 55.88 billion has illicitly been transferred from Bangladesh to foreign countries during the year from 2003 to 2014 which is roughly 1.5 times of the fiscal budget 2015-16 of Bangladesh. Every year around US\$6 billion has been transferred illicitly to other countries and Bangladesh became the 26th no country in the world in respect of illicit financial flow. The highest illicit financial flow has happened in 2013 which is BDT 776 billion (\$9.7 billion) which is 12 times more than the foreign aid and 141% excess of foreign loan of FY2015-16.

Meanwhile, the economists of the country have so far expressed their deep concern considering the size of the illicit capital flight, since the upward trend of illicit capital flight certainly hampering the expected investment and development of the country and also creating the employment crisis in the country. Government is also facing fund deficit in implementing its development plan. To face this crisis, it is observed that the government has heavily depended on bank loan and also imposing additional burden over the mass people by imposing and increasing VAT rate as indirect tax as easy tools of revenue mobilization. Though government has initiated some steps to combat illicit financial flow, but due to the lack of proper implementation, such kind of illicit flow is yet to be controlled at the desired level .

Under this circumstances, the economist, planners, civil society and others of the country are pretty much agreed to say that, without a strong political will it is not possible to stop or control the illicit capital flight. Therefore to eradicate poverty, to achieve the sustainable development goal and to make the vision 2021 true (that declared by Govt.), a minimum political commitment is fundamental among the parties including government for making a sense of security to reduce the illicit cross boarder financial flow.

2. Increased Money laundering to tax-haven countries

A UK-based research organization-“Tax Justice Network” revealed a report on Financial Secrecy Index (FSI)-2015, published on November 2, 2015. The objective of this report is to present a scenario on how the developed countries are making vulnerable and spoil the economy of the countries by laundering money from those countries to their own or regional countries.



As per report the major secrecy jurisdictions are Switzerland, Hong Kong, USA, Singapore, Cayman Islands, Luxembourg, Lebanon, Germany, Bahrain, United Arab Emirates (Dubai), Macao, Japan, Panama, Marshall Islands and United Kingdom. The report addressed Switzerland as "Godfather" of tax haven countries since the highest amount of money is being transferred in to this country and remained safe. The report also said that about US\$1-\$1.6 trillion dollar flows out of developing countries illicitly in every year against the global foreign aid of US\$ 135 billion. It means, the developing countries pay back US\$10 illegally against of every dollar of aid provided by developed countries. Recently Singapore, Malaysia, Philippines and Sri Lanka are coming out as tax haven countries in Asia.

World's biggest banks of developed countries, law practices and accounting firms are mainly responsible for promoting this illicit financial flight from different countries. Though this way the rich people of different countries have been evading tax while the debt are being shouldered by the marginalized and poor people. As a result least and developing countries are deprived from abundant revenue income, thus creating the economy of these countries more vulnerable and net creditors to the world.

Since the 1970s African countries alone are estimated to have lost over US\$ 1 trillion in capital flight and against this amount its external debt is US\$200 billion. This debt is very poor comparing the total capital flight and making Africa a major net creditor to the world. Money is being transferred in the same way from Bangladesh through money laundering or illicit financial to those countries widely known as tax-haven countries.

3. Bangladesh Context

a. Money laundering through Hoondi and Miss Invoicing

Every year an immense of money has been laundering or illicitly siphoned off from Bangladesh through leakage of export-import, remittance and hoondi. According to report-2015 of Global Financial Integrity (GFI), an estimated of US\$ 55.88 billion has illicitly been transferred to foreign countries during the years from 2003-2014. Among this amount US\$9.7 billion has been siphoned off only in 2013.

