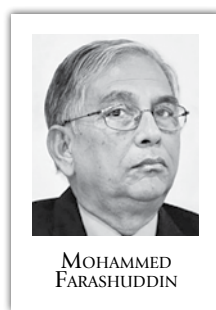


# Black money and undisclosed income: The Bangladesh context



MOHAMMED FARASHUDDIN

**M**ONEY that does not circulate in the open is suspect—either it is outright black money or an accumulation of undisclosed income. The two are very different.

Black money is collected by syndicates, cartels and middlemen

who are seeking to embezzle public and private funds; taking bribes and other forms of gratification in exchange for illegitimate patronage; or over-billing and under-invoicing exports revenue, over-invoicing imports expenditures, wilfully defaulting on bank loans and laundering money abroad. Cheating on tax, non-deposition of VAT collection, non-registration of urban houses/apartments in the guises of "cooperatives" etc; fraud by under-recording the space and paying a lower holding tax rate on urban property; and possible additional remittance of laundered foreign exchange—for example, with a USD 10 billion abnormal hike in remittance, the handler can pocket Tk 1,700 crore as a two percent incentive—all of this also contributes to the creation of black money.

There are a number of examples of when these illegal activities have dominated headlines in Bangladesh. For example, the negligence in bringing to book the perpetrators of major banking scams was widely discussed—such as the snatching of Tk 574 crore from Oriental Bank in 2005; the Tk 3,700 crore Hallmark scam; the illegal banking by Destiny Group, where they took "deposits" at 30 percent interest rate, and transferred crores to personal accounts from the master account; and the AnonTex Group and Bismillah Group scandals. Recently, the alleged billion-taka scams at Evaly have been

brought to the fore, sparking debate on cash-on-delivery payments.

A strange Bangladesh Securities and Exchange Commission (BSEC) rule preventing minority shareholders from seeking directorship unless they have two percent equity; the concentration of economic power (and possible money laundering) that militates against the equity objectives in a welfare state; and diverting industrial credits to secondary share purchases in 2010-11 and using the stimulus package money for

In 1985-86, Dr SA Latifur Reza, the then director-general of the Bangladesh Institute of Development Studies (BIDS), made an important estimate of the black economy, finding it to be as high as a third of gross domestic product (GDP). Another estimate made by Dr Asaduzzaman of BIDS put the size of the underground economy to be 40 percent of GDP. Professor Abul Barkat estimates that black money is in the range of 33 percent of GDP at market price. The then Finance Minister AMA Muhith

The black economy involves economic activities that do not enter into GDP estimates, which are therefore lower than the actual GDP. In any economy, lower than optimal mobility of goods and services and imperfect information shows an artificially low standard of living. The disparities in income, wealth and opportunities are made worse by the concentration of economic power emanating from black money.

An amount of Tk 78 crore was whitened in the 1977-78 budget, Tk 850 crore during 1987-90, Tk 1,000 crore during 2000-01, Tk 4,403 crore during 2005-06, Tk 9,683 crore during 2007-08, Tk 1,213 crore during 2009-10, and Tk 20,600 crore in 2020-21.

The terms under which black money was mainstreamed as above were more or less similar—a flat tax rate of 10 percent without any penalty for investment in specific sectors such as real estate or the capital market. However, in the 2005-06 budget, the flat tax rate was lower at 7.5 percent. It is the credit of former Finance Ministers Tajuddin Ahmed, Major General MA Mumin, M Sydeduzzaman and Dr Wahidul Haque that no whitening of black money was permitted during their time.

A solution to the unearned income issues lies in a transparent registration process of all real estate, land and apartments at prices reflecting the market. In order not to increase the cost burden of registration, income tax, capital gains tax and municipal tax rates should be significantly adjusted downwards. Corruption minimisation monitoring will have to be put in place. As a warning to manipulating sellers, the government may exercise a right of preemption to purchase such properties at the (vastly reduced) registration price. This was practiced in Bolivia in the 1980s.

