FINAL REPORT

CORRUPTION AND ILLICIT FLOWS IN ASIA

Contact:

Haylea Campbell, Research Analyst, HayleaC@rusi.org

Ines Oliveira, Associate Fellow, InesS@rusi.org

Royal United Services Institute

EXECUTIVE SUMMARY

This study of trends and criminal activity across the Asian region focuses on the assessment of illicit financial flows routes, actors and causes. Links between the trafficking of illicit goods and resources, political elites and power structures, as well as the underlying corruption that allows it to take place in Asia, have been researched through literature and locally with relevant stakeholders in order to identify new actions to be developed by national and international donors.

Research and on the ground investigation was carried out across six months and involved regional and thematic experts working towards joint proposals for future action. The study was developed around a literature review of the current state of affairs in Asia as regards illicit flows and practices followed by a set of workshops with regional authorities and stakeholders as well as back-up phone interviews with other relevant experts and practitioners.

A greater understanding of the factors behind the somewhat endemic corruption and informal economies that thrive across the Asia region support efforts to investigate what other missing elements could exist in addition to the various studies already conducted on the subject. In effect, the poor economic and social development that is still present in many of the focus countries appears to be intrinsically linked to the size of the informal economy and the degree to which those that profit from it are present.

The study's objective is to generate new strategies for action based on lessons learned, which resulted in that both desk-based research and workshop agendas being designed with the background of the focus countries in mind. Their past experiences in conflict, fighting corruption, and any nation specific issues related to the difficulty to prevent capital flight and other forms of illicit financial flows were all taken on board.

The underlying assumption that if criminals are not able to profit from crime the incentive to continue criminal activity will be reduced is constant throughout our assessments of regional realities. As a result, a central part of our research resulted in getting to know more about the ways in which anti-money laundering frameworks are being implemented across the regions, what the core difficulties are, and which actors should become more involved.

Research found that a few regional trends can be identified. The implementation and overall knowledge of anti money laundering legislation, for example, is low with state and financial institution officials. This leads to poor implementation and the subsequent inability to have the appropriate capital controls in place.

Reliance on illicit trade – narcotics, natural resources or counterfeits – continues to be connected to the population's need for alternative income and subsistence. For some, illicit activity is the norm and no other option exists which could replace these practices on a consistent and sustainable way.

State failure to provide for basic needs translates into a lack of trust of official institutions, leading to avoidance of official structures and the inability to implement reforms effectively. Lack of reliance on any kind of official structure furthermore means that the levels of financial literacy and exclusion continue to be high. This supports the cash based economy and worsens the means of capital controls.

Deficient taxation systems which are either unable to be effective or have significant gaps allowing for tax avoidance to be rampant continues to be 'unsurprising' in the majority of jurisdictions.

Finally, a common challenge appears to be the maintenance of security and stability along borders. Poorly resourced law enforcement, susceptible to corruption and threat is inefficient and unable to protect people. As a consequence, businesses and other services, like financial institutions, are left without an alternative to criminal groups or corrupt state bodies.

As regards the on-going international and national efforts to combat the issues identified, it was found that a lack of specific regional and local knowledge, of actors and needs, often leads to inefficiency. National programmes are frequently paved with corrupt practices from the beginning, standing little chance of success. Their often-limited focus is not structural enough to have societal impact and therefore any results achieved are short lived. The enforcement of law and order, in particular as regards illicit financial flows, continues to be extremely low, which leads to diminishing state funds and therefore an unbreakable cycle of bad governance. International programmes on the other hand are beginning to be seen as sources of additional funds and enrichment for some. Their objectives, although fair and needed, can be a step too removed from local realities and over-ambitious in what can be achieved in light of the overall context.

Recommendations based on this study's findings are essentially aimed at improving local conditions, based on assessed shortcomings. The research team furthermore suggests best-practices to be implemented in future donor programmes.

1 – Regional cooperation is needed to address the inefficiencies that encourage illicit financial flows. For example ASEAN or the BBIN group (Bangladesh, Bhutan, India, Nepal group) should be prioritising the development of regional trade solutions; SAARC was viewed as inefficient and a dead-end due to the involvement of Pakistan.

2 – Greater efforts to implement international and regional legal frameworks - through culturally sensitive technical assistance - should be pursued especially as it relates to the anti-money laundering, anti-tax evasion and anti-corruption frameworks.

3 – Strengthening security across borders and at national level is key to allow for the proper development of any reform programme. In addition to being essential for preventing illegal border crossings, the feeling of insecurity among populations often drives people to join criminal organisations.

4 – Strengthening the role of the private sector and financial institutions in order to increase financial inclusion and trust in the banking system.

5 – Supporting anti tax evasion and tax avoidance practices through the proper implementation (and law enforcement support) of *know your customer* and other key FATF recommendations on politically exposed persons and beneficial ownership.

6 – Training civilians and state officials to uphold and promote good governance practices across government. Lack of awareness and culture regarding the need to fight corruption is still below desirable and education must be supported.

7 – Continuing to gather data demonstrating the real effects of illicit financial flows. Evidence of the serious impact on development caused by illicit financial flows is still lacking and could be helpful to justify future investments.

8 – Donors should provide support towards information gathering and analysis into IFFs and money laundering relevant to each priority country as well as across the priority region. As mentioned, the flows are not necessarily 'regional' i.e. uniform across the priority countries, and these countries do not see themselves as a region. Such studies should be done in each priority country, but findings should be shared across them where appropriate. Information sharing through initiatives such as the Central Asian Regional Information and Coordination Centre (CARICC) could be beneficial.

9– Supporting willing state structures in their efforts to carry out reforms. Programmes should be designed with specific objectives and specific outcomes (and outputs) in order to preserve accountability, transparency and to avoid the misuse of funds and resources.

Section I: Global Illicit Financial Flows

In such a globalised world, it should come as no surprise that both licit and illicit financial flows are able to easily flow across borders and within nations. This presents challenges in all areas of the globe, but in our Asian focus countries, these difficulties are exacerbated by conflict, poor border management, the collusion of political elites and weak legislative frameworks.

Black money moves in various forms around the world with criminal groups increasingly creating new methods of transferring funds. One estimate by the Financial Action Task Force puts the amount of money laundered annually solely through the smuggling of cash across international borders to be 'between hundreds of billions and a trillion US dollars per year.'[1] Recent exposés such as 'The Global Laundromat' have also highlighted the numerous ways in which money is smuggled through the worldwide financial and real estate markets.[2] Furthermore, the World Bank estimates the amount of annual bribery worldwide to be US$ 1 trillion.[3]

It is within this context that we narrow our sights on the Asia region and, specifically: Afghanistan, Bangladesh, India, Kyrgyzstan, Myanmar, Nepal, Pakistan and Tajikistan.

While our research is structured into two regional groupings: namely South Asia (Bangladesh, India, Nepal and Myanmar) and Central Asia (Afghanistan, Kyrgyzstan, Pakistan and Tajikistan), our findings point to trends that stretch across the continent. There are also identified links between our focus countries and other Asian countries, as well as Europe.

These money flows have a specific impact on peace, development and equality with finances being diverted away from public spending for criminal ends. Increased poverty in turn results in more petty corruption being perpetrated by both public officials and criminal groups (depending on who has *de facto* control over a territory).

Specific routes operate across the continent, with a variety of licit and illicit goods being transported across international borders. Three case studies that highlight this trade are the smuggling of narcotics, jade/gold and fake currency. These are outlined below and illustrate the diverse connections spanning corruption, public officials and organised crime.

Central Asia

- **Narcotics –** Afghanistan to Tajikistan to Kyrgyzstan

Within Central Asia, the narcotics trade has been identified as being one of the most prominent ways in which illicit financial flows are facilitated in their movement across international borders. A well-established route is the one from Afghanistan – Tajikistan – Kyrgyzstan and on to Russian and European markets.[4]

Afghanistan continues to account for almost two thirds of illicit opiate production in the world.[5] Poppy cultivation is integral to the livelihoods of many in the country, and efforts to eradicate poppy cultivation is

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[1] FATF, 'Money Laundering Through the Physical Transportation of Cash' (October 2015), p. 3, <http://www.fatf-gafi.org/media/fatf/documents/reports/money-laundering-through-transportation-cash.pdf>

[2] The Guardian, 'The Global Laundromat: how did it work and who benefited?' (20 March 2017), <https://www.theguardian.com/world/2017/mar/20/the-global-laundromat-how-did-it-work-and-who-benefited>

[3] World Bank, 'Six Questions on the Cost of Corruption with World Bank Institute Global Governance Director Daniel Kaufmann', < http://go.worldbank.org/KQH743GKF1>

[4] Alexander Kupatadze, 'Kyrgyzstan – A virtual narco-state?', *International Journal of Drug Policy*, (Vol.25, No.6, 2014), p.1178

[5] US Bureau of International Narcotics and Law Enforcement Affairs, '2016 International Narcotics Control Strategy Report: Countries/Jurisdictions of Primary Concern - Afghanistan' (2016) <https://www.state.gov/j/inl/rls/nrcrpt/2016/vol2/253377.htm>.

one of the ways in which the Taliban has come to style itself as 'a protector of people's livelihoods and thereby to obtain significant political capital.'[6] The cultivation and production of heroin continues unabated, with the UNODC announcing in 2016 that opium production had increased by 43% in the past year.[7] The UNODC figures state that the southern region of the country has the largest share of national opium production with 54% of the share, with the north-eastern, northern and central regions (the first two being the areas that border Tajikistan and Pakistan) constituting 10% of opium production.[8] However, one interviewee spoke of the relative ease with which opium producers can transfer narcotics across Afghanistan and move them to border areas where they know security is weak.[9]

South Asia

- **Jade/Gold**

Jade mining is a lucrative industry in Myanmar, and is overwhelmingly controlled by elite members of society and military families. The process of procurement of a license for jade mining is one that is reserved for those with the correct political connections, to the detriment of the local populations. A recent Global Witness film stated that the proper management of the jade mining business in Myanmar is key to peace in a country that has been ravaged by conflict.[10]

It is estimated that US$31 billion of jade was mined in Myanmar in 2014 alone, with 1kg of the best jade in Kachin State being able to fetch millions of U.S. dollars.[11] The total amount that was mined in 2014 is equivalent to half of the country's GDP and indicates how lucrative the industry has grown to become. However, despite these massive sums of money, very little makes its way into the local economy or into public spending, which would provide citizens with healthcare, education and other necessities. Instead, the jade is undervalued by the mines and then sold to shell companies at correct prices. Buyers fly in from Hong Kong, Taiwan and mainland China.[12]

Border traders typically use Chinese and Thai banks, rather than Burmese ones.[13] Furthermore, Singapore is the clear hub for illicit financial flows and is used by both government actors and organised crime groups.[14] One of the main ways of facilitating illicit financial flows from the country is trade misinvoicing, with the practice representing 89.2% of total illicit inflows and 59.6% of total illicit outflows.[15] Trade misinvoicing has materialised as a favoured way of moving illicit funds across our target countries.

