

Money Laundering - Economics of the Crook

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Abstract

'Money laundering' literally suggests cleaning of dirty money originating from crimes and should not be confused with modus of converting black money into white. It is in fact a highly sophisticated, multi layered operation through banking channels, originating mostly from off-shore banks, to convert crime proceeds into clean money. Global investigations have established beyond doubt that money laundering is the largest source for funding of terrorism. This precisely has made money launderers internationally recognized as the deadliest, organized criminal network which no single country, not even the US, is capable of combating all by itself without multilateral co-operation. Over fifty percent of laundered dirty money is sourced to drug trafficking which, according to 2009 estimate of United Nations Office on Drugs and Crime (UNODC) works out to 2.7% (or US \$ 1.6 trillion) of global GDP. The extent of money laundering at present is estimated to be close to 5% of global GDP, at the peak of the 2-5% range suggested by the IMF as far back as 1998. According to fairly reliable estimate, the largest quantum of dirty money (about US \$ 1.3 trillion) is laundered annually in the US alone. With a view to combating money laundering and financing of terrorism, the Financial Action Task Force (FATF) was established by the G-7 Summit held in Paris in 1989. At present, member countries of FATF (including India) number 36. So far, the FATF has made Forty Recommendations (general) and Nine Special Recommendations for compliance by member countries. There is a provision for black-listing of non-compliant /non-co-operative member countries. Some of the important recommendations of the FATF for member countries are to criminalize money laundering by legislation, to provide for confiscation of the proceeds of money laundering and prosecution of the persons involved, to set up Financial Intelligence Units (FIU) to collect, collate and disseminate suspect transaction reports, and mandatory international co-operation in investigating and prosecuting money laundering. Extensive, well-co-ordinated and in-depth investigation undertaken globally over the last three decades has revealed the underlying psyche and the highly sophisticated modus operandi of money laundering the world over. Experience has also shown that, if not combated effectively and on time, unrestrained money laundering leads not only to the entrenchment of a parallel economy but eventually to the capture of political power by the crooks. Quite a few top corporate houses and leading financial institutions, driven primarily by a profiteering motive, have been found as getting involved in money laundering knowingly and, at times, unwittingly.

India with its disorganized and largely non-compliant trade, all-pervasive corruption, spurt of terrorism and intrusive government regulations, is a soft target of money

launderers. There has been no substantial achievement in the matter of combating money laundering or funding of terrorism even after the enactment of the Prevention of Money Laundering Act, 2002 and setting up of the FIU. The extent of money laundering by Indian depositors in Swiss Banks has been a subject of wild guess as the launderers rarely reveal their real identity and often claim their right to secrecy with the banks. Official data released by the Swiss Central Bank at the end of 2012 relates only to accounts held by genuine account holders who have not used any code name or pseudonym. According to the said source, total Indian deposits in Swiss Banks are a meager 1.42 billion Swiss Francs (equal to Rs. 9000 crores only), relegating India to 70th position from its erstwhile 55th position a year before with 2.18 billion Swiss Francs. So far, India's approach to Swiss Bank authorities for supplying details of Indian accounts on the ground of the same being black money has drawn a blank. There are strong reasons to believe that the laundered proceeds of crime deposited in Swiss Banks are shrouded by cover of secrecy and are not easily identifiable by linear inquiries, innocuous queries, or general references. Ultimately, the most effective anti-dotes to money laundering are collective awareness, skilled investigation and global co-ordination.

Speaker's Profile

Asish Kumar Raha is currently an Advocate, Special Counsel for Govt. of India (CBEC). Earlier he was with the Indian Revenue Service (1971- 2008). He held his last post as - Member, Central Board of Excise & Customs. He has represented India in IPR Enforcement Meetings at Geneva under the auspices of World Intellectual Property Organisation (WIPO). He has advised and assisted Empowered Committee comprising Finance Ministers of States in VAT implementation in seven North Eastern States. He has also attended several international seminars and conferences, notably International Customs and INTERPOL interaction meet at Canberra, Australia, under the auspices of World Customs Organisation. He has authored a book titled: Evolution of Calcutta Customs. He has Specialized in e-governance, prevention of money laundering, IPR laws enforcement, Customs enforcement, VAT and other related subjects.