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Money Laundering Hinders the Growth of the Economy of a Country

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Abstract

The worldwide prevalence of money laundering poses a serious risk to the security of monetary systems and economies everywhere. This study offers a theoretical explanation of money laundering and describes the steps that make up the process in detail. In addition, it delves into the digital approaches used in money laundering, illuminating the many processes that take place via internet-connected devices. To get a whole picture of the problem, it's crucial to know what money laundering is, why it happens, and how it hurts businesses and economies, as the author explains. Almost everywhere on Earth, money laundering is considered a serious crime, thus the most prosperous nations have put in place stringent safeguards to prevent it. The article looks at the ways in which money launderers get around these restrictions and use novel, unlawful strategies to clean their money before using it. Researchers observed that money launderers use strategies including "layering," "integration," and "placement" to avoid getting caught and prosecuted. Online platforms, digital currencies, and anonymous payment methods all provide new ways for money launderers to hide their transactions, making electronic money laundering a growing concern as well. This presentation offers a synopsis of the problem of money laundering and the damage it does to economies all around the world. This highlights the need of governments, financial institutions, and law enforcement organizations maintaining their efforts to tackle this threat. Money laundering is a serious problem that calls for increased attention and the creation of new methods to detect and stop it.

Keywords: money laundering, crime, economies, internet-connected devices, digital currencies.

INTRODUCTION

The American Mafia used cash-intensive "washing salons" they acquired or formed to "launder" illegal funds, hence the phrase "money laundering" [1]. Money laundering, by definition, occurs outside of the normal range of economic statistics. However, early estimations have been offered to provide some measures for the problem, as has happened in other sectors of illicit commercial activity. It is estimated that between two and five percent of global GDP comes from illegal sources. It was estimated that between 590 billion and 1.5 trillion US dollars were laundered in 1996. The smaller sum is comparable in value to Spain's total economic output. The proceeds from criminal activities such as drug trafficking, prostitution, arms trade, smuggling, and smuggling are substantial. Because of the high potential returns from illegal activities including tax evasion, market manipulation, extortion, and cyber fraud, there is a strong motivation to "validate" illegitimate revenues through money laundering. Although cash is still the preferred method of conducting illegal transactions, there is a growing trend of using online banking, cyber money, and electronic purses to engage in illegal financial dealings. Most criminal acts are motivated by the desire to gain financial gain. Processing illicit funds in a way that belies their true provenance is known as "money laundering." Because of this process, money launderers are able to profit without jeopardizing their funding.

Corruption at all levels of government and the commercial sector in Bangladesh results in billions of taka leaving the country illegally each year for use in other developing nations. The prosecution of financial crimes is guaranteed by law in every country, including Bangladesh, and moral and ethical standards for conducting business are established at the local level in every society [2]. Thus, it may be claimed that money laundering is the process of making the origin of dishonest and/or fraudulently obtained monies appear to be a lawful one. Laundering illicit funds is thus known as money laundering. Two distinct categories of illegal monetary exchanges exist. One definition of money laundering is "the practice of moving illegally obtained funds in order to hide their origin and make them appear legitimate." Drug traffickers may, for instance, use banks to launder their illicitly obtained funds so that it appears like they came from a more respectable source. The second aspect of terrorism financing is the diversion of legitimate cash for terrorist activities. Donations to legal charity are sometimes diverted to support terrorism. Finally, the illicit and harmful transfers of funds are common to both types of money laundering. It's terrible for society since criminals can profit from their activities through money laundering [3]. All political parties in opposition have been uniformly opposed to legalizing illegal funds, and many finance ministers have gone on record saying that doing so would be unfair. However, for decades, governments at all levels had given in to invisible forces when setting annual national budgets.

The discussion over black money is revived annually by civil society members, prominent economists, and a wide range of groups like Transparency International-Bangladesh (TIB), all of which agree that this indemnity is counterproductive. This was a demand made by vested interests during pre-budget discussions under the umbrella of real estate and stock brokers [4]. As a result of his previous failures, the Finance Minister initially states that the government does not want to continue providing the whitening opportunity and is instead searching for ways to abolish it [5].

The possibility, however, will be brought back this year, as stated in a later post citing NBR officials. Given the ACC's recommendation and the forthcoming budget provision for more mercy for BMHs, it is timely to reflect on prior options, public reactions, and the ensuing repercussions of corruption and money laundering.

OBJECTIVE

Examine the state of money laundering disclosure in Bangladesh and its effect on the country's economy.