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Vanda Felbab-Brown, '[Afghanistan Affectations: How to Break Political-Criminal Alliances in Contexts of Transition](https://cpr.unu.edu/how-to-break-political-criminal-alliances-in-contexts-of-transition-afghanistan-affectations.html)' (April 2017) United Nations University Centre for Policy Research, p. 2, < https://cpr.unu.edu/how-to-break-political-criminal-alliances-in-contexts-of-transition-afghanistan-affectations.html>

7 UNODC, 'Afghan opium production up 43 per cent: Survey' (23 October 2016), <https://www.unodc.org/unodc/en/frontpage/2016/October/afghan-opium-production-up-43-percent_-survey.html>

8 *Ibid*

9 Interview with Interviewee A

10 Global Witness, 'Jade and the Generals' (17 May 2017), < https://www.globalwitness.org/en/campaigns/myanmar/jade-and-generals/>

11 *Ibid*

12 Financial Times, 'The dark shadow of Myanmar's jade trade' (26 September 2016), <https://www.ft.com/content/cf46e086-6909-11e6-a0b1-d87a9fea034f>

13 Interview with Interviewee B

14 *Ibid*

15 Global Financial Integrity, 'Flight Capital and Illicit Financial Flows to and from Myanmar: 1960-2013' (September 2015), <http://www.gfintegrity.org/wp-content/uploads/2015/09/Myanmar-Report-Final-1.pdf>

Furthermore, in Myanmar, the chequered history between non state actors, who control parts of the territory, and the government results in them being unable to formalise informal sources of money.[16]

Gold smuggling is also prevalent in South Asia, with India being the clear hub for such activity. One of the main flows of illicit goods into India is that of gold smuggled from Bangladesh and the United Arab Emirates. There is a high demand for the precious commodity within the country, and migrant workers in the Gulf states have been known to smuggle it back to families and customers.

However, gold also has more sinister links to the global narcotics trade and the hawala system. The Reserve Bank of India has stated that they believe there is a key link between the metal and the hawala system.[17] Furthermore, an Afghanistan expert said that gold is 'intricately involved' and 'massively important' to narcotics smuggling, which is aided by the fact that the hawala system is highly underregulated.

- **Counterfeit Currency**

It is no secret that India appears to be doing all it can to battle the scourge of counterfeit currency that has proliferated in the country. Last year's demonetisation drive indicated that, along with tackling corruption and attempting to increase tax revenues, the government believes counterfeit notes to be a serious crime problem. At the time, Prime Minister Modi referenced fake Indian currency notes (FICN) as being one of the reasons for the demonetisation initiative. In December 2015, the then Minister of State for Home Affairs Haribhai Parathibhai Chaudhary stated that FICN were printed in 'sophisticated presses' in Pakistan and that this Pakistani enterprise 'created a self sustaining criminal network in the South and South-East Asian Region for infusing FICN into India.'[18]

These notes are then smuggled from Pakistan into India via Bangladesh and Nepal, where products are able to cross borders with ease. It is an issue that permeates South Asia and is one of the most notable organised crime issues, especially in India. Even following the demonetisation drive, in February 2017 it was reported that Indian Border Security Forces had started to intercept packages of counterfeit 2,000 rupee notes at the Pakistan border.[19]

This fake currency and reserves of real notes acquired through illicit means play a prominent role in Indian election campaigns, which demonstrates that the link between organised crime in Pakistan and officials in India exists.[20]

Borders & Regional Drivers

These illicit activities do not exist in a vacuum, and other stronger and richer regional neighbours exert influence on the illicit economies of our target countries. A key insight from our Delhi workshop was that 'borders are not barriers, they are bridges.'[21] This perhaps simplistic sounding statement sums up well the situation across our focus countries. Specifically, the lack of border security and training of border agents leads illicit flows to be easily transferred across international borders. Coupled with the fact that China and

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[16] Interview with Interviewee B

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Business Today India, 'Yellow Peril' (8 December 2013), < http://www.businesstoday.in/magazine/features/gold-smuggling-resumes-in-india/story/200605.html>

[18] Economic Times, 'Pakistan, the biggest contributor of fake Rs 500, Rs 1000 notes; PM Narendra Modi's historic move justified' (10 November 2016), <http://economictimes.indiatimes.com/news/defence/fake-currency-worth-rs-167-crore-seized-by-government-in-five-years-pakistan-a-big-contributor-to-it/articleshow/55355933.cms>

[19] Hindustan Times, 'Demonetisation 100 days: Fake Rs 2000 notes entering India through Bangladesh' (16 February 2017), <http://www.hindustantimes.com/india-news/demonetisation-100-days-fake-currency-entering-india-through-bangladesh/story-YxbTDqzoM9jf2lBFo3B3oO.html>

[20] Financial Times, 'Rupee clean-up will do little to purify Indian politics' (23 November 2016), <https://www.ft.com/content/19a936e6-b14f-11e6-a37c-f4a01f1b0fa1>

[21] New Delhi Workshop

Russia have a strong regional influence, it is clear to see that no one problem is really unique to a certain country.

India's land border is 15,000km long and presents a range of security challenges. The India-Nepal border is open and border officials are complicit with smugglers, resulting in the facilitation of goods crossing the border. On the Myanmar-India border, there are three official crossings but tribes are allowed to cross and move freely within a 16km distance of the border with visa-free access. This contributes to China's ability to divert illicit trade through Myanmar and into India, as the China-India border is highly securitised. [22] China is Myanmar's main trading partner, with 83% of Burmese border trade taking part with the regional superpower. Furthermore, informal structures have been 'significantly established' at the one official border crossing between Muse-Ruili.[23] Various levels of illicit activity take place at the border between India-Bangladesh, with kingpins involved in organised crime, human smuggling and the smuggling of Fake Indian Currency Notes (FICN) into India. Smaller traders are involved in duty arbitrage, where products are bought on one side of the border and sold on the other, in order to take advantage of different national laws – prescription drugs being a key example. The problem with attempting to further securitise the borders with India, a regional hub, is that only 5% of India's trade is intra-region and therefore developing smoother border processes for trade is not a high priority in India's border states.

The ease with which illicit products are able to cross borders is also apparent in Central Asia. Pakistan shares a hostile border with India, which is not conducive to regular licit trade and formal processes. However, this hostility is harnessed by organised crime groups who transfer drugs into India. These drugs, as mentioned above, are likely to originate in Afghanistan, the international opium hub, and flood the region. In fact, one interviewee stated that the four main challenges to border security in Tajikistan are: geography, delineation of the border between Uzbekistan and Kyrgyzstan, the issue of border guards being poorly trained and equipped, and Afghanistan.[24]

Initiatives do exist that attempt to mitigate the flow of persons and commodities between these countries. Russia, a regional power and influencer in Central Asia, has military bases in both Kyrgyzstan and Tajikistan. The country used to patrol the border between Tajikistan-Afghanistan but these have been withdrawn in recent years.[25] However, this particular border is a key one within the region because of the drugs that flow into Tajikistan and further into the region. In order to mitigate these threats, the OSCE and the European Union are working to train border guards on both sides of the border.[26] This project has been complimented because of its ability to maintain and develop relationships on both sides of the border, and facilitates dialogue between the nationals of both countries.[27] Regional and community connections enhance results and allow practical issues to be mitigated on a granular level.

These first examples illustrate the scourge of illicit flows, financial and otherwise, that permeate the Asia region. Commodities vary across our target countries, but the methods in which they are smuggled across borders are similar and witnessed everywhere.

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[22] New Delhi Workshop
[23] Interview with Interviewee B
[24] Interview with Interviewee A
[25] *Ibid*
[26] OSCE, 'OSCE, UNDP Train Border Officials From Afghanistan and Tajikistan on Border Management' (3 September 2015), <http://www.osce.org/tajikistan/179761>
[27] Interview with Interviewee C

Section II: The Role of Power Structures

Power structures and IFFs

The various types of criminality identified above led to the belief that many of the illicit flows identified are in fact linked to power structures and the ruling of corrupt elites.

One conclusion that emerged from the interviews and both RUSI workshops is that the DfID focus countries in Central Asia and South Asia alike suffer from shadow economies and, to differing degrees, a lack of integrity and/or sophistication in their financial systems. The unwillingness or inability to remedy these shortcomings is to a significant degree attributable to the vested interests of those who wish to maintain the status quo. Developing an understanding of how power structures facilitate IFFs is therefore essential in order to design meaningful policy interventions.

When 'power structures' are discussed in the literature, the term is often used in two different senses. It either refers to the systemic conditions that determine how political and economic power is exercised in a given society and channelled through its institutions,[28] or to the actors or groups of actors that exercise such power, which may also be called power elites.[29] Regardless of the exact terminology used, it is helpful to look at both the society's governance framework (i.e., power structures in a broad sense) and the interests of power elites (political parties, military leadership, criminal groups, etc.) that shape political processes within that framework. Power can be understood as 'the ability of its holders to exact compliance or obedience of other individuals to their will'.[30]

Power structures may be embedded in formal institutions or exist informally in the extra-legal space; in the latter case 'the leadership of these structures may be situated within or parallel to the state or they may constitute an armed opposition to it'.[31] Almost by definition, both formal and informal power structures have a profound impact on many aspects of political and economic life, including the efficiency and integrity of public administration.

Although low-level officials often facilitate IFFs in our focus countries, it is important not to lose sight of the socio-political conditions that cause them to do so, such as under-resourcing, low pay, and political interferences. Since the countries concerned have diverse constitutional setups and historical backgrounds, the factors at play are different, but certain common tendencies are evident. Importantly, in all of the countries analysed, power relations are largely informal, with legal institutions and processes playing a secondary role.

The role of the central government is different among the countries concerned. It can be relatively strong but allegedly lacking in integrity (Tajikistan), simply too weak to challenge the power elites who benefit from IFFs (Afghanistan and Myanmar), or at various stages in between (Bangladesh, India, Kyrgyzstan, Nepal, and Pakistan). If the central government is weak and governance is decentralised, it is important to understand how national, regional, and local power structures interact. At the same time, as was suggested by one of the interviewees with regard to Afghanistan, even in highly decentralised states, changes aimed at reining in crime must be top-down, because regional and local elites will see no incentive to change their behaviour unless the central government puts their own house in order.[32]

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[28] See, e.g., David Lewis and Abul Hossain, '"Beyond 'the Net"? Institutions, Elites and the Changing Power Structure in Rural Bangladesh' in David N. Gellner and Krishna Hachhethu (eds), Local Democracy in South Asia (Sage 2008).

[29] See, e.g., David Knoke, *Political Networks: The Structural Perspective* (CUP 1990); C. Wright Mills, *The Power Elite* (OUP 2000).

