

# India drained of billions by illicit cash dealings

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MUMBAI – India has lost hundreds of billions of dollars over the past six decades as companies and the rich stashed cash overseas to avoid taxes and hide ill-gotten gains, widening inequality and depriving the poor of crucial resources.

A report by Dev Kar, a former International Monetary Fund economist, shows the flood of illegal cash has swelled to ever greater heights since the early 1990s, and averaged US\$16 billion a year from 2002 to 2006, as India's opening of its economy created more wealth and opportunities to move it across borders.

Kar, now senior economist at Global Financial Integrity, a Washington D.C. group that researches the flow of illicit money, said India's black money – at least US\$462 billion since the late 1940s – could have paid for its entire infrastructure needs and much else.

"We could have had better schools, better health services, better nutrition programs for the poor. Children could have been vaccinated and given access to fresh drinking water," he said.

The gap between India's rich elite and the poor, in their hundreds of millions, has widened amid rapid economic growth over the past two decades, adding to social tensions, and the report says the funneling of wealth overseas has contributed to inequality.

"The high net worth individuals are the ones driving illicit flows," Kar said. "The average Joe Bloke is eking out a living. He's not connected to the global world and even if he were, he doesn't have enough money."

The Ministry of Finance and the ruling Congress Party did not comment on the report.

Other analysts aren't taking issue with Kar's research methods but question whether the blame should be pinned on companies and privately wealthy individuals. They argue the government and corrupt politicians are the main culprits.

Kar used a World Bank model to measure the gap between the nation's recorded sources of funds, such as borrowing and foreign direct investment, and its recorded use of funds, such as financing the current account deficit and foreign currency reserves.

Illicit outflows are considered to exist the former exceeds the latter.

Kar also looked at differences between the value of what India says it exports and what other nations say they import from India. This captures practices such as understating the value of export contracts to hide money overseas.

Adjusted for inflation, that all added up to US\$213 billion missing since 1948, the first full year of India's independence. Kar calculated that money would be worth, at a minimum, US\$462 billion today.

And that figure could be understated by half, he said, partly because it doesn't cover harder to track activities including smuggling and cash transfers outside the financial system.

Nishith Desai, founder of an international tax and corporate law firm based in Mumbai, argues that corrupt officials and government agencies have more to do with illicit money than tax avoidance in the private sector.

As individual tax rates dropped – from as high as 97.5 per cent in the 1970s to about 30 per cent today – the major motivation for tax avoidance evaporated. In its wake however, is a culture of evasion only now beginning to erode, he said.

Desai said officials, who face public scrutiny when they accumulate wealth while on a low government salary, have more motivation to stash illicit money overseas than company executives, and the government, as India's biggest trader, likely



The gap between India's rich elite and the poor has widened amid rapid economic growth over the past two decades. Photo / AP

indulges in more manipulation of export and import contracts.

Much private-sector corruption is also done under government compulsion, he said. Though economic liberalisation ended the "License Raj" – during which New Delhi kept tight, lucrative control of business permits – opportunities for corruption remain.

Private players moving into sectors like telecoms and banking still need licenses. This week, the telecom minister resigned over alleged licensing irregularities that may have cost the treasury 1.76 trillion rupees (US\$39 billion).

The government is also the major intermediary in land deals. Desai and others say bribes are common in land sales, which are proliferating.

The report shows the tide of money has been unrelenting, even as India makes some efforts to clamp down on the hidden economy.

The government has ramped up tax collection and renegotiated its tax treaty with Switzerland to give it greater access to information for investigations of tax fraud.

It already has good access to Many hope the government's ambitious plan to give every citizen a unique identity number will also widen the tax net.

But critics say such gestures will do little to stem growing popular frustration at India's elite. "Catch some of those Bollywood fellows and cricket stars and make an example out of them," Kar said.

– AP