To the extent that tax cheating, loan defaults, money laundering and possibly manipulated remittance inflow might be interlinked, a strong break at tax fraud, money laundering or both would be an effective

starting point. Completion of automation of the tax administration, coupled with an incentive of commission (for identification of hitherto hidden income), as well as sharing of income tax, value added tax and customs duty realised from new sources, may be tried. A target of a million new taxpayers every year apportioned to tax officials, with appropriate penalty for failure and rewards for success, may be in order. Priority completion of residential flats and fully equipped modern digital offices should also help.

Under-invoicing of exports and over-invoicing of imports and misdeclaration, if monitored, identified and penalised heavily, will have a salutary impact in reaching a tax-GDP ratio of 15 percent by 2025 and 20 percent by 2030.

Effective and just disposal of all cases relating to frauds, scams, financial corruption, trade-related money crimes, money laundering and e-commerce, if done properly, will help minimise the accumulation of black money.

Multiple exchange rates for imports (official), exports (plus one percent) and remittances (plus two percent) hurt the long-term health of the economy. If expert opinion so recommends, an appropriately depreciated exchange rate should replace the multiple exchange rates.

June 30, 2022 should be declared to be the last date for mainstreaming unaccounted-for money—unearned or black. After that date, all amounts outside the open economy will have to be confiscated. Income tax on unearned income may be fixed at 10 percent of the amount. In the case of black money, it will be the standard rate for the taxable income slab concerned. We must consider these ways forward if we are ever to deal with the issue of black money in the Bangladesh economy.

Dr Mohammed Farashuddin is a former governor of Bangladesh Bank.

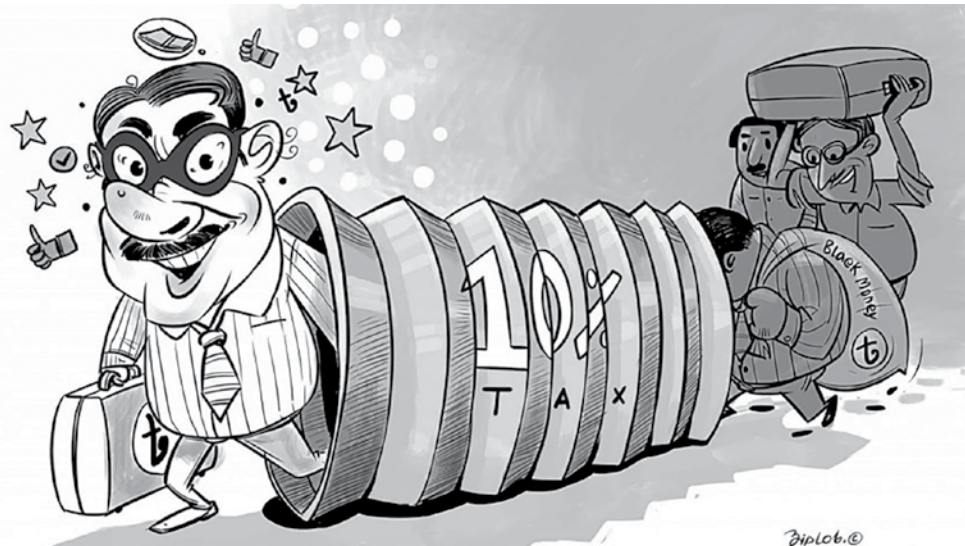


ILLUSTRATION: BIPLOB CHAKROBORTY

share trading in 2021 are all things that have contributed to the vast amounts of black money that are prevalent in the Bangladesh economy.

However, it must be reiterated that black money is very different from undisclosed money, which accumulates due to middle class laxity and/or ignorance of tax laws. Some laws, rules and practices force the selling of land and real estate to register at lower than the market price.

announced during the 2013 post-budget press conference that 41-82 percent of GDP might be outside the mainstream economy. Thus, it is reasonable to assume that the current black money to GDP ratio is around 40 percent. This means that in an economy with a GDP of Tk 2.93 million crore, the size of the shadow economy is Tk 1.17 million crore. During the 2020-21 financial year, Tk 20,600 crore or 1.75 percent of the black money was whitened.