METHOD

The research tends to take a qualitative approach. The meta-data from previous study literature and scholarly papers were utilized in the qualitative research that was carried out. In order to locate earlier research works that may be incorporated into the meta-analysis, the researcher searched different databases from Bangladesh Bank circulars, a number of publications and research articles from a variety of journals, local media, websites, and other sources for the purpose of developing the theoretical foundations of the study using keywords connected to the topic: money, money laundering, the process, fighting money laundering, and related terms. The researcher also looked through the reference lists of other summaries to see whether they contained any pertinent publications that the computerized search had overlooked.

The researcher used these search strategies to randomly identify more than 30 studies, and then screened them to evaluate whether or not they were relevant. The researcher did not include certain studies because they had already been covered in other areas. Following an analysis of the studies using the inclusion criteria as a guide, 10 and 5 papers were chosen for inclusion. The reference section contains a list of all the studies that were considered for inclusion in the meta-analysis.

THEORITICAL FRAMEWORK

In order to conceal the origins of dirty money, money launderers often resort to convoluted financial dealings. It is common practice in illegal operations, as it allows criminals to spend their profits without drawing the attention of law enforcement, but it has also been used to avoid paying back creditors. To launder one's money means to alter its appearance. throughout addition, it spreads like a virus throughout the banking system. It's simple to define yet complex in use. To launder money is to conceal its origin as ill-gotten gains. Money launderers, in general, take funds obtained through unlawful means and attempt to transform them into legally usable funds. It's common practice to use these so-called "money laundering" techniques. Money laundering occurs in three distinct phases. Criminals engage in money laundering when they attempt to make their illicitly obtained funds appear legitimate through a series of financial transactions and wire transfers.It is believed that money laundering accounts for 3-5% of worldwide GDP.

Of Money Laundering

Several layers of money laundering use seemingly legitimate commercial dealings to obfuscate the trail back to the original source of the funds.

The underground hawala or "hundi" system, which is used to transfer money and valuables outside of the conventional banking system, continues to be the most exploitable entry point for money laundering. Bringing back money earned by Bangladeshis working abroad is the primary function of the hundi system. Despite recent improvements in transfer times offered by banks, hundi continues to thrive as a means of payment because of the taxes, customs fees, and currency controls it circumvents.

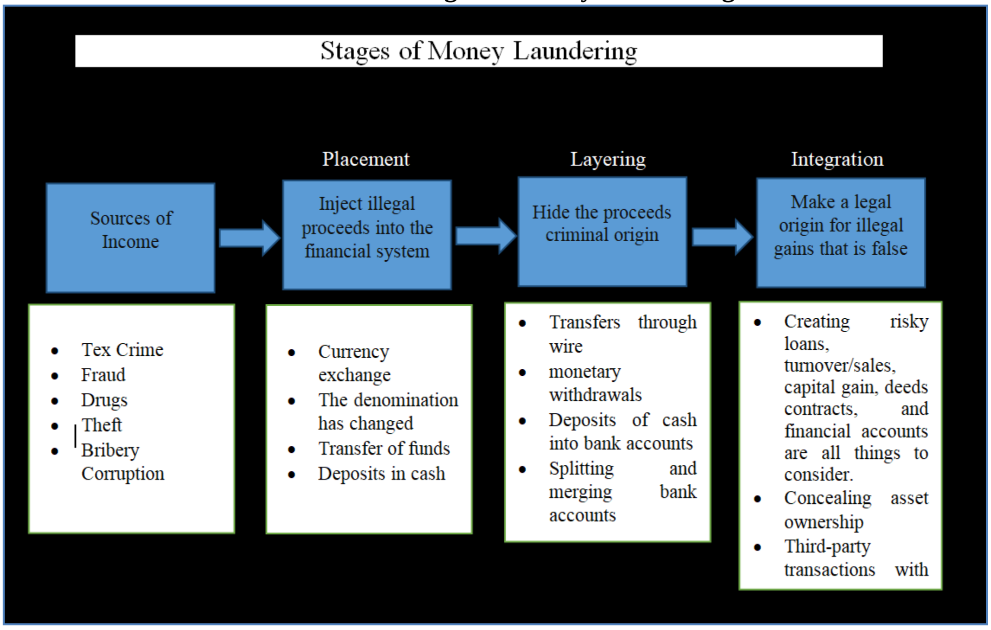
Money laundering typically entails the incorporation of "dirty" funds into a service company, where they can be mixed with clean funds and subsequently reintroduced into circulation.