Different analysis by Bangladesh Bank, Revenue Board and others identified that in every year an estimated of BDT 200 billion through hoondi, BDT 100 to 160 billion through miss-invoicing and around BDT 50 billion are being transferred to other countries through money laundering and/or illicit cross-border financial flows. According to the monetary policy of Bangladesh Bank, one person is not illegible to send above US\$ 5,000 to any foreign country. If so, then how these numerous money has been laundered ?

b. Global Financial Integrity (GFI) Analysis:

As per latest report-2015 of GFI, an estimated of US\$ 55.88 billion has illicitly been transferred to foreign countries during the years from 2003-2014. Among this amount US\$9.7 billion has been siphoned off only

in 2013 which is 7% of GDP, eleven times of foreign aid and five times of foreign loan of that year. During the year 2012 the laundered amount was US\$ 7.2 billion and in a frequency of one year transfer it has been increased up to 33% year-on-year in 2013. On the other hand during 2008 the illicit flow was US\$ 6.4 billion and in 2009 it was US\$ 6.1 billion. So, considering the average increasing rate of illicit financial flow from 2009 to 2013, the possible flow during 2014 could be US\$ 14.5 billion. According to this calculation and trend the illicit financial flow from Bangladesh may stands US\$ 48.36 billion from 2009 to 2014, which is about 28% excess than the annual budget of FY2015-16. From this amount Govt. could earn excess BDT 820 billion (\$10.5 billion) as revenue income and could build two to three Padma river multipurpose bridge and need not depend on foreign loan with high interest.

GFI Report-2015 (IFF from BD)			BDT in Billion
Year	Illicit Financial Flow	Trade Miss invoicing	Illicit Hot Money outflow
2004	261.07	261.07	0.00
2005	332.44	272.53	59.90
2006	263.48	213.25	50.15
2007	319.64	260.68	58.97
2008	502.55	477.83	24.73
2009	477.91	423.54	54.37
2010	421.90	390.62	31.36
2011	461.84	370.50	91.34
2012	563.55	510.59	52.96
2013	753.95	651.69	102.26
Total	4358.33	3832.30	526.03
Average	435.83	383.23	52.60

c. Money plundered from national and private banks

Since the year 2011 thousands of money has been plundered by the influential and the groups like Hall Mark, Bismillah group from different national and private banks including Sonali and BASIC bank even from share market. As per NBR (National Board of revenue) of Bangladesh, an estimated of BDT 200 billion has been looted from Govt. running bank like Sonali bank, Janata Bank, Rupali bank, Agrani bank and BASIC bank. Among this amount the major amount is lying with Sonali bank of which amount was BDT 100 billion. Since 2010-2012 an amount of BDT 35.41 billion has been plundered from a particular branch of this Sonali bank. On the other hand, since 2009-2012 an amount of BDT 43.68 billion has been

misused from BASIC bank in a disorderly manner. Due to the relation between the businessmen and political influential, the Govt. banks have been providing loan unlawfully and as result the overdue borrowers going beyond the reach to recover. Because the technocrat or the auditor has not enough strength to protect them. An Ex-Director of Bangladesh bank (who worked from 2008 to 2011) stated that the trend of loan payment has been increased not to considering the business development purpose rather than illegal pressure from influential and high level communications. And this kind of loan in fact going to unsettled.

d. Money laundered from Bangladesh Bank reserve

On last February 5, 2016 around US\$100.10 million has been hacked and launders to Philippine and Sri Lanka from the Bangladesh Bank (BB) foreign currency account with the Federal Reserve Bank of New York. Meanwhile, the BB has succeeded in recovering the \$20 million that flew into Sri Lanka, due to quick correspondence. But the rest amount US\$80.10 million to Philippines has been successfully been plundered by the robber. The concern this that the Bangladesh Bank authority has been concealed this ever biggest incident more than one month from the date of occurrence. The BB has confessed the matter though a press briefings on March 7, 2016 although the news was published by the Philippine based newspaper "The Philippines Daily Inquirer" as on February 29, 2016. Question is, why the BB has obscured the incident for such a long time even not informed the matter to the finance minister after a month over ? The finance minister said that the BB officials are engaged with this money laundering. Because, it is required biometric finger print of at least six persons chronologically in order to activate the transaction order and it is preserved at Federal Reserve Bank of NY.

