

Can illicit financial transfers be controlled?



IFTEKHARUZZAMAN

ACCORDING to the latest report of the US-based NGO Global Financial Integrity (GFI) on trade-based illicit financial transfers,

between 2009 and 2018, Bangladesh lost a staggering USD 8.275 billion (Tk 71,000 crore) per year, on average, through misinvoicing in export and import trade. The amount is reported to account for over 17 percent of the annual international trade value of the country.

As stunning as it is, the estimated average loss to misinvoicing, which implies deliberate over-reporting or under-reporting of the value of imported or exported goods to the customs authority, is only a part of the total volume of illicit financial transfers out of the country, widely known as money laundering.

Firstly, due to the lack of data for Bangladesh for the years 2014, 2016, 2017 and 2018, the GFI had to estimate the average annual outflow on the basis of the figures from 2009-2013 and 2015. Notably, the estimated transfers for the years for which data were available showed an upward trend, having increased from USD 5.212 billion in 2009 to USD 11.871 billion in 2015. The reasonable conjecture, therefore, is that in the subsequent years (2016-2019), the annual illicit outflow on account of misinvoicing could only be higher than USD 12 billion.

Secondly, as in the cases of most other poor and developing countries, illicit financial outflows take place in several other different ways. These include movement of money and wealth acquired, transferred or spent across borders in various illegal and corrupt means, like drug and human trafficking, arms trade or trafficking,

and the age-old methods of hundi as well as such provisions as "investment visas" or "golden visas" for residency.

Most of such illicit transfers take place in processes that are hard to accurately estimate. The Transparency International Bangladesh (TIB) identified two additional categories of illicit financial transfers. One of them involves foreign workers employed in Bangladesh, and the other is related to the exploitation of Bangladeshi migrant workers.

A study released in 2020 showed that a section of foreign nationals, employed mostly in the private sector, illicitly transferred out of Bangladesh an estimated USD 3.15 billion (Tk 26,400 crore) annually. At least USD 1.35 billion (Tk 12,000 crore) of revenue was annually lost due to tax evasion on this account.

The other channel of illicit transfers that the TIB exposed earlier in 2017 was related to the illegal charges collected by the recruiting agencies from Bangladeshi migrant workers on account of visa issuance to seven selected Middle Eastern and Southeast Asian countries, the bulk of which—over USD 615 million (Tk 5,234 crore)—was illicitly laundered in 2016 alone to the destination countries.

If one goes on to add illicit transfers through hundi and other means used by Bangladeshi customers of the likes of Malaysian Second Home or Canada's Begum Para, the total amount will be mind-boggling.

The lion's share of illicit transfers globally take place out of the poor and developing countries to richer countries and offshore territories in trillions of dollars every year. Illicitly transferred money and wealth from Bangladesh also ultimately end up in developed countries. In each destination of illicit transfers, there are powerful syndicates of highly skilled law firms, trust companies, offshore specialists, real estate agents, accountants, regulators, and banking and financial services companies that collectively facilitate the secret deals.

The data that was recently disclosed in the Pandora Papers show, for instance, the growing role of the US as a haven for illicit transfers. While the US federal authorities have made useful efforts to control the international dimension of the menace, domestically it has been persistently failing to practise what it preaches, as it continues to sustain provisions to establish tax-free secret trusts as investment

reducing poverty and inequality, and building socioeconomic infrastructure like schools, hospitals, roads, bridges, housing, etc, as well as promoting public welfare through social safety nets. No less important are additional hundreds of millions lost in terms of potential revenues due to tax evasion.

Given the attractive opportunities prevailing in the destinations, prevention and control of illicit

the Anti-Corruption Commission (ACC) created for this purpose, it demonstrated that repatriation of illicitly transferred money and wealth was possible.

What was needed then in terms of the scope for international collaboration are still available—at a more advanced stage, in fact. On its own, Bangladesh also has a relatively strong anti-money laundering law and designated institutions to enforce the relevant legal provisions through national and international collaborations.

It is not known, however, whether there exists a similar level of appetite for rigorous and collaborative initiatives from the relevant authorities within the country, backed by determination and the will to ensure accountability. The question that remains is: If it was possible once, what prevents the same from happening further?