[30] David Lewis and Abul Hosain, 'Understanding the Local Power Structure in Rural Bangladesh' (2008) Sida Studies, No 22, p. 27, < http://www.sida.se/English/publications/Publication_database/publications-by-year1/2008/november/understanding-the-local-power-structure-in-rural-bangladesh/>

[31] Michael Miklaucic, 'Contending with illicit power structures: a typology' in Anne Peters et al (eds), *Non-State Actors as Standard Setters* (CUP 2010) 191.

[32] Interview with Interviewee D

There is also evidence of illicit trafficking being tolerated in the states where law enforcement is misused as a weapon against political opponents instead of being impartial. In those countries, loyalty and connections can ensure that traffickers go free. Predictably, this phenomenon is observed in Tajikistan, but also in states with intense inter-party competition, such as Bangladesh and Nepal and, to a lesser degree, Kyrgyzstan.

A closely related tendency is the co-optation of criminal groups by political parties or politicians, especially at the local level, which happens in virtually all of the focus countries. In nascent or unstable democracies, political parties tend to rely on criminal elements for support in exchange for de facto impunity, which ultimately renders the state impotent against IFFs. In Afghanistan and Myanmar, the situation on the ground is particularly complex due to the on-going insurgencies, although it is much more intense in Afghanistan.

The private sector tends to play a dual role. On the one hand, businesses participate in the shadow economies by evading taxes or applicable regulations (India being a prime example); on the other hand, they may provide opportunities for laundering the proceeds of crime, e.g. investments into real estate in Pakistan and Myanmar. The latter is largely due to insufficient enforcement by the state as well as a lack of awareness/sophistication in the private sector, but in some cases there are reports of financial institutions captured by criminal interests, e.g. in Afghanistan.[33] The most well known example of this would be the Kabul Bank scandal, where the bank's founders were sentenced to five year jail sentences after being convicted of taking $810m of $935m stolen from the financial institution.[34]

Region 1: Kyrgyzstan, Tajikistan, Afghanistan and Pakistan

Political elites

Afghanistan represents an extreme case of the central government's weakness, not least due to the ongoing Taliban insurgency. In the areas controlled by the Taliban, the cultivation and trafficking of opiates fuels the insurgency.[35] Large quantities of drugs from Afghanistan flow to Tajikistan. An expert working on border issues in Tajikistan said that the Taliban is obviously a key player in the drugs trade, along with a 'plethora' of organised criminal groups, some of which are affiliated with ISIS.[36]

In those parts of Afghanistan where the government is in control, corruption is ubiquitous, especially at the provincial level, and the efforts to address it have been limited in effect.[37] The newly established Anti-Corruption Justice Centre (ACJC) has focused its attention on police commanders and low-level generals but has not succeeded in bringing to account any top officials or their associates.[38] However, as one interviewee stated, in such a precarious environment, attempting to take money from warlords and senior officials may exacerbate conflict if not attempted in a delicate way.[39]

The precariousness of the fight against illicit trafficking in Afghanistan is compounded by the central government's readiness to enter into alliances with powerful warlords, which can be helpful in the fight against the Taliban, but may also serve as a means of consolidating the president's own power. For instance, the help of Lt. Gen. Abdul Raziq, who is allegedly involved in human right abuse as well as drug

[33] US Department of State, 'International Narcotics Control Strategy Report, Volume II: Money Laundering and Financial Crimes' (2017), p.27, < https://www.state.gov/documents/organization/268024.pdf>
[34] BBC News, 'Kabul Bank fraud: Ghani reopens Afghan corruption case' (1 October 2014), <http://www.bbc.co.uk/news/world-asia-29450821>
[35] FATF, 'Financial flows linked to the production and trafficking of Afghan opiates' (June 2014), pp. 42–49, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financial-flows-linked-to-production-and-trafficking-of-afghan-opiates.pdf>
[36] Interview with Interviewee A
[37] UN Assistance Mission in Afghanistan, 'Afghanistan's Fight against Corruption: The Other Battlefield' (April 2017), p.8, <http://reliefweb.int/report/afghanistan/afghanistans-other-battlefield-fight-against-corruption-april-2017-endarips>
[38] Interview with Interviewee D
[39] Interview with Interviewee E

trafficking,[40] was instrumental for ensuring the support of Ghani in Kandahar during the 2014 presidential elections.[41] The government's reliance on local elite and warlords means that the impact of Afghan anti-corruption and anti-trafficking measures is bound to be limited.

Similarly to Afghanistan, there is some interpenetration of criminal groups and state authorities in Pakistan's border areas. According to the US 2016 Trafficking in Persons report, some persons involved in human trafficking are associated with political parties or even hold public office, which they use to protect their criminal business, up to the point that when victims escape, the police return them to the traffickers.[42] The scope and extents of the connections between drug trafficker and high-level politicians, if such connections exist at all, are uncertain; however, there have been examples of drug lords financing local politicians' elections campaigns.[43]

The situation in Tajikistan is different as the central government is much stronger and does not share its power with local powerbrokers or military elites to the same extent as in Afghanistan or Pakistan. However, there is little political will to tackle IFFs or the systemic conditions that engender them. President Emomali Rahmon's friends or associates are reputed to control most valuable businesses in what has been called a 'family state'.[44] Even state organisations tasked with countering corruption can be family run. In 2015, President Rahmon appointed his son, Rustam Emomali, as director of the Agency for State Financial Control and Combatting Corruption. Prior to that, he had been the head of the Customs Service.[45] The customs sector, in turn, is generally the most lucrative of the public sector departments.

Before the revolution in 2010, Kyrgyzstan bore some resemblance to Tajikistan's tightly controlled family state. President Kurmanbek Bakiyev's family reportedly controlled drug trafficking flows in Kyrgyzstan, and the State Drugs Control Agency was dismantled at the urging of Bakiyev's son Janysh.[46] This strengthened the suspicions of his involvement in the narcotics trade and demonstrated that independent law enforcement authorities could be disbanded if they did not yield to political pressure. Even after the ousting of Bakiyev, the twin problems of corruption and public officials' direct involvement in drug trafficking remain.[47] Kyrgyzstan continues to be a major transit country for narcotics emanating from Afghanistan and passing through Tajikistan.

Despite President Almazbek Atambayev's pledge to clean up the government, ministries continue to sit at the top of vertically integrated corruption networks where bribes flow upwards.[48] A number of high-profile arrests have taken place, but they have mostly targeted the president's adversaries and law enforcement

[40] Matthew Green, 'US takes risks with ties to Afghan strongman' (12 March 2010), Financial Times, <https://www.ft.com/content/f542a4d0-2e02-11df-b85c-00144feabdc0>

[41] Vanda Felbab-Brown, 'Afghanistan Affectations: How to Break Political-Criminal Alliances in Contexts of Transition' (April 2017) United Nations University Centre for Policy Research, p.18, < https://cpr.unu.edu/how-to-break-political-criminal-alliances-in-contexts-of-transition-afghanistan-affectations.html>

[42] US Department of State, 'Pakistan' in the 2016 Trafficking in Persons report.

[43] Safiya Aftab, 'Post 2014: The Regional Drug Economy and Its Implications for Pakistan' (February 2014), pp.16–17, < https://www.cidob.org/en/publications/publication_series/stap_rp/policy_research_papers/post_2014_the_regional_drug_economy_and_its_implications_for_pakistan>

[44] Alexander Cooley and John Heathershaw, *Dictators without Borders: Power and Money in Central Asia* (Yale University Press 2017) pp. 107–111.

[45] Ak Zhayik, 'Tajikistan: Rahmon's Son Will Fight Corruption' ((17 March 2015, in Russian), < http://azh.kz/ru/news/view/27337>

[46] Alexander Kupatadze, 'Kyrgyzstan – A virtual narco-state?' (2014) 25(6) International Journal of Drug Policy, pp. 1178, 1180, < http://www.ijdp.org/article/S0955-3959(14)00015-2/fulltext?cc=y=>

[47] Alexander Kupatadze, 'Kyrgyzstan – A virtual narco-state?' (2014) 25(6) International Journal of Drug Policy, pp. 1178, 1181, < http://www.ijdp.org/article/S0955-3959(14)00015-2/fulltext?cc=y=>

[48] Sarah Chayes, 'The Structure of Corruption: A Systemic Analysis Using Eurasian Cases' (June 2016) Carnegie Endowment for International Peace, p. 40, < http://carnegieendowment.org/2016/06/30/structure-of-corruption-systemic-analysis-using-eurasian-cases-pub-63991>

appears subordinated to party politics.[49] It remains to be seen whether any changes will take place after the presidential elections in November 2017.

Administration and law enforcement

In public service in Central Asian countries, pay is low and corruption is rife. The under-resourcing of the state apparatus incentivises corruption and collusion with criminal groups. To many, engaging in corruption is a matter of survival, as one expert said 'you cannot earn enough if you do not engage in corruption'. [50] Certain positions, such as jobs with the border agency and customs authority, are viewed as lucrative positions 'because of the bribes that will be received'.[51] To secure such jobs, one expert said that people not only have to pay but also need to be recommended by someone high up in the authorities. This puts the official under pressure to recoup his/her investment or return the favour to the patron who facilitated his/her employment. This was echoed by an anti-corruption NGO in Bishkek, who said 'to have a position in the state, you need to invest in it'.[52] In both Tajikistan and Kyrgyzstan it was noted that the money gets higher the higher up the political chain of command someone goes.[53] According to one academic study, public office is one of the most efficient methods of enrichment in Kyrgyzstan, and the state apparatus is essentially 'privatised'.[54]

Bribery is particularly prevalent on the Afghan-Tajik border and it is believed that some border guards are directly engaged in the drug trade.[55] On this border, the most corrupt were seen to be border guards, immigration and customs officials.[56] One representative from an International Financial Institution who had worked in Dushanbe also alleged that the Russian military base in Tajikistan was involved in the narcotics trade.[57]

Corruption is also prevalent in Afghanistan and Pakistan. An NGO expert based in Pakistan said that cash from the drug trade will be taken out of the country by air, with the collusion of customs officials and airport security.[58]

Region 2: India, Bangladesh, Myanmar and Nepal

Political elites

India's vast shadow economy is sustained by a de facto convergence of interests between the political elites, rank-and-file administrators, and the private sector. Political elites and the governmental bureaucracy at large lack the incentives to enhance the integrity and efficiency of administration, including in such crucial areas as the management of public finances, tax collection and border controls.