Acquiring, possessing, or using property with knowledge that these are derived from criminal acts; knowingly aiding or participating in the movement of funds by concealing or disguising the nature of the proceeds; concealing the fact that the proceeds were obtained through criminal means.

Money obtained by unlawful means such as extortion, insider trading, drug trafficking, embezzlement, or gambling is considered "dirty" and must be "cleaned" before it can be handled by financial institutions. There is a wide range in the sophistication and complexity of money-laundering techniques.

There are typically three stages to money laundering: placement (the introduction of cash into the financial system), layering (the use of complex financial transactions to hide the illicit origin of the cash), and integration (the acquisition of wealth generated from the transactions of the illicit funds). Depending on the specifics of the situation, it may be possible to skip some of these procedures. Non-cash proceeds existing in the financial system, for instance, would not require placement.

Table 1: The Stages of Money Laundering



Bangladesh's Current Situation: Invoice Fraud, Money Laundering

While it may be true that money laundering "creates macroeconomic distortion," it also has other negative effects on our economy. Those are some strong words. Furthermore, the facts demand that we use harsh language when describing the scourge of money laundering in Bangladesh. Several recent reports by Global Financial Integrity (GFI) have named Bangladesh as being one of the worst-hit nations by the global money-laundering epidemic. When it comes to developing and emerging economies, "illicit financial flows" constitute the biggest challenge, according to GFI President Raymond Baker. This shows that we are among the nations hit most by one of the gravest challenges (among many) that developing nations face.

A report titled "Annual Banking Data for 2022" was released by the Swiss National Bank on June 15th.Tk8,265cr was deposited by Bangladeshis in Swiss banks in 2021, a new all-time high.The total amount of money held in Swiss banks by Bangladeshi citizens and businesses grew to an all-time high of 871.1 million Swiss francs (CHF), or around Tk8,265 crore, in 2021, up 55% from the previous year's total of 562.9 million CHF. Indian deposits increased by 50% to 3,828.9 million Swiss francs, making it the largest total in South Asia. This was followed by Bangladesh, Pakistan, Nepal, Sri Lanka, Afghanistan, the Maldives, and Bhutan. Deposits from Pakistanis grew by 10% to a total of 705.95m CHF. The SNB reports that the "total liabilities" of Swiss banks holding cash from Bangladeshis comprises deposits from people, other banks, and businesses. The amount deposited by Bangladeshi individuals in Swiss banks in 2021 decreased by 18% year over year to 26.3 million CHF, while the amount deposited by banks climbed by 59% to 844.5 million CHF [6].

The four categories of illegal financial activity that the GFI targets are: overcharging for imported goods; Hundi; and Voice over Internet Protocol (VOIP) in international trade. Launderers' undue political influence, a hostile investment climate, a government system rife with corruption, a lack of rule of law, public openness and obligation, ineffective state surveillance, a lack of coordination among relevant entities, and a failure to implement existing laws are all factors that contribute to the prevalence of money laundering [7].The SNB reports that the "total liabilities" of Swiss banks holding cash from Bangladeshis comprises deposits from people, other banks, and businesses. The amount deposited by Bangladeshi individuals in Swiss banks in 2021 decreased by 18% year over year to 26.3 million CHF, while the amount deposited by banks climbed by 59% to 844.5 million CHF.

The data on Bangladeshi participation in Malaysia's 'Second Home Project (MM2H)' are similarly gloomy. There were at least 283 and 205 Bangladeshis who became homeowners in Malaysia thanks to this initiative in 2016 and 2015, respectively, according to data provided by the Malaysian government [8]. As of the end of November 2018, there were 4,255 Bangladeshis living in Malaysia who had purchased property, making them the third largest group of foreign buyers in the country [9].

Bangladesh is third among the top ten countries participating in the Second Home program, behind only China and Japan. In 2005, 852 people from Bangladesh took advantage of the chance. Ten percent of the current program participants are citizens of Bangladesh. According to the official Malaysian government website, election periods saw a spike in the number of Bangladeshis relocating to Malaysia. There were 852 Bangladeshis who relocated there in 2005 in anticipation of the ninth parliament elections in 2007.

The figure was 388 in 2012, right before the eleventh national election [10]. On June 17th, the Swiss National Bank released a report titled "Annual banking data for 2020." The analysis found that by 2020, Bangladeshi deposits have decreased by 6.6% to 563 million Swiss francs (56.3 crore), which is equivalent to about Tk 52.03 billion (5,203 crore). Tk 92.28 is the same as 1 CHF. There was a total of 603,000,000 Swiss francs (60.3 crore) in deposits. For the past three years in a row, Bangladeshi deposits have been decreasing [11].