The failure to effectively stop money laundering is not due to the absence of laws, policies, institutions, or capacities and skills, or even complexities involved in securing cooperation of the destination countries. Given that money laundering is a near monopoly of the powerful, the problem lies in the deficit of courage and commitment to act without fear or favour.

One vital could be the relevant authorities—especially the ACC, the Criminal Investigation Department (CID) of police, the Attorney General's Office, Bangladesh Financial Intelligence Unit (BFIU), and the National Board of Revenue (NBR)—coming together to track the process of the successful repatriation of stolen money from Singapore. Together, they could prepare a checklist of things to do and act accordingly with commitment, courage, patience and perseverance, without being influenced by the identity or status of the individuals involved in illicit money transfers.

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Prevention and control of illicit transfers and money laundering remain highly complex challenges for countries like Bangladesh. ILLUSTRATION: COLLECTED

opportunities out of illicit transfers in many of its states.

Developed countries are indeed the net beneficiaries of illicit transfers. Being the demand side, they facilitate, promote and sustain illicit transfers through such means as secrecy of beneficial ownerships, banking secrecy provisions, weak supervision, and sanctions. Such manipulations in the destination countries contribute to the complexity of enforcement of the existing national and international anti-money laundering and asset recovery mechanisms.

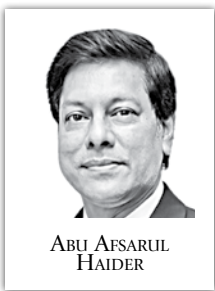
On the other hand, for the supply side countries like Bangladesh, in addition to the criminality of the process itself, illicit transfers mean billions of dollars of direct capital flight that could be used in investment for economic development, creating jobs,

transfers and money laundering remain highly complex challenges for countries like Bangladesh. Nevertheless, it is not impossible to prevent, detect and repatriate such stolen assets, thanks to the increasingly advanced international arrangements created over the recent years, such as the UN Convention against Corruption. These include the mutual legal assistance facility between the supply side and demand side to take joint actions to prevent, control and recover illicitly transferred wealth, and hold the perpetrators to account.

Bangladesh already took advantage of such international collaboration when illicit income of a high-profile politically linked individual was successfully repatriated from Singapore. Although it took nearly five years (2008-2013) for the money to be transferred to a special account of

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To keep Bangladesh moving forward, we need urgent actions



ABU AFSARUL HAIDER

IN 1971, when Bangladesh emerged victorious from the Liberation War, many doubted that the country could survive

as an independent state. Fifty years later, those doubts have been put to rest. Our GDP has grown from USD 6.2 billion in 1971-72 to USD 409 billion in 2020-21, and our per capita income has risen from USD 135.62 in 1970 to USD 2,554 at present. Foreign exchange reserves now stand at around USD 46.21 billion. The country officially achieved lower-middle-income status in 2015 and is on course to graduate from the LDC status in 2026.

Alongside economic growth, the country has achieved significant social progress. The average life expectancy at birth has risen from 39.93 years in 1971 to 72.8 in 2020, child mortality rate decreased to 30.8 deaths per 1,000 live births in 2019, and the literacy rate has more than doubled since 1970.

However, there are a few issues that are undermining decades of development efforts and need urgent attention. Of these, income inequality is a major concern. According to the World Inequality Report 2022, only one percent of Bangladesh's population held 16.3 percent of national income in 2021, and the bottom half held 17.1 percent. Research suggests that the number of ultra-wealthy people in Bangladesh increased faster than in any other country in the world between 2010 and 2019. Bangladesh was ranked first among the top 10 fastest growing wealth markets in the world during the period, where wealthy people with more than USD 5 million in net worth increased by 14.3 percent a year on average.

Additionally, while Bangladesh has made remarkable progress in expanding primary education, especially in terms of enrolment and gender parity, there are serious concerns surrounding the quality of education. At the tertiary level, we have failed miserably. No Bangladeshi university found a proper place in the QS World University Ranking 2022—Dhaka University and Buet were placed in the 801-1000 range, while our best private universities ranked even lower.

