



## FATF's Mutual Evaluation Report on India

**For Prelims:** [FATF \(Financial Action Task Force\)](#), [Money Laundering \(ML\)](#), [Terrorist Financing \(TF\)](#), [G20](#), [JAM \(Jan Dhan, Aadhaar, Mobile\) Trinity](#), [Terrorism](#), [Gujarat International Finance Tec-City \(GIFT City\)](#), [foreign direct investment \(FDI\)](#).

**For Mains:** Challenges, Initiatives, Problem of Money Laundering (ML), Terrorist Financing (TF) for India.

[Source: LM](#)

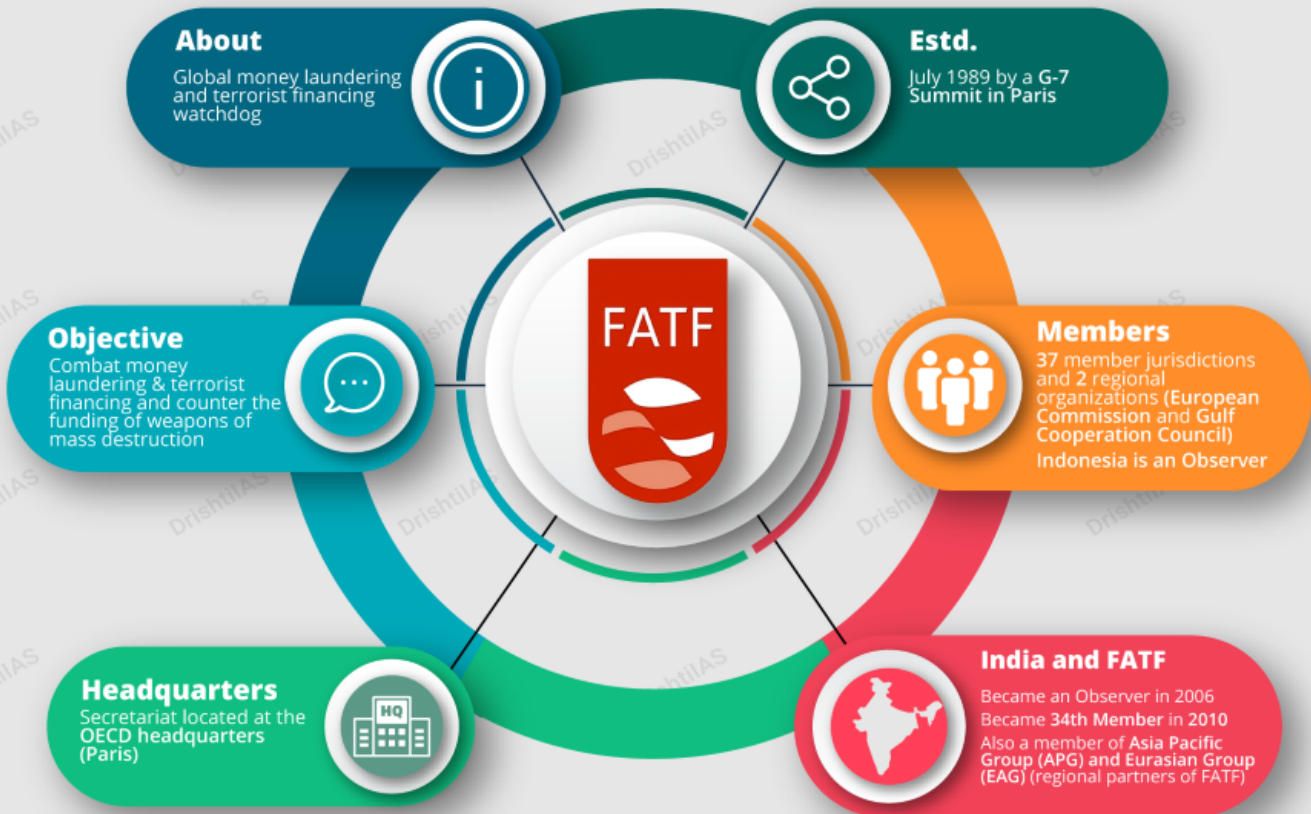
### Why in News?

Recently, the [Financial Action Task Force \(FATF\)](#) issued a **Mutual Evaluation Report (MER)** on India, approved during their plenary session in Singapore. The MER report specifically assessed India's efforts in combating [Money Laundering \(ML\)](#), [Terrorist Financing \(TF\)](#) and **proliferation financing**.