e. Political economy of Shadow economy

Black money or underground economy is one of the major obstructions in terms of revenue mobilization in Bangladesh. Different research conducted by Bangladesh Bank and Economist stated that the size of underground economy of the country is average 40% of total GDP. Finance Minister of Bangladesh earlier said that during 2011 the size of shadow economy was minimum 48% and maximum 84% of

GDP. Considering the average rate, the shadow economy for the FY2014-15 comes BDT 9,990 billion (\$ 128 billion). The activities of shadow economy include both legal (not reported in national accounts) and illegal activities and the economists find out the following issues as source of shadow economy.

Source of Shadow Economy	
Legal but not reported in national accounts	Tax evasion (unreported income from self employment, wages, salaries, assets accumulated from the work related to legal service and goods) and Tax avoidance (employee discounts and fringe benefits)
Illegal economic activities	Bribery, gambling, smuggling, extortion, drug dealing, black marketing, work done by illegal immigrants, corruption, manipulations in import, exploitation of loopholes of laws, tax evasion, land & building registration, extraordinary professional fee, adulterate food production and sales, not refund the bank loan, illegal arms business, loss of govt. companies, domestic and international tender agreement, govt. purchase, money laundering & hundi business, terrorism activates, housing business, tax free vehicles by MPs etc.

f. APG evaluation on money laundering and terrorist financing

A delegation of the Asia Pacific Group on Money Laundering (APG) visited Bangladesh on last October'15 to inspect different initiatives to restrict money laundering and terrorist financing by Govt. of Bangladesh and they have classified it as "Risky Country". APG mentioned that the Bangladesh Financial Intelligence Unit (BFIU) is not enough done with a collaboration with other international agencies to restrict it and even couldn't get any clear idea about which government agencies leads probes the money laundering and terrorist financing activities. There has a lack of coordination between Bangladesh Bank, Anti Corruption Commission, National Board of revenue, law enforcement agencies and other government departments for curbing these two issues.

4."Second home" in Foreign Land: Could money laundering be stopped?

a. In Malaysia, since its inception in 2002, a total of 2370 Bangladeshis have received second home package facilities until June 2013 under its "My Second Home Program" (MM2H). More than BDT 100 billion (\$1.28 billion) has been illegitimately

transferred to Malaysia for purchasing plot and flat during the last ten years. Out of that BDT 60 billion is for second home package and the rest BDT 40 billion has been transferred for purchasing plot or flat. Bangladesh Bank observed that this money mostly has been transferred to Malaysia through leakage of export-import, remittance and hoondi.

b. It can be mentioned that a part of Canada has been known as “Begum Nagar” and Canadian citizenship is available with the money of BDT 11 million. Many of the Bangladeshi wealthy people purchased this citizenship and kept their Begums (wife) and children along with house and other assets in there. Around BDT 2000 billion (around \$26 billion) has been transferred to Canada from 1976 to 2010 in this way, which is nearly to national budget for the FY2014-15.

c. A wife of an economic minister of Bangladesh Mission in UNDP has become a proprietor of three houses by spending of USD 2 million in cash. The wife of that said minister also became the owner of US\$ 3 million wealth of real estate only in three years i.e. from 2012 to 2015).