In Indian border regions, the toleration of IFFs by state authorities is partly explained by their beneficial effect on the otherwise deprived economies.[59] However, outright corruption plays a role too, and local

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[49] Erica Marat, 'Kyrgyzstan' in Freedom House's *Nations in Transit 2016*, pp.2,9, < https://freedomhouse.org/sites/default/files/FH_NIT2016_Final_FWeb.pdf>
[50] Interview with Interviewee C
[51] *Ibid*
[52] Bishkek workshop.
[53] Bishkek workshop.
[54] Johan Engvall, 'Why are public offices sold in Kyrgyzstan?' (2014) 30(1) Post-Soviet Affairs pp. 67, 70–71.
[55] Filippo de Danieli, 'Counter-narcotics policies in Tajikistan and their impact on state-building' in John Heathershaw & Edmund Herzig (eds), *The Transformation of Tajikistan: The Sources of Statehood*, p.147.
[56] Interview with Interviewee A
[57] Interview with Interviewee G
[58] See also BBC News, 'Is heroin being smuggled on Pakistani planes into Heathrow?' (20 May 2017), < http://www.bbc.co.uk/news/world-asia-40016761>
[59] Delhi workshop.

politicians on the border with Bangladesh are known to have been complicit in the trade in fake Indian currency notes, which are often used to finance election campaigns or even buy votes.[60]

The co-optation of criminal groups by political parties is a theme throughout the South Asian focus countries. For example, power in Bangladeshi local communities is essentially divided between elected officials in local union councils and administrators appointed by the central government,[61] with MPs exercising considerable informal power over local union councils controlled by the respective party.[62] Informal relationships strongly affect the day-to-day work of institutions, and quasi-criminal strongmen – *mustaan* – serve as a link between criminal groups, politicians, and local businesses.[63]

Also in Nepal, IFFs are a function of the convergence between political parties, especially at the local level, and criminal groups. Nepal is still in transition to democratic rule, with the first local elections in 20 years taking place in two stages in May-June 2017. Two studies in 2012 and 2013 reported that 'Nepali citizens rely on a range of informal arrangements to fill the void created by a weak state'.[64] Although Nepalese organised crime groups are not particularly well-organised or powerful in their own right, political parties rely on them for money and muscle in exchange for impunity.[65] Consequently, crimes such as drug smuggling, illegal logging, wildlife trafficking, and human trafficking remain unaddressed.[66]

The situation in Myanmar has parallels to that in Afghanistan, namely that a large proportion of illicit trafficking is either tolerated or directly carried out by militarised elites that the government cannot control. After the military junta relinquished its power in Myanmar in the wake of the democratisation that started in 2011, some of its members took over a substantial share of the country's illicit economy, including the lucrative trade in timber and jade.[67] Parts of Myanmar are de facto controlled by ethnic armed groups, in particular the drug-producing states of Kachin and Shan in the east.[68]

Although a counter-narcotics campaign was launched by the Kachin Independence Army, one of Myanmar's ethnic armed groups, it lacks the capability to effectively police illicit flows in the region.[69] Besides, illicit trade contributes to the sustenance of the local population. According to one interviewee, a heavy-handed criminal justice response to illicit trade might only harm local communities in Myanmar, and curbing illicit trade will require cooperation between the government and non-state armed groups.[70] Such tensions between the interests of local elites or population and those of the central government are also present in India. Two examples that came up during the workshop in Delhi were the smuggling of cattle from Bengal to Bangladesh and the drug trade on the Indian-Pakistani border in Punjab. In both cases, local authorities

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[60] Delhi workshop.

[61] David Lewis and Abul Hosain, 'Understanding the Local Power Structure in Rural Bangladesh' (2008) Sida Studies, No 22, pp.41–42, < http://www.sida.se/English/publications/Publication_database/publications-by-year1/2008/november/understanding-the-local-power-structure-in-rural-bangladesh/>

[62] *Ibid*, pp.43–50

[63] *Ibid*, p.17

[64] The Asia Foundation, 'A Guide to Government in Nepal: Structures, Functions, and Practices' (2012), < http://asiafoundation.org/publication/a-guide-to-government-in-nepal-structures-functions-and-practices/>; see also Vanda Felbab-Brown, 'Getting Smart and Scaling Up: The Impact of Organized Crime on Governance in Developing Countries – A Case Study of Nepal' (June 2013), < http://cic.nyu.edu/sites/default/files/kavanagh_crime_developing_countries_report_w_annexes.pdf>

[65] Vanda Felbab-Brown, 'Getting Smart and Scaling Up: The Impact of Organized Crime on Governance in Developing Countries – A Case Study of Nepal' (June 2013), pp.57–58, < http://cic.nyu.edu/sites/default/files/kavanagh_crime_developing_countries_report_w_annexes.pdf>

[66] *Ibid*, p. 58

[67] Vanda Felbab-Brown, 'Myanmar Maneuvers: How to Break Political-Criminal Alliances in Contexts of Transition' (April 2017) United Nations University Centre for Policy Research, < https://cpr.unu.edu/how-to-break-political-criminal-alliances-in-contexts-of-transition-myanmar-maneuvers.html>

[68] US Department of State, 'International Narcotics Control Strategy Report, Volume II: Money Laundering and Financial Crimes' (2017), p. 56, < https://www.state.gov/documents/organization/268024.pdf>

[69] Interview with Interviewee A

[70] *Ibid*

are reportedly wary of clamping down on the traffickers, due to the fear that doing so may jeopardise the local economy.[71]

Administration and law enforcement

As in Central Asian countries, the prevalence of informality and corruption facilitates illicit trade, e.g. officials on the India-Bangladesh border are reported to be complicit in trafficking;[72] the same can be said of the India-Nepal border.[73] In India, red tape incentivises bribery, as do heavy penalties for non-compliance with a number of onerous regulations.[74] Administration in general is inefficient, including in the crucial area of tax collection and customs controls. In the absence of effective monitoring and law enforcement, even governmental incentives aimed at economic development can be subverted through fraud, e.g. the abuse of governmental schemes to encourage exports via over-invoicing in India.[75]

The accessibility of the justice system is severely limited in all South Asian focus countries.[76] In particular, in India even simple court cases are reported to last for 4–5 years, meaning that businesses have an incentive to forego legal avenues in favour of informal understandings.[77]

[71] Delhi workshop.
[72] US Department of State, 'Trafficking in Persons Report 2016', p. 89, < https://www.state.gov/documents/organization/258876.pdf>
[73] Delhi workshop.
[74] The Economist, 'Fighting corruption in India: A bad boom' (15 March 2014), < http://www.economist.com/news/briefing/21598967-graft-india-damaging-economy-country-needs-get-serious-about-dealing-it>
[75] Delhi workshop.
[76] David Lewis and Abul Hosain, 'Understanding the Local Power Structure in Rural Bangladesh' (2008) Sida Studies, No 22, p.58 (on Bangladesh), < http://www.sida.se/English/publications/Publication_database/publications-by-year1/2008/november/understanding-the-local-power-structure-in-rural-bangladesh/>; Vanda Felbab-Brown, 'Myanmar Maneuvers: How to Break Political-Criminal Alliances in Contexts of Transition' (April 2017) United Nations University Centre for Policy Research, p. 21 (on Myanmar); Vanda Felbab-Brown, 'Getting Smart and Scaling Up: The Impact of Organized Crime on Governance in Developing Countries – A Case Study of Nepal' (June 2013), pp. 64–66 (on Nepal).
[77] Delhi workshop.

Section III: The Overarching Role of Corruption

The ability of illicit financial flows to move across borders and enrich those that generate and facilitate them is intrinsically related to poor governance and widespread corruption. Without it capital would be a) brought to the formal economy and b) stopped from illegally leaving the country.

Corruption is not an issue that exists in a vacuum, and it is very much intricately linked to and a support of the tangible ways in which illicit financial flows are moved across borders. Both petty and grand corruption have been identified as being enabling factors, ranging from the paying of bribes to police officers to the movement of state funds to offshore jurisdictions. When corruption is widespread, what can one do?

In all of our focus countries, public perceptions towards corruption are unlike those we might face in the UK. Bribes are not necessarily seen as a corrupt act, sometimes bribes are given to show a sense of appreciation or to be polite.[78] Paying a bribe is the path of least resistance as when the process for a paying a fine (for e.g. traffic violation) is so complicated, it makes sense to just pay a bribe.

However, this is not to say that initiatives are not in place throughout the region to mitigate the effects of corruption and attempt to tie governments to anti-corruption pledges and ideals.

Initiatives

The Istanbul Anti-Corruption Action Plan is an initiative that was established by the Organisation for Economic Co-Operation and Development (OECD) in 2003 and seeks to improve anti-corruption efforts in Central Asia through their sub-regional peer review programme. The aim of the programme is for the nine participating countries (of which Kyrgyzstan and Tajikistan are two of them) to monitor and evaluate the progress of the other participants, and measure achievements against the UN Convention Against Corruption, among other instruments.

The establishment of regional initiatives should be hailed as a positive step forward, as issues of corruption are prominent across these territories. However, experts have commented on the fact that the inter-review of these countries is not the most conducive to positive change. One interviewee highlighted the fact that the participating countries are reviewing themselves, which can lead to a non-objective process.[79]

One perk of this system is that international frameworks and initiatives can often not efficiently take account of local or regional issues and therefore neighbouring countries are more aware of the risks. In Kyrgyzstan, officials and civil society have been surprised at FATF's suggestion and recommendation pertaining to the fact that NGOs are at an enhanced risk of money laundering.[80] Corporate vehicles are more likely to be used as a funnel for illicit money in Kyrgyzstan and Tajikistan. Furthermore, many public officials in these countries run companies, despite laws forbidding the practice.

In Afghanistan, there has been an effort by international donors to move the Afghan customs system from a paper based system to an Automated System for Customs Data (ASYCUDA). These efforts have been hailed by the World Bank and the Afghan government has committed to increasing revenues, a large percentage of which are siphoned off by corruption.[81] However, there have been issues with implementing the new strategy in practice, as customs agents would rather keep the outdated confusing system, and keep receiving bribes.[82]

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[78] Bishkek workshop
[79] Interview with Interviewee C
[80] Interview with Interviewee H
[81] World Bank, 'The World Bank Supports Afghanistan's Customs Reform Efforts' (11 June 2015), <http://www.worldbank.org/en/news/press-release/2015/06/11/supports-afghanistan-customs-reform-efforts>
[82] Interview with Interviewee E

Political Economy: Attitudes Toward Corruption

Political

There is a varying degree to which officials in Asia are willing to discuss corruption. One expert researching corruption on the border between Afghanistan and Tajikistan said that the Tajik authorities were not willing to talk about issues of corruption, even to reassure donors that they are implementing anti-corruption reform. This was in contrast to Afghanistan, where the authorities were much more open and wanted to discuss the improvements they claim to have made, in part to secure more aid.[83] This was echoed by one expert, who said that it felt futile to begin discussions with state authorities in Tajikistan framed around fighting corruption, given the political sensitivities around it.[84] This expert felt that framing it more around anti-money laundering might provide a better start for discussions.

