

# How can we prevent trade-based money laundering in Bangladesh?



NASIRUDDIN AHMED

The budget for fiscal 2020-21 has proposed to impose 50 per cent penalty on misdeclaration of exports, imports and investment in foreign countries. This seems to be a sound proposal from the revenue point of view.

Global Financial Integrity report ranks Bangladesh as one of the top countries facing trade-based money laundering (TBML), which is a significant threat to growth and sustainable development.

This is because there is a rapid expansion of international trade.

According to a report of Transparency International Bangladesh (TIB), some \$3.1 billion, or Tk 26,400 crore, is being illegally remitted from Bangladesh a year.

This syphoning of money is depriving the government exchequer of about Tk 12,000 crore as revenue a year.

Now the pertinent questions are: what is misdeclaration and how to impose a penalty on misdeclaration?

Unfortunately, we don't have any study on TBML in Bangladesh. This article underscores the need for such a study and attempts to outline it.

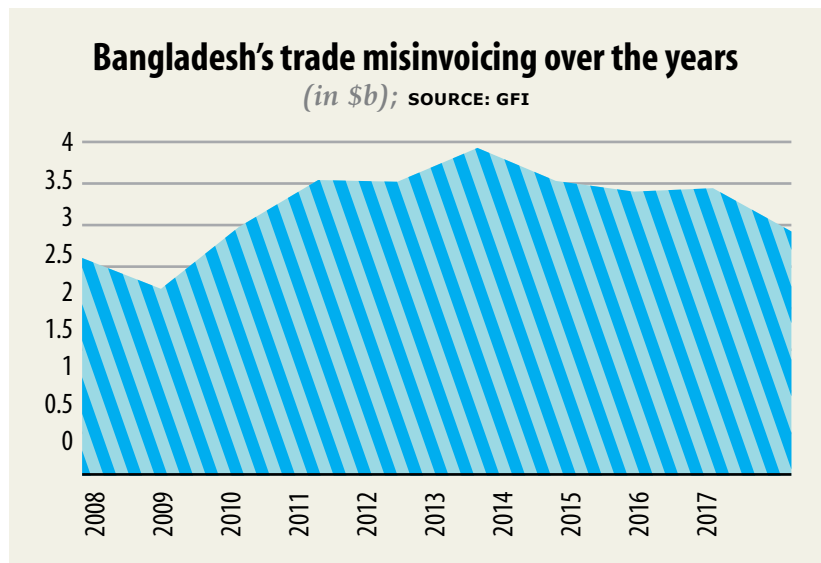
The main objective of the proposed study may be to assess the potential of matched customs and central bank data to (1) detect suspicious international trade transactions, and (2) quantify the extent and characterise the nature of TBML.

The methodological approach may be based on the following aspects:

The combined use of bank and customs records constitutes a rich



RAJIB RATHAN



base of information to detect illicit trade flows, relative to using trade data alone.

- Using the information on financial regulations and customs procedures, the detection of suspicious transactions can be done without imposing an a priori hypothesis on the mechanism or motive for money laundering.

- Statistical analysis for fraud detection can be performed on both sides of the transaction -- the flow of goods and the flow of payments.

- The letters of credit (LC) may be categorised as non-suspicious,

suspicious or undetermined. Non-suspicious observations correspond to LCs that do not seem in breach of existing regulations nor they exhibit any abnormal pattern. Suspicious transactions are those that exhibit features that could be strongly indicative of abuse to the customs system. Undetermined transactions are those that cannot be categorised as unequivocally suspicious.

- For convenience, we can label the three categories of observations as white (non-suspicious), black (suspicious) and grey (undetermined). In the white category, there is a match

between the import data and LC settlement data. In black (suspicious) category, we flag suspicious LCs for which total payment exceeds significantly the amount associated with customs records, and for the grey (undetermined) category, we identify a large set of sub-categories that can be deemed as undetermined (a transaction that cannot be categorised as unequivocally suspicious).

The research design contemplates a number of steps.

First, a small survey may be undertaken to collect qualitative information on the perception of

stakeholders and relevant public officials on the nature, extent and motives of TBML in Bangladesh.

This will serve the purpose of a better understanding of the expectations and needs of the partner organisations, as well as focusing on specific lines of enquiry when analysing the data.

Second, the sample of customs records will be matched with the sample of LC, using the identification number of LCs.

Third, a number of operational definitions may be formulated to detect different types of suspicious shipments and/or suspicious LCs, based both on the bank and customs records. These operational definitions are to be discussed with the relevant public officials.

Fourth, based on the identified suspicious transactions, we may use machine learning techniques on variable selection to back-out the regular patterns associated with potentially illicit trade and bank flows.

Fifth, we will repeat the identification exercise using fraud detection statistical techniques that do not require explicit operational definitions of fraud, to extract additional regular patterns.

We can make a comparison between observed unit values in the customs records and international prices.

However, this is typically only useful in product categories that are highly homogeneous and on sequences of prices that span a long time period. It is proposed to be included when transactions on both export and import sides are available and the data can be extended over a few years, such that price series are rich enough.

An analysis of anomalies in shipments and LCs, according to their types (sight LC, deferred LC, irrevocable LC, etc.) may be useful as well.