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# Financial Action Task Force



## FATF Lists

- **Grey List:**
  - Aka "**Increased Monitoring List**"
  - Includes countries considered safe haven for supporting terror funding and money laundering
  - Serves as a warning that the country may enter the blacklist
- **Black List:**
  - Includes **Non-Cooperative Countries or Territories (NCCTs)** that support terror funding and money laundering activities
  - Countries - **Iran, North Korea and Myanmar**
- **Consequences of being Greylisted:**
  - **Economic sanctions** from financial institutions affiliated with FATF (IMF, World Bank, ADB)
  - **Problem in getting loans** from such financial institutions and countries
  - **Reduction in international trade**
  - **International boycott**

## What are the Highlights of the MER Report on India?

- **Regular Follow-Up Category:**
  - **India** has been classified into the '**regular follow-up**' category, joining **Russia, France, Italy, and the UK**, also designated in this category.
  - Under the 'regular follow-up' category, India is required to submit a progress report on recommended actions by October 2027.
    - FATF categorises member countries into four groups: **regular follow-up, enhanced follow-up, grey list, and black list.**
    - Regular follow-up is the top category **amongst 4 and only 5 countries** in **G20** including India have been placed in regular follow-up after the Mutual evaluation report.
  - India has achieved strong results and a high level of **technical compliance**, yet it must address delays related to prosecutions for **money laundering and terrorist financing.**
- **Digital Economy Through JAM Trinity:**
  - India's transition to a digital economy, facilitated by the **JAM (Jan Dhan, Aadhaar, Mobile) Trinity** and stricter cash transaction regulations, has successfully mitigated risks associated with **ML, TF, and proceeds from crimes such as corruption** and organised crime.

## What is the Significance of the MER Report on the Indian Economy?

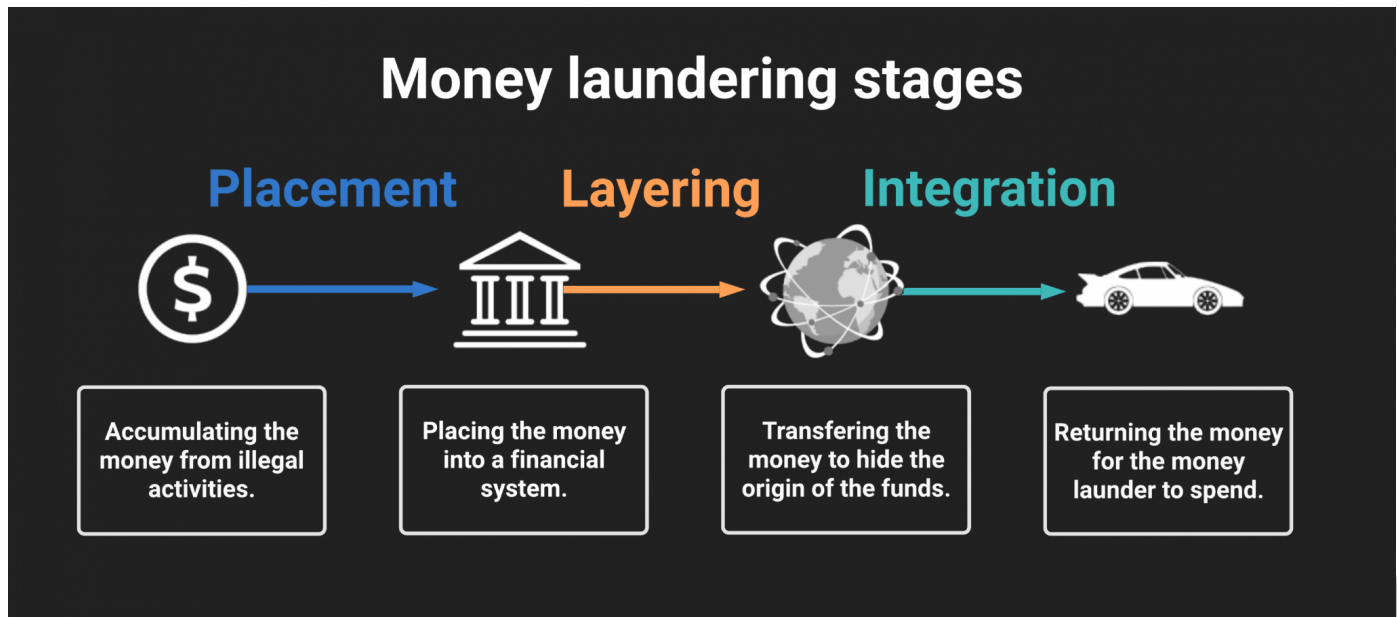
- **Enhanced Global Financial Reputation:**
  - The positive FATF evaluation demonstrates India's robust **financial system**, boosting international confidence. This could support initiatives like the **Gujarat International Finance Tec-City (GIFT City)** in attracting more international financial institutions.
  - This improved reputation can lead to better **credit ratings, potentially lowering borrowing costs** for Indian entities in global markets.
- **Increased Foreign Investment:**
  - A trustworthy financial system is likely to attract more **foreign direct investment (FDI)**. In sectors like **fintech and e-commerce**, where financial integrity is crucial, companies like **Amazon and Walmart** have already made significant investments in India.
- **Expansion of Digital Payment Systems:**
  - The report's endorsement supports the global expansion of India's **Unified Payments Interface (UPI)**. This could lead to wider acceptance of UPI in international markets as **UPI is already operational in countries like Singapore and UAE**, with plans for expansion to more nations.
- **Boost to India's Fintech Industry:**
  - The positive evaluation could accelerate the growth of India's Fintech sector. Fintech **companies like Paytm and PhonePe** could find it easier to expand internationally. It may attract **more venture capital and encourage innovation** in areas like blockchain and digital currencies.
- **Enhanced Remittance Flows:**
  - With improved financial systems, remittances from Non-Resident Indians (NRIs) could become more **efficient and cost-effective** and can increase the volume of remittances, which are a significant contributor to **India's foreign exchange.**

