Indian Economy · GS - III

Discuss counterfeit currency and money laundering as major sources of terror funding in India. State the actions being taken at International level to check these menaces. Highlight the role of Financial Action Task Force (FATF) and methods of compliance by its member states in preventing terror funding.

EXAM YEAR	PAPER	SUBJECT
2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Counterfeit currency, terror finance, money laundering, FATF, AML/CFT, PMLA, FIU-IND, KYC, beneficial ownership, suspicious transaction reporting, mutual evaluation

Model Answer

Counterfeit currency and money laundering can facilitate terrorism by generating, moving and disguising illicit financial resources. Counterfeit currency can directly generate illegal proceeds and enter legitimate financial channels through laundering. FATF has identified links between counterfeiting, money laundering and terrorist financing and highlighted the need for financial intelligence and preventive controls.

India addresses these risks through the Prevention of Money Laundering Act (PMLA), UAPA, Financial Intelligence Unit-India, KYC requirements, suspicious transaction reporting, asset attachment and inter-agency financial investigation. Internationally, cooperation occurs through FATF standards, UN measures, regional bodies such as APG, information sharing and cross-border asset recovery.

FATF is the principal global standard-setter for AML/CFT. Its Recommendations establish a common framework covering customer due diligence, beneficial ownership, suspicious transaction reporting, targeted financial sanctions, international cooperation and confiscation.

Member-state compliance operates through:

1. National risk assessment and risk-based AML/CFT systems.
2. Domestic legislation criminalising money laundering and terrorist financing.
3. Financial-intelligence mechanisms and reporting obligations.
4. Identification and verification of beneficial owners.
5. Freezing and confiscating terrorist assets.
6. International cooperation and information exchange.
7. FATF mutual evaluations assessing both technical compliance and effectiveness.

FATF's 2024 assessment found India had achieved a high level of technical compliance and good results in areas including financial intelligence, international cooperation and asset deprivation, while identifying areas requiring improvement, including delays in ML/TF prosecutions.

Therefore, combating terror finance requires not merely blocking transactions but dismantling the financial networks that generate, transfer and conceal illicit funds.

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