## What Taliban resurgence means for the region

### A CLOSER LOOK



TASNEEM TAYEB

**N**AZAR Mohammad, popularly known as Khasha Zwan, was an Afghan comedian. On July 22, 2021, he was abducted from his home in the south of Kandahar by Taliban fighters. He was abused, beaten up and then shot multiple times. The comedian's crime? He was a member of the Afghan National Police, as alleged by Zabihullah Mujahid, a Taliban spokesperson.

Khasha Zwan is one of the many victims of the Taliban's macabre revenge killings across Afghanistan. The resurgent Taliban is scouting for individuals who have worked for the Afghan government or been involved in actions against the Taliban. With the US eyeing 9/11 of 2021 to completely pull out its troops from Afghan soil, after two decades of their eventful presence, the Taliban are increasingly gaining ground in the war-ravaged country. The terrorist outfit is becoming bolder in their ruthlessness. Earlier in the week, they launched rocket attacks aimed at Kandahar airport, apparently because the government had been using it to launch air strikes against the Taliban.

The Taliban now control a significant part of Afghanistan. Earlier in July, they boasted of controlling 85 percent of Afghanistan—a claim rubbished by the Afghan government. However, over time, the Taliban have spread their dominance in major parts of the country. Their aggressive attacks in the three major cities of Kandahar, Herat and Lashkar Gah continue.

Amidst mounting tensions in the country, more than 1,600 civilians have been killed in the first half of 2021. Some 64 percent of these deaths have been attributed to anti-government forces by the UN. In the face of sweeping Taliban advances, more than 300,000 have been displaced, especially

around Kunduz, Balkh, Badakhshan, Baghlan and Takhar. With brutalities on the rise across the nation, Afghan civilians are living in constant fear of retribution and mayhem. However, the resurgence of the Taliban is not only a matter of concern for the war-torn nation, but for Asia as a whole.

India, Bangladesh, China, Pakistan, Sri Lanka and the Maldives, among other nations, should be wary of these recent developments in Afghanistan. While the Chinese foreign minister officially met Taliban delegates in the Chinese city of Tianjin recently, it was not without its fair share of polite warning. China expressed that it feared Afghanistan could be used as a base by separatists, referring to the East Turkestan Islamic Movement.

While the Taliban delegation has "assured China that they will not allow anyone to use Afghan soil against China," as Al Jazeera quoted Taliban spokesman Mohammed Naem as saying, one cannot fully rule out this possibility, especially amidst the chaos unfolding in the country. However, if China plays its cards right, the withdrawal of US forces from Afghanistan could also lead to a new opportunity to expand its Belt and Road Initiative (BRI) into Asia Minor through Afghanistan. This is unlikely to sit well with India.

India has fought its own battles with China and Pakistan and, over the years, endured some of the worst terrorist attacks in history. In the midst of fighting a global pandemic of epic proportions, the last thing it needs is another threat of terrorist resurgence close to home, or an alliance between Pakistan, China and Afghanistan. Such a scenario would be neither economically, nor politically, pleasant for India.

Bangladesh will have equally pressing concerns. With a history of Bangladeshis migrating to Afghanistan in the 1980s to join the Taliban in the anti-Soviet war and then returning to the country post-Soviet defeat—battle-hardened and well-trained in operating heavy arms—to create unrest internally, the country should be on the lookout to prevent this history from repeating itself. In 1992,



Afghan security forces inspect the site of a car bomb attack in Kandahar province, Afghanistan on July 6, 2021.

PHOTO: REUTERS

Harkat-ul-Jihad al-Islami (Huji) was launched, and many of its members were said to be Afghanistan returnees. This militant outfit had been behind multiple militant attacks in the country between 1999 and 2005, killing more than a hundred people.

There are other militant groups in the country that might now be looking at opportunities to travel to Afghanistan to join the Taliban as well. It has been reported that three members of the militant group Ansar Al Islam have already travelled to Afghanistan, which the police are now investigating. And there remains the possibility of Bangladesh youth being groomed and recruited by militant outfits to join the Taliban. India is not immune to this threat either. In fact, with the internet enabling easy connectivity between

people from various regions of the world, grooming and recruiting unsuspected youth have become easier than ever. And both these countries, along with Pakistan, the Maldives, Sri Lanka and others, should keep their guard up. All these countries have fought terrorist threats in the past and these separatist, terrorist elements might now see new opportunities with the resurgence of the Taliban.