## What is Money Laundering and Terrorism Financing (ML/TF)?

- **Money Laundering (ML):**
  - Money laundering is **concealing or disguising the identity of illegally obtained proceeds** so that they appear to have originated from legitimate sources.
  - It is frequently a component of other, much more serious, crimes such as **drug trafficking, robbery or extortion**. According to the IMF, global Money Laundering is estimated between **2 to 5% of World GDP.**
- **Terrorism Financing (TF):**
  - **Terrorism financing** is the act of providing financial support to terrorists or terrorist organisations to enable them to carry out terrorist acts or to benefit any terrorist or

terrorist organisation.

- While funds **may come from criminal activities, they may also be derived from legitimate sources, for example, through salaries, revenue from legitimate business or donations** including through non-profit organisations.
- There are generally three stages in terrorism financing: **raising, moving and using funds.**



### What are the Concerns and Suggestions Suggested by FATF for India?

Concerns	Suggestions
<ul style="list-style-type: none"> <li>▪ <b>Vulnerability of Non-financial Sectors:</b> Non-financial sectors may be vulnerable to money laundering and terrorist financing due to weaker oversight. Example, <b>Real estate sector in India</b>, which has been known to be susceptible to illicit financial activities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ There is a need for stronger due diligence processes for high-value property transactions or improved reporting mechanisms for suspicious activities in non-financial sectors as well as enhance the capacity of India's <b>Financial Intelligence Unit (FIU-IND)</b> to analyse and disseminate high-quality financial intelligence.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Prolonged Legal Processes:</b> It may hinder the effectiveness of AML/CFT(<b>Anti-Money Laundering/Combating the Financing of Terrorism</b>) efforts and potentially allow criminals to evade justice. <ul style="list-style-type: none"> <li>◦ For instance, cases related to high-profile economic offenders who have fled the country have faced significant delays in prosecution and asset recovery.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ It requires a <b>multi-faceted approach, potentially including judicial reforms, capacity building for law enforcement and judicial officers</b> in financial crime matters, and enhanced use of technology in the judicial process.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Virtual Asset Risks and Transnational Organized Crimes:</b> The growing use of virtual assets (cryptocurrencies) poses new challenges for AML/CFT regimes. <ul style="list-style-type: none"> <li>◦ Ineffective international cooperation hinders efforts to <b>combat cross-border financial crimes.</b></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ India needs to develop more <b>comprehensive regulations and supervision mechanisms</b> for virtual asset service providers to prevent their misuse for money laundering or terrorist financing.</li> <li>▪ to improve its mechanisms for sharing information and cooperating with other countries in cases</li> </ul>

involving **transnational organised crime or cross-border money laundering schemes.**

## What are India's Efforts to Combat ML/TF?

### ▪ Effort At National Level:

- **Prevention of Money Laundering Act (PMLA):** It was enacted in **2002** and provides a **comprehensive legal framework** to combat money laundering in India.
- **Enforcement Directorate (ED):** ED is the principal agency responsible for enforcing PMLA in India. It investigates and prosecutes cases of money laundering.
- **Financial Intelligence Unit-India (FIU-IND):** It was established in **2004**, **FIU-IND** is the central national agency responsible for receiving, processing, analysing, and disseminating information relating to suspect financial transactions to enforcement agencies.
- **Banking Regulations:** The RBI and other financial regulators have implemented stringent guidelines for **banks and financial institutions to prevent money laundering and ensure KYC (Know Your Customer) compliance.**

### ▪ Effort At Global Level:

- **United Nations Conventions:** India has ratified various UN Conventions related to combating terrorism and money laundering, such as the **UN Convention against Transnational Organized Crime (UNTOC)** and its protocols.
- **Bilateral and Multilateral Agreements:** India engages with **Interpol, and the United Nations Office on Drugs and Crime (UNODC)** to align its efforts with global standards and participate in capacity-building programs to combat money laundering and terrorist financing.

### **Drishti Mains Questions:**

**Assess India's progress in enhancing its anti-money laundering and counter-terrorist financing regime. What key challenges and measures should India prioritise to effectively address these identified issues?**

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### **Prelims**

**Q. With reference to digital payments, consider the following statements: (2018)**

1. BHIM app allows the user to transfer money to anyone with a UPI-enabled bank account.
2. While a chip-pin debit card has four factors of authentication, BHIM app has only two factors of authentication.

**Which of the statements given above is/are correct?**

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Ans: (a)**

**Mains**

**Q.** Discuss how emerging technologies and globalisation contribute to money laundering. Elaborate measures to tackle the problem of money laundering both at national and international levels. **(2021)**

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