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## Govt needs to rally behind the leather goods manufacturers, too

*Sector seeking another stimulus package*



REFAYET ULLAH MIRDHA

Leather goods manufacturers and tanners called for another emergency stimulus package for export-oriented sectors and demanded reduction in source tax to survive the economic fallout of the pandemic.

The manufacturers and exporters in different sectors were able to pay their workers' wages of April, May and June from the government-announced Tk 5,000-crore stimulus package.

But another Tk 10,000 crore is needed for July, August and September as the export-oriented industries are going through turbulence due to a slump in work orders from international retailers, said exporters of leather and leather goods and footwear products.

Work orders for leather goods and footwear products nosedived 62 per cent in June from a year earlier, and there are no signs the situation is going to improve in the months to come as the buyers are not contacting local manufacturers, they said.

## ADB tops up rural road project with \$100m

STAR BUSINESS REPORT

The Asian Development Bank (ADB) yesterday approved a \$100 million loan to expand the coverage of an ongoing rural road network improvement project in Bangladesh, connecting the rural population to agricultural development zones.



The top-up to the \$449.23 million Rural Connectivity Improvement Project can be viewed as a boon for the job creation agenda, as the country battles mounting unemployment.

At least 1.4 million jobs are likely to be lost for the pandemic, according to an estimate of the Manila-based multilateral lender.

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SK ENAMUL HAQ

Offline motorcycle taxi drivers sit idly by in front of the capital's Kamalapur Railway Station yesterday. While all transport service providers have been allowed back on the roads, the ridesharing platforms have been asked to stay away, extending the period of joblessness for thousands of drivers by more than two-and-a-half months now. Desperate, many are now providing rides unofficially, but they are finding a hard time finding customers, who are avoiding two-wheelers for the difficulty in maintaining social distance.

## LankaBangla Finance triumphs despite liquidity pressure

AHSAN HABIB

When the country's financial sector was facing the mounting challenge of liquidity pressure last year, LankaBangla Finance logged handsome growth in its profit.

In 2019, the listed non-bank financial institution's profits rose 14.35 per cent year-on-year to Tk

50.82 crore while its earnings per share stood at Tk 0.98.

"A decrease in losses at one of our subsidiaries, LankaBangla Investments, helped us make a higher profit," said Khwaja Shahriar, managing director of LankaBangla Finance.

It has three subsidiaries: LankaBangla Securities, LankaBangla



Investments and LankaBangla Asset Management Company.

Of them, LankaBangla Investments, a merchant bank, incurred a loss of Tk 18.48 crore in 2019, which was Tk 51.03 crore in the previous year.

Most of the margin loan accounts with the merchant bank yielded negative equity in 2018. This was handled properly by selling shares and adopting some other strategies last year, which is why losses came down.

"This has contributed to the rise in our consolidated profit."

LankaBangla Securities, however, saw a drop in its profit due to the bearish stock market and a decline in turnover, Shahriar said.

The brokerage house's profit fell 55.98 per cent year-on-year to Tk 12.53 crore in 2019 when the Dhaka Stock Exchange's average turnover went down 15 per cent to Tk 480 crore.

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## Steel manufacturers aggrieved about cold shoulder



JAGARAN CHAKMA

The country's steel manufacturers will likely find it increasingly difficult to recover from the ongoing coronavirus pandemic as the government did not include their demands in the budget for fiscal 2020-21, said the Bangladesh Steel Manufacturers Association.

The sector sought for reductions in value-added tax (VAT), advance tax, advance income tax and regulatory tax so that prices would decline at the consumer level, said BSMA Chairman Manwar Hossain.

The price of mild steel (MS) rods decreased 8 per cent to Tk 58,000 per tonne during the last fiscal year, according to market data from the Trading Corporation of Bangladesh.

Following the prolonged shutdown of steel processing mills and lack of sales during the two-month general shutdown that ended on May 30, recovering the losses made during this period would be challenging due to

the current price of MS rods.

"That is why we made these demands. But the government behaved insensitively in a crucial time by not addressing our issues,"

### STEEL INDUSTRY AT A GLANCE

»	Market size: Tk 55,000 cr
»	Employment: 3 lakh
»	Active mills: 40
»	Per capita steel consumption: 45 kg
»	Total demand: >8m tonne in 2019
»	Production capacity: 9m tonne
»	Government consumption: 40%
»	Major players: AKS + BSRM = 50% market share

Hossain said.

The price of MS products will probably increase soon and this could have an impact on almost all of the other industries.

Steel production is a volumetric industry with high sale volumes but low profit.

During the March and April, the steel sector lost a net value of about Tk 3,000 crore by paying workers' wages and other fixed expenditures.

Millers have to pay Tk 1,000 to Tk 2,000 as VAT deduction at source (VDS) for each tonne of MS billets or rods and this is not logical, he added.

If the existing VAT and other taxes on steel production are left in place amid the coronavirus crisis, it may hold back the steady growth made by the sector so far.

This could also harm the related industries such as construction and housing, leading to a disruption in the country's development, the BSMA chairman said.

The current VAT charged on the sale of scrap metal is Tk 1,750 to Tk 300 per tonne, steel billets Tk 2,000 to Tk 450 and rod Tk 2,000 to Tk 450.

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