While certain groups are accusing Pakistan of aiding the Taliban, strategically it is not a fruitful course for the nation, as it would pose significant internal security threats. In view of the worsening situation in Afghanistan, Pakistan's military and intelligence chiefs held a parliamentary committee briefing where all the political parties decided "to stand behind the army" in this situation, despite their

political differences, as reported by the media.

It is to be noted here that the Afghan Taliban had earlier captured Spin Boldak bordering Pakistan and the situation there has been tense, resulting in closure of a crossing that was only recently reopened. In the midst of growing tension in the bordering regions, many are entering into Pakistan and Iran to flee persecution. While Pakistan and China's roles in handling the situation in Afghanistan are still vague, one hopes they will be able to assess the long-term repercussions of the Taliban's re-emergence and act in the greater interest of the region.

Observers are of the opinion that China and Pakistan are playing with a double-edged sword here. According to them, support for such a militant outfit offers both strategic threats and opportunities, but in the long run, the threats will outweigh the opportunities.

With the re-emergence of the Taliban, Afghanistan has become a potential hotbed for terrorism and criminal activities. If the Taliban is allowed to pursue this course with impunity, soon they will destabilise the country, posing a risk to the entire region. While considering the lack of control of the Afghan government in containing the situation, it has become important to initiate regional dialogues to support the Afghan government in curbing the growing encroachment of the Taliban.

The international community, especially Asian and South Asian countries, including China, Pakistan, India and Bangladesh, should now look beyond individual interests and consider the long-term implications of a strong Taliban presence in Afghanistan. In order to fill the void left by the retreating western forces, a dialogue that includes all regional players and the Afghan government in achieving a consensus on concerted regional action to combat the deep-rooted Taliban influence has become imperative.

In the face of growing uncertainties, regional cooperation is the only way to achieve long-term stability in Afghanistan and the region as a whole.

Tasneem Tayeb is a columnist for The Daily Star. Her Twitter handle is: @tasneem\_tayeb

**QUOTABLE Quote**  
  
**MICHEL FOUCAULT**  
(1926–1984)  
French philosopher  
*Justice must always question itself, just as society can exist only by means of the work it does on itself and on its institutions.*

**CROSSWORD BY THOMAS JOSEPH**

**ACROSS**

- 1 Partners
- 6 After a while
- 11 Grownup
- 12 Electrified
- 13 Sweet snacks
- 15 Paintings and sculpture
- 16 Deli bread
- 17 Fury
- 18 Some terriers
- 20 Dramatist Jonson
- 21 Green and Gore
- 22 Ship's pole
- 23 Door-slamming play
- 26 Shopping centers
- 27 Touch on
- 28 Deep groove

**DOWN**

- 1 Showy parrot
- 2 Love to pieces
- 3 Clumps of grass
- 4 North Pole worker
- 5 Like surgical tools
- 6 Oxford parts
- 7 In the style of

**8 Place to order a mai tai**

- 9 Himalayan peak
- 10 Bristles at
- 14 Peepers
- 19 Diplomatic skill
- 22 School subject
- 23 It may be sprayed on
- 24 Chisholm Trail end
- 25 Search, as at a sale
- 26 Broadway show
- 28 Tire holders
- 30 Sprite
- 31 Racket
- 32 Door sign
- 33 Lab work
- 38 Sleep site
- 39 Employ

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**YESTERDAY'S ANSWERS**

S	P	L	A	T	P	I	N	E	S	
C	L	O	N	E	L	O	A	N	S	
R	U	N	T	S	A	N	G	L	E	
A	T	E	T	A	N	W	A	N		
M	O	R	T	A	R	B	O	A	R	D
C	A	N	O	E	S	T	E	E	R	
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S	E	E	S	S	E	E	D	S		

**BEETLE BAILEY BY MORT WALKER**

**BABY BLUES BY KIRKMAN & SCOTT**