Despite exceptional economic growth, we have failed to create

adequate jobs. Different studies show that between 2013 and 2017, while the average annual GDP growth was 6.6 percent, the average annual growth of jobs was only 0.9 percent. The employment share of the manufacturing sector actually declined from 16.4 percent to 14.4 percent. At present, there are 2.1 million unemployed and 13.8 million underemployed people in the country. The situation has only been exacerbated by Covid-19—ILO data suggests that an additional 1.12-1.68 million youth might be unemployed due to massive disruptions in economic activities and labour markets.

Urbanisation and environment is another area of concern. In the 2020 Environmental Performance Index (EPI), Bangladesh ranked 162nd out of 180 countries. Our cities are growing in an unsustainable manner, and parks, open spaces, rivers, canals and waterbodies are gradually disappearing. Pollution and encroachment are the major culprits. According to the Bangladesh Water Development Board (BWDB), out of the 310 rivers in Bangladesh, 175 are in a miserable state and 65 are almost

physicians, medical technologists, nurses and clinical equipment. Currently, there is one registered physician per 1,847 people, and one government physician per 6,579 people, according to the Bangladesh Medical and Dental Council (BMDC). Patients, especially the poor and disadvantaged, end up seeking healthcare from non-qualified providers in the informal sector. Every

Research suggests that 41 percent of all our improved water sources are contaminated with E. coli bacteria, which was present in 80 percent of private piped-water taps sampled across the country, suggesting a high prevalence of faecal contamination. Although the country has successfully eliminated the practice of open defecation, about 50 million people still use shared, rudimentary toilets,

and only 28 percent of toilets are equipped with soap and water. In urban areas, slums have poor access to clean water, and slums in large cities have five times less access to improved sanitation.

In addition to the factors discussed above, corruption, rising anti-social activities, poor and inefficient infrastructure, low levels of female labour force participation, low tax-

GDP ratio, a lack of good governance, etc are threatening to undo some of our hard-earned successes.

While we rejoice and celebrate our achievements, we also need to take immediate action to resolve these issues in a sustainable manner, in order to generate continuing development.

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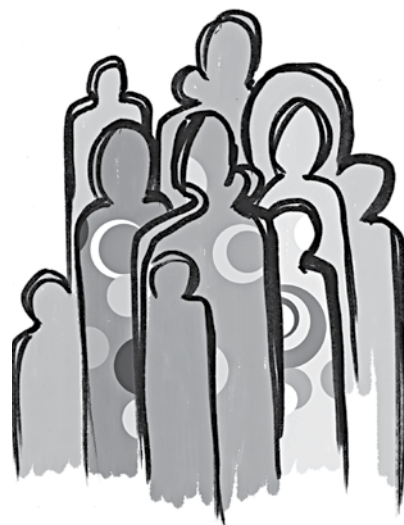


ILLUSTRATION: MANAN MORSHED

Alongside economic growth, the country has achieved significant social progress.

dead. Eighty percent of the rivers lack proper depth. Since 2018, Dhaka has been ranked as one of the most polluted cities in the world.

In a country this polluted, it does not bode well that Bangladesh's investment in health is one of the world's lowest (less than one percent of GDP). Even after 50 years of independence, the country's healthcare sector is in shambles. There is a severe shortage of

year, a large number of people—including politicians, businessmen and even ordinary people—go abroad for medical treatment due to a lack of confidence in our healthcare system. The Bangladesh Investment Development Authority (BIDA), using data from Health Bulletin, estimates that Bangladeshis spend around USD 2.04 billion annually on healthcare abroad.

The healthcare problem is compounded by issues related to nutrition. According to a recent study by the UN Food and Agriculture Organization (FAO), between 2018 and 2020, the number of people without food security in Bangladesh increased by 2.4 percent to a whopping 52 million. The report further said that nearly two-thirds of regular diets include mostly rice, some vegetables, a little amount of pulses and small quantities of fish—if and when available. Moreover, with rising prices of daily commodities and reduced income due to the ongoing pandemic, low- and middle-income households are unable to afford a nutritious diet. Bangladesh is also lagging behind in providing appropriate nutrients to infants and young children—most suffer from high rates of micronutrient deficiencies, particularly vitamin A, iron, iodine and zinc deficiencies.

On top of that, we are faced with water and sanitation issues.