Many interviewees spoken to were concerned about the 'tokenism' of certain anti-corruption efforts in the priority countries. For example, during the workshop in Bishkek experts agreed that although there have been some initiatives around transparency, such as requirements for civil servants to declare their assets, no analysis is done on them.[85] Therefore, the information may be gathered but not analysed or assessed in order to improve the system. Again, weak enforcement is still seen to be a key issue. One anti-corruption expert in Bishkek noted that, even though it is against the law in Kyrgyzstan for politicians to own companies, many do.[86]A recurring theme in discussions in Tajikistan and Kyrgyzstan was the difficulty in dividing private and public life. It was noted that those in public office can have significant business empires, even though it is illegal in Kyrgyzstan.[87]

The incentive and main driver at the high political level is clearly personal enrichment. A representative from the UNODC working in Tajikistan noted that they have not seen much of a reduction in the heroin trade across the Tajikistan-Afghanistan border, despite the international community providing equipment and training. The main factor preventing any improvement in combatting illegal activity at the border is the lack of political will to do so.[88]

Popular attitudes

One thing that was clear from speaking to people is that the trust in government is often very low, which may form the perceived justification for some financial crimes, such as tax evasion or bribery. At the Bishkek workshop, it was noted that many citizens avoid paying tax, because they did not feel it was put into things that were for their benefit due to corruption. Particularly corrupt government departments in Kyrgyzstan were identified as the General Prosecutor, Ministry of the Interior and the Financial Police.

A prominent attitude towards corruption in Kyrgyzstan in particular was that bribery and smaller-scale corruption was not always viewed as bad. Instead, it was viewed as a way to get things done. For example, many agreed that it was easier to pay traffic officers a briber rather than paying a speeding ticket, simply because the system for paying the penalty was so complex. People were therefore looking for the 'path of least resistance'.[89] If it was a simpler process and people were, for example, able to pay online, they would. This was echoed by an expert in Tajikistan, who noted that the legal way to get things done on the border with Afghanistan is time-consuming and expensive, and paying bribes speeds the process up, although only marginally.[90]

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[83] Interview with Interviewee C
[84] Interview with Interviewee A
[85] Bishkek workshop
[86] Interview with Interviewee H
[87] Interview with Interviewee I
[88] Interview with Interviewee A
[89] Bishkek workshop
[90] Interview with Interviewee A

One person working for an international financial institution in Bishkek noted that there is also an apathy towards high-level corruption because it is so widespread.[91] This was noted by an NGO expert in Pakistan, who said that 'people generally see it as bad but feel nothing can be done, as it is endemic'.[92]

This has an impact on private sector investment and broader economic development. Investments in Kyrgyzstan and Tajikistan tend to be mobile, such as in livestock, rather than fixed, such as in manufacturing. As one representative from an IFI in Bishkek noted, people 'don't want to put a stake in the ground, as it can then be taken away'.[93] People in the retail industry, for example, will grow horizontally rather than vertically, in that they will invest in multiple small shops rather than one large department store.

[91] Interview with Interviewee G
[92] Interview with Interviewee J
[93] Interview with Interviewee G

Section IV: The Black Economy and How to Handle It

Domestic and regional approaches to tackling IFFs

Illicit cross-border trade of commodities such as narcotics, gems, weapons, petrol and cigarettes, is certainly viewed as a regional issue between the countries of Kyrgyzstan, Tajikistan, Afghanistan and to a lesser extent Pakistan. However, an overwhelming observation during the workshop in Bishkek, and in follow-up conversations with those in all priority countries is that IFFs resulting from illicit, or indeed licit, trade are not necessarily viewed in 'regional' terms. This is likewise the case in India, Bangladesh, Nepal and Myanmar, where narcotics, prescription medication, fake currency and gems are being illegally smuggled across borders. However, discussions from the workshop elucidated that while there is cross-border smuggling of licit and illicit goods, this is not necessarily part of a flow across the region. Perhaps most regional in characteristic was the discussion of how fake Indian currency is smuggled between Pakistan and Bangladesh for later distribution into India.

This is in part because the priority countries do not see themselves as a region in full, but also because the flows may be between two or three of the countries in the region (particularly, for example, Afghanistan, Kyrgyzstan and Tajikistan) and others outside, such as Dubai, Singapore, Mauritius, the UK and China. Risks around IFFs tend to be viewed through the national risks they present, but even an understanding of them leaving the country is under-researched. For example, when discussing this with the Financial Intelligence Service in Bishkek, they noted that in their recently completed National Risk Assessment, they did not examine risks around IFFs leaving the country but rather risks of money laundering and terrorist financing within Kyrgyzstan itself. As one representative said in the Bishkek workshop 'the flows going out are unknown – there need to be investigations like that of Global Witness on Bakiev'.[94] While in India IFFs have been increasingly addressed through measures to counter tax havens and round-tripping via, for example, Mauritius, the flow of IFFs in Myanmar, Nepal and Bangladesh are much less clear.

In both the Bishkek and Delhi workshops, it was noted that a significant issue associated with this is that there is not enough information on IFFs, the black economy and associated money laundering techniques and a better evidence base is required. This would benefit from specific donor and regional body attention. In particular, assistance is needed in the consistent gathering and analysis of the data underlying these three issues. Apart from bilateral support, something that would facilitate this is to engage with the UNODC on the Central Asia Regional Information and Coordination Centre (CARICC). This offers the legal framework and mechanism for information sharing. Member states include Azerbaijan, Kazakhstan, Kyrgyzstan, Russia, Turkmenistan, Tajikistan and Uzbekistan. A consideration could be to include other priority countries within the scope of this research. This organisation itself could be enhanced to focus more on IFFs. In South and Southeast Asia, the World Bank and UNODC Stolen Asset Recovery Initiative (StAR) works with developing countries and financial centres to prevent the laundering of the proceeds of corruption.[95] This initiative was noted several times in interviews as the only initiative of its kind in South and Southeast Asia in the area of IFFs. However, it is not strictly a regional initiative comparable to CARICC. It also only focuses on specific case-by-case corruption cases and focuses on the facilitation of the return of stolen assets.

An alternative could be to create a financial subcommittee in regional organisations, like ASEAN, to address these issues. As of 2015, ASEAN Finance Ministers and Central Bank Governors meet yearly to address opportunities and challenges towards creating a regional integration as part of the ASEAN Economic Community.[96] The International Monetary Fund, World Bank and Asian Development Bank take part in these annual gatherings and could all play a role in addressing region-wide challenges to understanding IFFs through these current frameworks. Indeed, the IMF has begun to examine cross-border flows and financial

[94] Bishkek Workshop
[95] StAR, 'Our Work', <http://star.worldbank.org/star/>
[96] Bank Negara Malaysia, 'Joint Statement of the 1st ASEAN Finance Ministers' and Central Bank Governors' Meeting (AFMGM)' (21 March 2015), <http://www.bnm.gov.my/documents/2015/20150321_Joint_Statement.pdf>

integration in ASEAN.[97] However, it was noted in the Delhi workshop that SAARC is not a realistic regional platform to engage with as tensions between India and Pakistan hamper any decision-making amongst the members.

Anti-money laundering does have some regional support through the FATF-style bodies. For Kyrgyzstan, Tajikistan and India, the EAG is the main body responsible for monitoring compliance with international standards on combatting money laundering and terrorist financing.[98] The week prior to the Bishkek workshop, the EAG had visited Kyrgyzstan to conduct a Mutual Evaluation. Other member states include Belarus, China, Kazakhstan, Russia, Turkmenistan and Uzbekistan. Afghanistan has observer status. Although the organisation is based on FATF's guidelines, there were some concerns about its 'style'. In the Bishkek workshop there were concerns about the fact the EAG consists mainly of former Soviet countries, which may bring 'cultural baggage' to the way they evaluate countries. In particular, one NGO representative particularly highlighted Russia's influence in the organisation, stating they may 'influence the interpretation' that goes into the mutual evaluations.[99] Moreover, although international standards are important, they are less useful without broader understanding of the international, as well as national, risks facing these countries. Again, as with anti-corruption initiatives, compliance with international standards can also be token and viewed as 'box-ticking exercises' when seen in the context of domestic political corruption.[100] This was echoed in the Delhi workshop.

The Asia-Pacific Group on Anti-Money Laundering (APG), in turn, monitors these issues in Afghanistan, Bangladesh, India, Myanmar, Nepal and Pakistan. The APG did not feature strongly in the Delhi workshop or interviews. Given the significant challenges presented in Myanmar's[101] and Nepal's[102] Mutual Evaluation Reports, there is scope for greater engagement through the APG. Indeed, the APG noted in its findings in the 2008 MER that Myanmar was a transit point through which illicit funds flow abroad, and that the country's large cash-based system, weak financial institutions and reliance on the US Dollar makes it relatively easy to launder illegal proceeds.

Black Economy and Money Laundering

As mentioned, the black economy as a whole is under-studied in most priority countries. The ability to do such research would be particularly challenging in places like Tajikistan where illicit finance is a sensitive topic due to political corruption and vested interests.

Other countries, however, have expressed interest in understanding more about this issue. For example, Kyrgyzstan has made efforts to tackle the black economy, particularly as in December 2016 the Minister of Economy, Arzybek Kozhoshev, said that the shadow economy accounted for 39% of Kyrgyzstan's GDP. Previously, this was allegedly higher at 53%.[103] Speaking to representatives from the Ministry of Economy in Bishkek, they noted that the last time this was properly researched was by the World Bank in 2012. Since then, the government of Kyrgyzstan has produced a 2015-2017 national plan to tackle the shadow economy.[104] The main aim is to try to trace money and bring it into the formal banking system. This can be

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[97] IMF, 'ASEAN Financial Integration' (February 2015), <https://www.imf.org/external/pubs/ft/wp/2015/wp1534.pdf>
[98] EAG, 'Mission', <http://www.eurasiangroup.org/history_mission.php>
[99] Interview with Interviewee K
[100] Bishkek workshop
[101] APG 'Mutual Evaluation Report on Myanmar' (10 July 2008), <http://www.apgml.org/includes/handlers/get-document.ashx?d=6ff3594d-f621-4f87-a60e-393e7577533d>
[102] APG, 'Mutual Evaluation Report on Nepal' (July 2011), <http://www.apgml.org/documents/search-results.aspx?keywords=nepal>
[103] Zanoza, 'The shadow economy in Kyrgyzstan is 39%' (29 December 2016), <http://zanoza.kg/doc/350086_glava_mnfina:_tenevaia_ekonomika_v_kyrgyzstane_sostavliaet_39.html>
[104] National Bank of Kyrgyzstan, 'National Plan 2015-2017', <http://www.nbkr.kg/DOC/08042016/000000000041515.pdf>

challenging, given that many in rural areas do not necessarily use banks. The plan has implemented steps to reduce administrative barriers and reduce tax in order to incentivise people to comply.[105]

Another country with a significant black economy is India. Arun Kumar has done detailed work on India's black economy. In India, the black economy is now as much as 2/3 of the overall Indian economy. According to Kumar, 90% of this illicit finance remains in India with only 10% going abroad (of which 30-40% is round-tripped and laundered back into India via places like Mauritius). It was noted that the bulk of the black economy is legal businesses, often taking advantage of legal ways to avoid tax, such as dividing business income amongst family members. In Myanmar, the country's change in government from military junta to democracy has seen a boom in the economy, but also a sharp growth in its shadow economy.[106] Indeed, Global Financial Integrity showed that the shadow economy of Myanmar on average accounted for 55.1% of the country's GDP between 1960-2013, with nearly US$20 billion flowing illegally out of the country during this time.[107] Although information for Nepal is limited, a recent study estimated that the country's underground economy averaged 60.76% as a percentage of GNP in 2011.[108] In Bangladesh, estimations indicate that the underground economy in the country has grown from 7% of nominal GDP in 1973 to 62.75% in 2010.[109]Although the legislative landscapes of these countries vary, a shared challenge is the real lack of resources to commit to implementation, which hamper any national efforts to regulate these underground economies.