5. Money laundering to Swiss Bank

As per annual report "Banks in Switzerland-2014" published by the central bank of Swiss (SNB) that it has been increased up to 40.72% by Bangladeshi depositor in different Swiss banks i.e. about BD 13.18 billion has been deposited excess than the year 2013

Bangladeshi deposits in Swiss banks

Year	Amount in Swiss Franc (Million)	Amount in BDT (Million)
2014	506 m	45,540 m
2013	372 m	32,370 m
2012	229 m	19,080 m
2011	152 m	12,950 m
2010	236 m	19,680 m
2009	149 m	12,410 m
2008	107 m	8,920 m

Source: Annual report "Banks in Switzerland-2014" by Swiss National Bank (SNB)

at the end of 2014. Experts mentioned that it has been observed for some years continuously that the trend of saving has been increased rather than the investment rate of GDP in Bangladesh. Prominent

economist of Bangladesh Dr. Khalequzzaman has said, "Saving trend is almost 2% to 3% higher than the total investment rate in Bangladesh". Dr. Debapriya Bhattacharya the distinguish fellow of Center for Policy Dialogue (CPD) of Bangladesh raised a question " Who does launder money illicitly? Answer is Influential or powerful persons. Concern is that whether the government have has the honest intension to disclose the face of that plunderer".

6. Tax evasion by the Multi National Companies

a. About BDT 31 billion tax evaded by four mobile phone operators in Bangladesh

Bangladesh Telecommunication Regulatory Commission (BTRC) said in their investigation report that the top four mobile phone operators in Bangladesh evaded taxes of about BDT.31billion (\$403 million) by selling new SIM cards in the name of replacement. The report mentioned that **Grameen Phone** (major share by Telenor of Norway) evaded US\$203 million (BDT 15.62 billion) what was due against their selling new SIM, but actually they evaded the cost by showing SIM replacement. In the same way **Banglalink** (Major share by Orascom of Egypt) evaded US\$ 99 million (BDT 7.62 billion) of taxes from June 2009 to March 2011, **Robi** (major share by Singtel of Singapore) evaded US\$ 84 million (BDT 6.47 billion) of taxes from march 2007 to June 2011 and **Airtel** (major share by Airtel of India) evaded tax of US\$ 5 million (BDT 390 million) from January 2010 to June 2011.

b. British American Tobacco Bangladesh (BATB) evaded tax of about BDT 19.24 billion

According to the Ministry of Finance, BATB evaded tax about BDT 19.24 billion (\$250 million) by making false price declaration on their two brands i.e. Bristle and Pilot cigarette during 2009 to 2013. The company declared their medium level raw materials including tobacco, paper and others as low-level brand in order to evade tax. BATB also hidden the production cost and evaded huge amount of taxes in Bangladesh.

7. Step taken by India government in respect of tackling Money stashed

a. Published a white paper on black money:

Indian government has published a white paper on black money in the year 2012. India has signed DTAA's (Double Taxation Avoidance Agreement) with 88 countries to promote inter-state trade and took initiative to sign TIEA's-Tax Information Exchange Agreement-with more 22 countries. Under this initiative it has already accomplished TIEA's with 8 countries. As a result India has recovered INR 1,170 billion from the illegitimate money transferred during the last 10 years.

b. Proposed legislation on Black Money held Abroad

To stem the black money held abroad, the Government of India is in a process to implement a comprehensive new law to deal with such money stashed away abroad. Meanwhile the bill is being introduced in the Parliament of India.

The key features of the bill to tackle money stashed abroad will include:

- i. Punishment of imprisonment up to 10 years for concealment of income and assets and evasion of tax in relation to foreign assets.
- ii. This offense will be made non-compoundable and offenders will not be permitted to approach the Settlement Commission.
- iii. As penalty at the rate of 300 percent of tax shall be levied for such concealment of income and assets.
- iv. Non-filing of return or filing of return with inadequate disclosure of foreign assets will be punishable with Imprisonment of up to 7 years.

c. Proposed legislation on Domestic Black Money

As regards curbing domestic black money, a new and more comprehensive bill of Anonymous transactions has been produced in the Indian Parliament.

- i. The Government said that this law will enable confiscation of anonymous property and provide for prosecution which will block a major avenue for generation and holding of black money in the form of anonymous property, especially in real estate. Anonymous property is property that is held in the name of someone other than the person who is the true beneficial owner. Such property will now be subject to confiscation.
- ii. A personal identification number (PIN) is being made mandatory for any purchase or sale exceeding the value of US\$2,000 and no cash dealing will be acceptable for above this amount.

iii. To improve enforcement, Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC) will leverage technology and have access to information in each other's data-base.