Researchers were able to identify more than fifty different companies and businesspeople. They all took the cash and buried it in offshore companies. Large corporations in Singapore, Dubai, Hong Kong, Thailand, the United Kingdom, and the United States are owned by Bangladeshi merchants. The media has claimed that Bangladeshis are purchasing real estate in Malaysia and Canada. In other words, everyone knows this. To get money out of Switzerland, banks are no longer necessary [12].

The Effect of Money Laundering On the Bangladesh Economy

Money laundering has the direst microeconomic effects in the private sector. By mixing criminal proceeds with legitimate funds, money launderers are able to disguise their ill-gotten gains through front firms. There appears to be a rise in the export of cash across borders into countries with less than stellar methods of tracking the origin and destination of currency. The effects of money laundering are disproportionately negative in developing economies.

Companies used in criminal activity often use undercut pricing to make a profit. This makes it difficult, if not impossible, for legitimate businesses to compete with front firms. The management philosophies of these underground businesses are antithetical to those of the free market.

There are specific challenges associated with managing a financial institution's assets, obligations, and activities that involve criminal proceeds. Laundered money can be brought into a bank in large amounts and then disappear without a trace. Shortages of cash and bank runs may follow [13].

In certain nations, entire businesses have been financed not by genuine demand but by the short-term objectives of money launderers. When money is laundered or stolen, it is diverted from productive investment into criminal enterprises where the gains are hidden, harming the economy as a whole.

Loss of Revenue

Taxpayers who are honest bear the indirect costs of money laundering since it reduces government revenue. It raises the cost of collecting taxes and complicates matters. Tax rates are typically greater than they would be if the untaxed proceeds of crime were legitimate because of the revenue loss.

Attempts at Privatization Are Fraught With Danger

Many nations' attempts to reform and commercialize their economy are threatened by money laundering. In order to launder their money and grow their illicit operations, criminal organizations have been able to purchase marinas, resorts, casinos, and banks.

A Threat to the Country's Image

Money laundering can't tarnish a nation's image or financial institutions. Deception, manipulation, and misappropriation harm money laundering and financial crimes like Market trust.

Bangladesh lost $61.6B (25% of GDP) due to smuggling from 2005-2014, says GFI. Bangladesh lost USD 7.53 billion annually from trade rounding errors between 2008 and 2017, which is almost 18% of their total foreign trade (Jamal, 2020). Bangladesh passed the

Money Laundering Prevention Act in 2002, becoming the first South Asian country to do so as per FATF recommendations. Experts criticize government's implementation efforts. Global group skeptical of government's anti-money laundering efforts. In 2016, the organization cautioned the government that Bangladesh could be considered a "risky" country for money laundering and terror financing [14].

Disturbance in the Economic Climate

By delivering goods at prices below the cost of production, money laundering stunts the expansion of the genuine private sector by making legitimate businesses unappealing. In an effort to wash their dirty money, criminals may turn successful businesses into money-losing operations. Middle East Publishers, Dubai, United Arab Emirates 386 GDP in its entirety. Unpredictable shifts in the demand for money and widespread market instability in international financial markets and currency rates are two potential outcomes of money laundering.

Financial System Decline

Finance is important for the economy but can also be used for money laundering. Dirty money can harm financial market integrity. Money laundering harms financial institutions' reputations, leading to a loss of confidence and cooperation. Money laundering can lead to banking crises and financial disasters**.**

Federal Revenue Decrease

Money laundering hurts tax collection by making it impossible to collect taxes from connected underground operations. Taxes fund most of the government. Lower-income = a higher chance of government deficits. "Black money" is untaxed income. Gains mean less tax revenue.

The Impact on Financial Institutions

Money laundering can put businesses at risk by causing radical shifts in financial institutions' assets. These banks are suspected of money laundering. More monitoring means more pressure and a damaged reputation for these institutions.

Living Expenses

Laundering dirty money fuels illegal activities and creates political and social consequences. Money laundering can shift economic power to criminals, leading to corruption and violence.

CONCLUSION

Financial institutions are mainly concerned about money laundering. Combat financial crime globally and locally. Combatting money laundering is crucial as it decreases government revenue, disturbs asset and input expenses, and leads to resource misallocation. Disasters can harm credit and trust, hurting finance more than in smaller economies like Bangladesh. Preventing money laundering is crucial.

Based on factor confirmation results. To spot money laundering, check domestic offenders, use anti-corruption measures, involve the Federal Revenue department, and work with law enforcement.

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