There is also trade that may be mis-invoiced, under-reported or simply unregulated. The border between China, Afghanistan and Pakistan is seen as being relatively unregulated. Cross-border trade between China and Kyrgyzstan was also raised as a potential vulnerability, as well as commodity trade between the exclaves and enclaves of Kyrgyzstan, Tajikistan and Uzbekistan. Multiple people interviewed in Kyrgyzstan mentioned that with China-Kyrgyzstan cross-border trade, there is a discrepancy in the customs figures between China and Kyrgyzstan.[110] Contraband trade has the potential to increase on this border, given that Kyrgyzstan is now a member of the Eurasian Economic Union, an economic bloc also including Russia, Kazakhstan, Belarus and Armenia. Technically, Kyrgyzstan is supposed to increase tariffs on its border with China, yet re-exportation of Chinese goods accounts for a significant part of Kyrgyzstan's GDP. One representative from Pakistan said that under-invoicing exports was an issue, even to Europe. They noted that someone might sell goods to somebody in the UK for £100, but report it as being sold for £80. The additional £20 goes to an offshore account, unreported.

The weakness in the tax system in India is significant. A regularly cited example in the Delhi workshop was the over-invoicing to move funds offshore and then recycling them back into India via attractive tax havens. Document fraud also facilitates tax fraud in India. Dummy invoicing appears to be a popular way to move money. It was also noted that India fails to share information with countries such as Mauritius. Mis-invoicing is encouraged by the Indian government, because it results in a bigger duty rebate.

Apart from tax evasion, real estate is seen as a high risk area. This is particularly relevant to Tajikistan. One representative from a UN organisation in Tajikistan said 'Dushanbe has no thriving commerce – it is very poor. But over the last decade there has been a huge construction boom. Where does the money come from? Dushanbe is built on narcotics.'

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[105] Interview with Interviewee L

[106] Global Financial Integrity, 'Nearly US$100 Billion Flowed Illegally through Myanmar from 1960 to 2013, Finds New GFI Report' (9 September 2015), <http://www.gfintegrity.org/press-release/nearly-us100-billion-flowed-illegally-through-myanmar-from-1960-to-2013-finds-new-gfi-report/>

[107] *Ibid*

[108] Economic Journal of Development Issues, 'Measurement of the Underground Economy in Nepal: A Currency Demand Approach', Vol. 17 & 18 No. 1-2 (2014), <http://www.nepjol.info/index.php/EJDI/article/view/14523>

[109] Bangladesh Ministry of Finance, 'Underground Economy of Bangladesh: An Econometric Analysis', Research Study Series No – FDRS 01/2013, <http://www.mof.gov.bd/en/budget/pathprosperity/chapter1.pdf>

[110] Interview with Interviewee M; https://iwpr.net/global-voices/new-trade-rules-no-barrier-kyrgyz-contraband

In addition to the black economy, a linked issue that requires more dedicated research in the priority countries is on money laundering. As mentioned, although organisations like FATF, EAG and APG address this by facilitating compliance with international standards, more research is required as to how it works. The EAG has done some work on this by examining typologies which usefully provides specific information about the key challenges facing participating member state regarding, for example, tax crimes and associated money laundering.[111] More cooperation and information sharing like this could be beneficial. It is notable that India and Kyrgyzstan did not take part in the research on tax crimes and associated money laundering, which is greatly needed.

FATF recommendations on anti-money laundering are clearly important in improving the financial integrity of systems. However, in countries where the formal banking system is not necessarily used by all citizens, and where informal payment systems such as hawala and hundi exist, more contextual knowledge is required to ensure that the associated reforms with recommendations are not box-ticking exercises or a simple translation of unclear terminology from English to local languages. This is an area where more training could help. As mentioned, Kyrgyzstan recently completed its National Risk Assessment. The Financial Intelligence Service noted that they are now beginning to advocate a risk-based approach, which is a relatively new methodology culturally. Banks are not necessarily used to analysing their role in such a way, so more capacity building in this area could be useful.

Even if studied further, a significant challenge in targeting IFFs, money laundering and the black economy is the lack of political will to combat the corruption that facilitates them. Although it may highlight flaws in the system and certain government agencies, in most priority countries, to a varying degree political exposure in business and vested interests are key issues. For example, Kyrgyzstan is currently reviewing its anti-money laundering law. One expert from the Anti-Corruption Business Council said the issue with the AML law was that too few MPs were attending the sessions. They mentioned 'only six out of 120 showed up. The problem is that many MPs come from business, so they are less likely to accept such laws'.[112] A conflict of interest law has also stalled. In Tajikistan, it is rumoured that the president's son-in-law owns a company registered in the British Virgin Islands called Innovative Road Solution, which profited from place toll booths on a road constructed between Dushanbe and Chinak.[113] The Tajikistan Aluminium Company (Talco) is technically a state asset, but a leaked cable from then US Ambassador to Tajikistan Tracey Ann Jacobson said that 'President Rahmon sees it as a means of generating income for himself, his family members, and his inner circle. Although it is a state asset, decisions about the company are not made in the best interests of the country'. It goes on to comment on how such corruption can affect the development of the country: '…as with other industries, Talco's revenue does not contribute to development of the country…the people of Tajikistan effectively subsidize Talco, by living without adequate health services, education or electricity'.[114]

The interests of the 'holy triad' of the political class, administrative/executive class (judiciary, police) and the business class, was highlighted in the Delhi workshop as a prevalent challenge in India. Indeed, whereas addressing political will has been discussed at a national-level, India's added challenge is the implementation of legalisation by the central government in the regional states which sustain illegal practices. In India, political interests of regional leadership often override nation-wide legalisation in a bid for re-election, as 'every politician has a very important businessman' which redirects political interests. In the Delhi workshop, participants regularly noted 'the law on paper was different from the law on the ground'. A regular example was the illegal smuggling of cattle from India into Bangladesh for slaughter, which runs counter to national legislation but is permitted at the state-level as it acquiesces the demands

[111] EAG, 'Tax Crimes and Money Laundering Typology Research' (November 2013), <http://www.eurasiangroup.org/files/Typologii%20EAG/Nalogovye_prestupleniya_Eng.pdf>
[112] Interview with Interviewee H
[113] CA-SNJ, 'Family Business of Emomali Rahmon' (25 May 2014), <http://ca-snj.blogspot.co.uk/2014/05/blog-post_25.html>
[114] US Embassy Dushanbe, 'Back in the USSR at TALCO', <https://wikileaks.org/plusd/cables/08DUSHANBE516_a.html>

of various local ethnic groups who drive the demand for beef. One interviewee noted that tension between the state governments and Delhi extended into issues such as the creation of customs stations, which are staffed by the central government but are paid for at the state government level.

It was noted in the workshop that Delhi has over time created more than 40 committees to tackle problems of IFFs and corruption, but that the black economy in the country is both systemic and systematic. The central government was also criticised in the Delhi workshop for placing heavy emphasis on creating a 'perfect law', which is in turn used as a scapegoat for the failure to address on-going problems in the country. It was clear that while legalisation to combat IFFs and the black economy is needed, more resources needed to be directed towards the implementation of policy.

Section V: The Role of Financial Centres in Facilitating and Preventing Illicit Financial Flows

Perhaps more than NGOs and international donors, financial institutions have significant potential as actors in the fight against global illicit funds. In this study's regions of focus it is apparent that the different identified criminal activities all share an interest in the 'internationalisation of funds' typically requiring access to the international financial system.

The private sector, including mainly financial institutions and/or banks, has long been a part of discussions on how to prevent financial flows from escaping formal economies, and on how to prevent tax evasion and ultimately corruption from being profitable and worthwhile activities.

The FATF – the main international body tasked with preventing the use of the financial system for purposes of money laundering - committed to engaging with the private sector from early on as it recognises that it 'relies on the input from the private sector in order to remain informed about the latest developments.' [115]

International initiatives, for example the FATF Private Sector Consultative Forum, the Wolfsberg Group and state based groups (see the UK's JMLIT)[116] have multiplied in order to try and increase the effectiveness of the anti-money laundering framework. Whereas some of the predetermined objectives have been achieved in a few case studies (the US and EU broadly), these initiatives are mostly successful when cooperation between the different actors exists.

Larger financial centres – Singapore, London, UAE and India to some extent– have been identified through research and the regional based workshops as facilitators of international transfers and smuggling efforts. The UAE has allegedly received over '$434 million from a vast Russian money laundering scheme between 2011 and 2014.'[117] Either through receiving and facilitating the transfer of funds or by allowing its businesses and real estate markets to flourish through the investment of 'less than transparent' funds, these global financial centers must do more to shake the current perception and their role in the problem.

Acknowledging this, governments in the different jurisdictions have, in different ways, attempted to manage their reputation as money laundering centres without great results in terms of actually stemming the illicit flows of money. David Cameron, for example, stated at the time of his premiership, "I'm determined that the UK must not become a safe haven for corrupt money from around the world."[118]. However, London's reputation as money laundering capital or 'centre of the world' [119] is difficult to overcome as millions are thought to continue to make its way through the country. Singapore too recognises its need to improve the reputation of business being done there with a top official affirming, "There is no doubt that the recent findings have made a dent in our reputation as a clean and trusted financial centre".[120]

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[115] FATF, 'FATF Annual Report 2011-2012' (October 2012), p. 34, <http://www.fatf-gafi.org/documents/repository/fatfannualreport2011-2012.html.>

[116] See http://www.fatf-gafi.org/documents/news/private-sector-forum-march-2015.html; http://www.wolfsberg-principles.com/; http://www.nationalcrimeagency.gov.uk/about-us/what-we-do/economic-crime/joint-money-laundering-intelligence-taskforce-jmlit

[117] Sarah Townsend, 'UAE Named in $20bn Russian Money Laundering Scheme - Banking & Finance - ArabianBusiness.com', *Arabian Business* (21 March 2017), sec. Banking and Finance, <http://www.arabianbusiness.com/uae-named-in-20bn-russian-money-laundering-scheme-667886.html.>

[118] Tom Burgis, 'Dark Money: London's Dirty Secret', *Financial Times*, (11 May 2016), <https://www.ft.com/content/1d805534-1185-11e6-839f-2922947098f0.>

[119] Natasha Clark, 'London Is The "money-Laundering Centre of the World" says US Businessman Bill Browder, Who Says UK is "appeasing" Russia | City A.M.', *City A.M.*, (8 November 2016), <http://www.cityam.com/253219/britain-money-laundering-capital-world-says-us-businessman.>

[120] 'Singapore under Pressure over Flow of Illegal Money - Taipei Times', *Taipei Times*, (15 May 2017), sec. Business, <http://www.taipeitimes.com/News/biz/archives/2017/05/15/2003670591.>

The majority of workshop participants were clear about the need to involve financial institutions and larger financial centres to be a part of the solution. It is thought that greater monitoring of financial transactions, better knowledge of client history and better interaction with law enforcement would offer significant improvements to the varied issues identified across the regions.