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

Year	Collected Tax by DIT, India
2002-03	INR.13.56 billion
2003-04	INR.12.90 billion
2004-05	INR.44.18 billion
2005-06	INR.80.49 billion
2006-07	INR.91.47 billion
2007-08	INR.117.90 billion
2008-09	INR.157.40 billion
2009-10	INR.161.98 billion
2010-11	INR.215.09 billion
2011-12	INR.274.42 billion

Source: White Paper on Black Money, India-2012

8. Is it possible to bring back the money transferred through illicit way?

For Bangladesh, it is now possible to get the information on money laundering, after an agreement signed with the International Agency "Augment Group" to protect money laundering and terrorist financing where other 147 countries are included. For that, Bangladesh will have to sign with Switzerland for information exchange regarding tax or money laundering. Under the shade of Financial Action Taskforce (FAT), the Asia Pacific Group (APG) on Money Laundering and the **Egmont Group of Financial Intelligence Units** do assist the countries for combating money laundering and terrorist financing and also assist to bring back the illegally deposited outside countries. This money can be brought back if Bangladesh Bank and ACC (Anti Corruption Commission) could work jointly in an un-biased way. Moreover, as Bangladesh signed in United Nations Convention on Anti Corruption, so the government, Bangladesh Bank, National Board of Revenue and Anti Corruption Commission have has the responsibility to close the source of corruption and earning black money and also recover all the illicit money deposited in tax-haven countries and other financial institutions including Swiss banks.

9. Our demands

- Each Bangladeshi citizen or a Bangladeshi with dual citizenship who has asset and bank account in foreign countries will have to submit annual financial statement. Punitive measure should be taken in respect of concealment of information and tax evasion.
- White paper has to be published by examining the financial information of those Bangladeshis who received citizenship in foreign countries including Malaysia.
- Inter-country Agreement regarding transparency of financial transaction should be signed with different countries including Switzerland.
- Money transfer through hoondi should be stopped by keeping legal provision of punishment. Any government or non-government employee, if found transferring money through hoondi, would be dismissed from the job.
- Laws to be formulated to protect purchasing of "assets without representation" like India. For example:
 - Personal Identification Number (PIN) has to be used for purchasing over US\$ 2000 and cash transaction will be stopped in such cases.
 - This type of assets will be forfeited, if identified.
- Investigation Commission will have to be formed and White Paper will have to be published on the money plundered through share market and national and private banks by the groups like Hall Mark, Bismillah and other influential.
- Money transaction through mobile banking to Thailand and Malaysia regarding recent human trafficking of Bangladeshi and Rohingya need to be investigated thoroughly and we demand an explanation from Bangladesh Bank in this regarding.
- Multinational companies transfer the money to abroad by evading their real income through different ways specially by miss-invoicing. Their income and investment should be audited properly and disclosed publicly. Meanwhile National Board of Revenue needs to be verified the submitted information as well.
- All the political parties of the country should come up in a minimum commitment to take rigorous punitive measures in order to control the illicit money flow (which money is mainly the hard earnings of the Bangladeshi citizen in foreign counties and the poor labor or garments workers). Accountability of the banking sectors, specially the public banking sector to the people must be established. We believe that instead of the confederal politics, a sense of security, dignity and good governance of law & order must be established among the businessmen and all citizens of Bangladesh. If not, then the illicit financial flow will be continued and in the same time brain drain will be happened i.e. the meritorious and talents will leave the country in order to obtain a peaceful, dignified and secured life.



Secretariate: EquityBD, House-13 (Metro Melody, 1st Floor), Road-2, Shyamoli, Dhaka-1207
Phone: 88-02-8125181, 9118435, Email: info@equitybd.net, Website: www.equitybd.net