Firstly, the association of the private sector with trust and the assumption that transactions are monitored and kept within the law would increase the number of people making deposits, wanting to improve their financial literacy and leaving behind the cash based economy

Secondly, a greater independence between power structures and the financial institutions would reduce the ease with which capital is able to cross borders and evade taxation.

Thirdly, and as illustrated by the examples of all major financial centres above, there is an issue of reputation which must be taken into account not just with banks but other private sector actors operating in the region. As identified at workshops, businesses at large adjust to the realities on the ground and participate in the shadow economy or engage in corrupt activities. Sometimes businesses are taken over by criminal groups or corrupt politicians, e.g. it has been reported that in India public officials can get a stake in a business if they provide services to its owners.[121]

Overall, the workshops found that a lack of implementation of anti-money laundering standards among financial institutions and other private businesses alike exists. For example, in Myanmar, the private sector provides ample opportunities to launder the proceeds of illicit activities. In addition, business transactions are often carried out in cash, including purchases of real estate, and less than 25% of the population has a bank account.[122] One of the country's largest real estate developers, Asia World, is known to have its roots in the heroin trade.[123]

In India, financial institutions often do not devote sufficient efforts and resources to AML compliance; many of them are understaffed and have not yet developed a culture of compliance with Know Your Customer rules.[124] Furthermore, and across all case studies, the risk of banks being used to facilitate crime is increased exponentially if they are captured by criminal groups or subject to undue influence by political elites. The Bank of Baroda incident is a prime example: in 2014–2015, a group of employees in one branch of a state-owned Indian bank allegedly conspired with 59 account holders to make suspicious transfers to foreign destinations totalling US$922 million.[125]

Notwithstanding, India's financial system is regarded as better regulated than those of its neighbours, e.g. Myanmar and Bangladesh, and there are reports of funds being moved from India to neighbouring countries and then sent onward to offshore financial centres.[126]

Similarly, laundering through real estate appears to be particularly common in Tajikistan and Pakistan. It has been reported that in Pakistan the source of the purchaser's funds or even his/her identity are often not properly identified, whilst payments can be made in cash.[127]

Poor AML controls also facilitate IFFs in Kyrgyzstan. The US 2017 International Narcotics Control Strategy Report notes '[w]eak political will, resource constraints, inefficient financial systems, and corruption' as

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[121] The Economist, 'Fighting corruption in India: A bad boom' (15 March 2014).
[122] US Department of State, 'International Narcotics Control Strategy Report, Volume II: Money Laundering and Financial Crimes' (2017), p.56.
[123] Thomas Fuller, 'Profits of Drug Trade Drive Economic Boom in Myanmar' (5 June 2015), The New York Times.
[124] Delhi workshop.
[125] Nyshka Chandran, 'How a $1B banking swindle took place in India's capital' (21 October 2015), CNBC.
[126] Delhi workshop.
[127] Safiya Aftab, 'Post 2014: The Regional Drug Economy and Its Implications for Pakistan' (February 2014), p.15; US Department of State, 'International Narcotics Control Strategy Report, Volume II: Money Laundering and Financial Crimes' (2017), p. 138

major impediments to fighting money laundering in Kyrgyzstan.[128] Although there are no reliable statistics, drug trafficking appears to generate most criminal proceeds in Kyrgyzstan, so the lack of adequate AML controls is of direct relevance to fighting illicit drug trade.[129]

Compared to other focus countries, Kyrgyzstan has a relatively 'liberal' financial system in that international transfers and currency operations can be made easily, probably reflective of the fact that over 30% of the Kyrgyz GDP depends on remittances from abroad. This is also the result of improvements in corporate governance undertaken by the Kyrgyz government to meet international standards in order to operate and conduct transactions in US dollars. It has been reported that residents of Uzbekistan, who are subject to strict currency controls, use Kyrgyz banks to make international transfers or convert currency and then smuggle the cash to Uzbekistan.[130] However, there is also anecdotal evidence of some reluctance on the part of the Kyrgyz population to use formal financial institutions,[131] particularly in rural areas. This hinders the government's current drive to encourage cashless transactions. In Kyrgyzstan, for example, credit is used a lot through banks and microfinance, but deposits are not as widespread.[132]

In Afghanistan and Pakistan, much of the illicit finance is believed to be invested in Dubai property.[133] An NGO expert in Pakistan also said that money was often taken out through small cargo vessels, travelling from Karachi to Dubai. In addition, funds are often moved via informal value transfer systems in Pakistan, and although the law says that hawaladars must be registered, lacking supervision means that unlicensed hawaladars are widespread.[134] Hawaladars are also prevalent in Afghanistan, where only 10% of the population had a bank account as of 2014.[135]

Workshop data essentially points out the different ways in which illicit flows are free to move across borders without meaningful control and essentially due to the lack of implementation of already existing legal frameworks and enforcement.

In which ways can the private sector and banks help to stem the flow of illicit funds?

Global efforts to improve the conditions under which financial institutions are able to identify, monitor and prevent illicit financial flows making their way through the system are being led by international organisations, states and the private sector.

Assuming that financial institutions are not captured by regional criminal organisations and are able to follow wider group policies (set at an international level), and the global anti-money laundering requirements, their role in these efforts is essential.

Throughout the recent uncovering of numerous global laundromats, tax evasion, illicit funds and facilitating of 'national endemic' corruption, a few core measures have been identified as being essential.

As the principal element of complying with international requirements, Knowing Your Customer and acting accordingly is core business. Further to the FATF Recommendations – mostly implemented as national legislation across the world – the principle of customer due diligence (CDD) defined under Recommendation 10[136] requires relevant institutions to identify their customers (persons and institutions),

[128] US Department of State, 'International Narcotics Control Strategy Report, Volume II: Money Laundering and Financial Crimes' (2017), p. 120
[129] Ibid.
[130] Bishkek workshop.
[131] Bishkek workshop.
[132] Interview with Interviewee G
[133] Interview with Interviewee J
[134] US Department of State, 'International Narcotics Control Strategy Report, Volume II: Money Laundering and Financial Crimes' (2017), p.138
[135] FATF, 'Financial flows linked to the production and trafficking of Afghan opiates' (June 2014), p.15
[136] "Financial institutions should be prohibited from keeping anonymous accounts or accounts in obviously fictitious names…."

and make sure that no business is carried out without obtaining some form of adequate identification. Although it has evolved and changed over the years, CDD generally defines a basic requirement for financial and non-financial businesses to identify their customers as well as the beneficial owners of those transactions through a set of defined procedures suggested by FATF.

Following this general principle and in order to address the different corruption problems identified, making sure that the accounts of 'Politically Exposed Persons' are afforded additional monitoring and controls would be an important step towards preventing tax evasion but also the illicit enrichment of elites.

This additional monitoring normally takes place through the enforcement of what is known as an 'enhanced due diligence' process entailing additional checks, analysis by senior bank staff, and a more in-depth understanding of the origin and destination of funds.

As part of the three-step approach described above, the training of bank staff on any specific anti-corruption measures that may have been adopted at regional or national level could provide a significant increase in effectiveness. The holistic and strict implementation of the AML framework means that there is little chance for corrupt practices to make it through the controls in place. In order to achieve this, bank staff need to understand and apply all available knowledge in a strict, independent and consistent manner.

The emergence of internal corruption is, however, still possible and therefore internal compliance manuals should include the recognition and reinforcement of the element of 'independence' of the compliance function. Above all, the ability to report senior and other colleagues to internal audit and, finally, the absence of persecution or any financial or career related penalties as a result of whistleblowing activities should be firmly stated in firms' practices.

Overall, the way in which financial institutions could contribute to the fight against illicit financial flows in the focus region is, predictably, by implementing the existing legal framework as effectively as possible. Having the ability to monitor transactions and know customers is a prerogative that financial institutions should use not only to improve their own compliance systems but also in order to provide law enforcement and others with adequate information.

A final suggestion from this research is linked to the need for additional and more functional information sharing between the actors (public and private) involved. Given the identified complex political and economical scenarios, the open and trusted sharing of information is perhaps a distant reality. Nevertheless, good practices in information sharing between all should be promoted and shared in order to make the overall action significant. The ability to, for example, share with other financial institutions where 'dirty money' is heading would enable the proper communications being made to authorities, thus ending the flow of illicit funds. In addition, sharing data on criminals or suspected criminal activity with law enforcement is the basis for tackling this kind of activity and fostering its prevention.

In addition, increased transparency of transactions, ownership and customers would lead to a greater ability to determine where investments are headed and in what areas – i.e. real estate –other actors should work towards when improving controls.

Despite the fact that the suggestions above could greatly improve the role played by financial institutions in this field, such cannot happen in silo and must be accompanied by a wider effort of the varied actors involved, particularly government and law enforcement. Whereas financial institutions have significant potential as actors in the fight against money laundering and global illicit funds, significant change will not occur unless massive change occurs at the governance levels.

As suggested by this research, private sector's impact on the efforts to prevent illicit financial flows from infiltrating formal economies will not reach significance if part of the governance models are dependent or accepting of informal economies and illicit practices. As such, part and parcel of any programme to achieve the above should focus on fostering will for change and making a case for good governance. Zero tolerance on corrupt practices led by incentives to report illegal behaviour would most likely lead to the desired better governance, trust in the relevant institutions and stronger capital controls that is the overall aim of the majority of international donor programmes.

Section VI: Assessment of Efforts by International Donors

There were both negative and positive comments about how effective efforts by international donors have been in tackling IFFs. As mentioned, a suggestion was that resources are focused on understanding IFFs better both nationally and internationally, as relevant to each priority country. Solely focusing on regional trends and flows is less productive until a more detailed evidence base is formed.

International donor initiatives in the area of IFFs have tended to focus on anti-corruption and transparency. Although anti-corruption and transparency initiatives were certainly welcomed, there were also perceived weaknesses. For example, in Kyrgyzstan there is a system whereby public officials have to declare their income, property and liabilities. Numerous people spoken to in Bishkek said that, although public officials tended to comply, a weakness was that nothing further was done to analyse and question incomes and assets. One representative from an international financial institution said that, although there are declarations, 'an oligarch will put his mother who is in her 90s as a shareholder of a Ukrainian company, claiming not to be involved in the business'.[137] Again, weak enforcement is still a key issue, with their little political appetite to tackle vested interests. In countries where civil society is more developed, such as Kyrgyzstan, such declarations at least add to the public record for analysis. However, it then depends on how much political will there is to address civil society findings.

Certain provinces in Pakistan have also passed 'right to information' acts, which allow citizens to request information from government, and were passed in the Khyber Pakhtunkhwa and Punjab provinces in 2013.[138] Sindh province approved a similar bill in March 2017. However, as one NGO representative based in Pakistan said, Pakistan's other provinces and the federal government more broadly need to have such laws and ensure proper implementation.[139]

An area that would certainly benefit from genuine transparency initiatives pertains to government procurement contracts in most priority countries studied. This is particularly relevant in light of China's One Belt, One Road, which has already seen a huge surge of investment into the Central, South and Southeast Asian regions. These are often accompanied by non-transparent loan agreements or grants and there is a perception across Central Asia that Chinese contracts often involve bribery, particularly to political interest.[140] There have been previous allegations that Chinese deals in countries like Kazakhstan have included payments that personally enrich the political elite.[141] In Myanmar, the lure of Chinese investment overrides that of the West given the blind eye that is turned to issues of human rights in exchange for economic and political support.[142] Whereas studies such as that by Global Witness over the military junta's monopoly of the jade industry was of concern to the West, the demand of jade in China and the ownership of industries matters little to Beijing.[143]

Moreover, as already mentioned, given the sensitivities around corruption in Central Asia, donors may benefit from trying to rephrase how they approach government engagement on such issues. This is in part due to the risk of governments losing interest in donor initiatives. An NGO expert in Tajikistan noted, for example, that the government of Tajikistan, which had previously supported some of their transparency initiatives, were now 'losing interest' as they did not directly result in foreign investment. Therefore, the

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[137] Interview with Interviewee N
[138] Dawn, 'The right to information' (20 February 2016), <https://www.dawn.com/news/1240632>
[139] Interview with Interviewee J
[140] 'China's Eurasian Pivot', RUSI Whitehall Paper, May 2017
[141] Financial Times, 'China's Silk Road in Central Asia: transformative or exploitative?' (27 April 2016), <https://www.ft.com/content/55ca031d-3fe3-3555-a878-3bcfa9fd6a98>
[142] Washington Post, 'Myanmar, having warmed to the West, turns to China again' (27 May 2017), <https://www.washingtonpost.com/politics/myanmar-having-warmed-to-the-west-turns-to-china-again/2017/05/27/cce29106-42a6-11e7-b29f-f40ffced2ddb_story.html?utm_term=.eebc8c613d05>
[143] Financial Times, 'The dark shadow of Myanmar's jade trade' (26 September 2016), <https://www.ft.com/content/cf46e086-6909-11e6-a0b1-d87a9fea034f>

NGO had rephrased their work in terms of increasing efficiency in Tajikistan.[144] A representative from the OSCE in Tajikistan said that the same is applicable to anti-corruption and human rights which are 'acidic' terms in Tajikistan. While a more open discussion surrounds issues such as corruption in South and Southeast Asia, framing assistance in terms of anti-money laundering may be more effective. In particular, framing issues within the scope of furthering the financial and economic integration of Southeast Asia as part of ASEAN's Economic Community would be beneficial.

One point raised in the Bishkek workshop was specific to Kyrgyzstan but likely applies to other countries. They noted that, although working with civil society in Kyrgyzstan is positive, they felt that international donors, including DfID, should be aware that the sector has become 'commercialised'. A representative from an international financial institution in Bishkek noted that donors should be more selective with NGOs, as there is a risk of giving the 'same grants over and over', running the risk of quality over quantity. They noted that donors should ensure start-ups are invested in so that 'unspoilt human capital gets a chance before it is corrupted'.[145] To combat some of this, a suggestion was that international donors should stop giving grants, as these do not necessarily incentivise development.

A key criticism of international donors in a number of the priority countries was a perception of duplication of efforts and lack of coordination.[146] One Bishkek workshop participant said, for example, that judicial reform was something that numerous aid organisations and donors, such as Swiss Agency for Development and Cooperation, USAID, the EU and GIZ were working on. There was also criticism in Tajikistan of a lack of willingness to communicate, indicating that significant donors did not wish to divide up roles on issues like border management and work together in one area. The World Bank stood out to one individual as doing an admirable job in Tajikistan, because they have added an anti-corruption programme to everything they do and, most importantly, they require financial reporting for any donation they make.[147] For Afghanistan, it was noted that the security situation in Afghanistan often physically prevented donors from coordinating, as they were confined to their own compounds.[148]

There was also the perception that donors may at times be naïve about the financial motivations of government departments with which they were working. There was the perception in Kyrgyzstan that 'donors are trying to fix too much in Kyrgyzstan at once…any offer is accepted in Kyrgyzstan, because all [government] departments want a piece of the pie'.[149] Therefore, there is a perception that aid may be used simply to enhance budgets of government departments. A consultant examining corruption at the border between Afghanistan and Tajikistan reinforced this point saying there is a risk that 'both governments are playing a bit of a game…they want the same products from all donors and will therefore ask for more than they need. Donors need to make sure that the requested equipment is needed and not being misused'.

Another criticism of foreign donors during the Bishkek workshop was whether the level of technical expertise was good enough. The perception was that Central Asia is not necessarily a priority area for donors, so 'good specialists don't come to Central Asia'. There was further criticism that it was treated like a box-ticking exercise and therefore not focused on results. There was also the perception that the same data or project work is 'recycled' through the international organisations. One NGO specialist said they knew someone at UNDP who had conducted analysis on corruption in the healthcare sector. This individual then worked at the ADB and subsequently OSCE, allegedly using the same report. Another spoke of the fact that a 'find and replace' function had clearly been used in a report, demonstrating the fact that it was not country specific.

[144] Interview with Interviewee I
[145] Interview with Interviewee N
[146] Bishkek workshop; interview with Interviewee O
[147] Interview with Interviewee A
[148] Interview with Interviewee O
[149] Bishkek workshop.

In Bishkek there was a perception that foreign interventions focus too much on improving legislation. Although it was acknowledged that this is of course the first step towards improved governance, it is difficult when enforcement is still weak. One idea was to help those in government understand and interpret the law correctly, i.e. walking them through what it means in practice.[150] A suggestion from someone from the FIU in Afghanistan noted that, instead of capacity building, donors should concentrate on the specific vulnerabilities that are being exploited by criminal groups or other stakeholders in IFFs.[151] In the India workshop, it was noted that the recommendations and regulations provided by international organisations, such as FATF, led to local institutions in India to be inundated with information and data that they were unable to process due to capacity limitations. In India, participants noted that it was 'humanly impossible' for banks to even run Know Your Costumer (KYC) checks due to the sheer amount of data to process. Legislation therefore needs to be smarter and more applicable to the countries' capacity level, while still maintaining a minimum common base, for example financial regulations, across the region. A practical solution to this has been the Aadhaar biometric ID system to regulate government services such as healthcare to citizens. Aadhaar, however, is also used in financial regulation as well to regulate four basic banking transactions: balance enquiry, cash withdrawal, cash deposit and Aadhaar to Aadhaar Funds Transfer.[152] In their efforts to address IFFs and regulate the financial systems in South and Southeast Asia, aid organisations could therefore look towards practical solutions which first and foremost help build capacity to register citizens in a formal system, before embarking on high-level legislation which can at times overlook such basic issues.

A UNDP border management programme between Tajikistan and Afghanistan was praised as being effective, partly because of the long-standing participation of the project manager. In-depth and long-term engagement is crucial to building trust. The UNDP runs an annual programme of 'building bridges' which brings together middle to high ranking officials from the border agencies of Afghanistan and Tajikistan to discuss challenges. This was deemed a success, because the human relationships are important to facilitate cooperation. In the India workshop and related interviews, the issue of border management was key. Here, greater attention is needed to creating official border crossings in the region, of which the existing numbers along some borders are grossly inadequate and promote the ruse of informal trading routes.

[150] Interview with Interviewee H
[151] Interview with Interviewee P
[152] National Payments Corporation of India, 'Aadhaar Enabled Payment System Overview' <http://www.npci.org.in/AEPSOverview.aspx>

Section VII: Recommendations

Recommendations based on this study's findings are essentially aimed at improving local conditions, based on assessed shortcomings. The research team furthermore suggests best-practices to be implemented in future donor programmes.

1 – Regional cooperation is needed to address the inefficiencies that encourage illicit financial flows. For example ASEAN or the BBIN group (Bangladesh, Bhutan, India, Nepal group) should be prioritising the development of regional trade solutions; SAARC was viewed as inefficient and a dead-end due to the involvement of Pakistan.

2 – Greater efforts to implement international and regional legal frameworks - through culturally sensitive technical assistance - should be pursued especially as it relates to the anti-money laundering, anti-tax evasion and anti-corruption frameworks.

3 – Strengthening security across borders and at national level is key to allow for the proper development of any reform programme. In addition to being essential for preventing illegal border crossings, the feeling of insecurity among populations often drives people to join criminal organisations.

4 – Strengthening the role of the private sector and financial institutions in order to increase financial inclusion and trust in the banking system.

5 – Supporting anti-tax evasion and tax avoidance practices through the proper implementation (and law enforcement support) of *know your customer* and other key FATF recommendations on politically exposed persons and beneficial ownership.

6 – Training civilians and state officials to uphold and promote good governance practices across government. Lack of awareness and culture regarding the need to fight corruption is still below desirable and education must be supported.

7 – Continuing to gather data demonstrating the real effects of illicit financial flows. Evidence of the serious impact on development caused by illicit financial flows is still lacking and could be helpful to justify future investments.

8 – Donors should provide support towards information gathering and analysis into IFFs and money laundering relevant to each priority country as well as across the priority region. As mentioned, the flows are not necessarily 'regional' i.e. uniform across the priority countries, and these countries do not see themselves as a region. Such studies should be done in each priority country, but findings should be shared across them where appropriate. Information sharing through initiatives such as the Central Asian Regional Information and Coordination Centre (CARICC) could be beneficial.

9– Supporting willing state structures in their efforts to carry out reforms. Programmes should be designed with specific objectives and specific outcomes (and outputs) in order to preserve accountability, transparency and to avoid the misuse of funds and resources.