



WORKING PAPER

JULY 2018

# Follow the Money: India Should Become an International Leader in Financial Intelligence

Neil Noronha

For your convenience, this document contains hyperlinked source notes indicated by this teal colored text.

© 2018 Carnegie Endowment for International Peace. All rights reserved.

Carnegie does not take institutional positions on public policy issues; the views represented herein are the author's own and do not necessarily reflect the views of Carnegie, its staff, or its trustees.

No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from the Carnegie Endowment for International Peace or Carnegie India. Please direct inquiries to:

Carnegie Endowment for International Peace  
Publications Department  
1779 Massachusetts Avenue NW  
Washington, DC 20036  
P: +1 202 483 7600  
F: +1 202 483 1840  
[CarnegieEndowment.org](http://CarnegieEndowment.org)

Carnegie India  
12, Dr. APJ Abdul Kalam Road  
New Delhi, India  
110011  
P: +011 4008687  
[CarnegieIndia.org](http://CarnegieIndia.org)

This publication can be downloaded at no cost at [CarnegieIndia.org](http://CarnegieIndia.org).

## Introduction

As reflected in India's move from a Neighborhood First policy to an Act East policy, Prime Minister Narendra Modi unequivocally wants India to assume an increased role in world affairs. Such aspirations entail more responsibilities in upholding the peace and prosperity of the world order. One such responsibility is protecting the integrity of the international economic system from illicit threats, such as corruption, money laundering, counterfeit currency smuggling, and tax evasion.

Financial intelligence is a field within the purview of the central government that helps Indian law enforcement and intelligence agencies understand the nature, capabilities, and intentions of entities of interest so as to identify such threats. Activities in this field include the collection, receipt, analysis, collation, and dissemination of intelligence, both foreign and domestic, related to financial services, taxes, international trade, and foreign and domestic currency.

New Delhi understands that protecting the integrity of the international economy is not a job for one country only; all states participating in this system must contribute and cooperate with one another. However, many countries do not have sufficient infrastructure or technology to monitor illicit financial threats within their own economies. Thus, through its membership in and sometimes chairmanship of various regional bodies, India has sought to empower its neighboring countries to develop and mature their own capabilities and financial intelligence apparatuses. In turn, it has become a leader in this field within the South Asian region.

However, in line with its foreign policy ambitions, New Delhi also should aim to become an international leader in financial intelligence. To solidify a claim to global leadership in this field, the central government must first reform its own financial intelligence apparatus, increase the number and scope of its international activities, and assume leadership of international organizations. Doing so would help New Delhi make a case to the international community for its leadership. To assess both the desirability and feasibility of an Indian bid for expanded leadership, it is useful to understand the trajectory of India's international engagement in financial intelligence.

## India's International Engagement in Financial Intelligence

As economic liberalization took hold in India in the 1990s and the pervasiveness and complexity of illicit financial threats grew, the need to engage internationally in financial intelligence arose. Only during this period did New Delhi begin developing the requisite legal mechanisms and institutional infrastructure.

## Becoming a Member of the International Counter-Ilicit Financing Regime

Lucrative drug trafficking in the 1980s motivated the international community to expand the concept of illicit finance to include proceeds gained from the transactions in illicit goods. The 1988 [United Nations \(UN\) Vienna Convention](#), which [India ratified](#) in 1990, criminalized the financing of any offenses involving the illicit production, distribution, or sale of drugs. The following year, at the G7 summit in Paris, a group of countries came together to formalize an intergovernmental body to combat money laundering. As a result, the [Financial Action Task Force \(FATF\)](#) was established in 1989 to set standards and promote implementation of legal, regulatory, and operational measures to combat money laundering, terrorist financing, and other illicit financial threats. Thus, the international regime on anti-money laundering/counterterrorist financing (AML/CTF) came into existence.

In 1998, India officially entered the AML/CTF international regime by joining the [Asia/Pacific Group on Money Laundering \(APG\)](#), an FATF-style body focused on implementing AML/CTF initiatives in the Asia Pacific region. As required of all APG members, [New Delhi underwent](#) a mutual evaluation of its AML/CTF efforts in 2005. This process recognizes countries for meeting standard benchmarks, identifies weakness, and makes recommendations to rectify any deficiencies.

Between joining the APG and its APG mutual evaluation in 2005, New Delhi signed the [UN International Convention](#) for the Suppression of the Financing of Terrorism in 2000 and ratified it in 2003; it signed the UN Convention Against [Transnational Organized Crime](#) in 2002, ratifying it in 2011. In parallel, the central government changed the structure of its financial intelligence apparatus by passing the [Foreign Exchange Management Act \(FEMA\)](#) of 1999 and the [Prevention of Money-Laundering Act \(PMLA\)](#) of 2002. The former dictates the rules governing India's foreign exchange market; the latter targets money laundering and terrorist financing.

Under the PMLA, New Delhi could appoint authorities to oversee implementation and administration of this legislation. Thus, in November 2004, the central government set up the [Financial Intelligence Unit-India \(FIU-IND\)](#) as the central national agency for coordinating and strengthening the efforts of national and international intelligence, investigation, and enforcement agencies in pursuing money laundering and related crimes. It became [operational only in 2006](#).

In March 2007, the [Union Cabinet approved](#) FIU-IND's ability to sign memorandums of understanding (MOUs) with its foreign counterparts to share financial intelligence within a structured framework. Subsequently, in May 2007 the [Egmont Group](#)—a united body of 155 FIUs that allows for

the secure exchange of expertise and financial intelligence—admitted FIU-IND as a member. Having met a signature requirement of the FATF’s 40+9 recommendations and after a successful FATF mutual evaluation in 2010, New Delhi joined the organization, to which it had been an observer since 2006, as a member. Similarly, it later gained membership in the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), an FATF-style regional body for Eurasian states.

Amid the focus on AML/CTF, in 2009 New Delhi also joined the Global Forum on Transparency and Exchange of Information for Tax Purposes (or just the Global Forum) and agreed to implement its international standards on tax transparency and exchange of information. New Delhi later signed and entered into force the Convention on Mutual Administrative Assistance in Tax Matters (MAC) in January 2012 and joined the Multilateral Competent Authority Agreement on Automatic Exchange of Information in June 2015. Moreover, beginning in the 2010s, New Delhi switched from signing Double Tax Code/Double Tax Avoidance Agreements (DTC/DTAAs), which are primarily concerned with allocating taxation rights, to Tax Information Exchange Agreements (TIEAs), which focus exclusively on information sharing. Currently, New Delhi has entered into DTC/DTAAs, TIEAs, and the MAC with more than 130 countries, including tax havens.

New Delhi joined the international AML/CTF and tax compliance regimes to learn best practices from other member nations and contribute to the collective effort against these threats. However, given its cultural history and geographical location, it also possessed unparalleled expertise on understanding the methods and sources of various illicit financial crimes. Realizing its capabilities, New Delhi would do more than just sign international conventions and function as a passive member within these organizations.

### Regional Leader in South Asia on Financial Intelligence

Since joining the FATF and EAG in 2010, New Delhi has actively looked to lead on the issue of financial intelligence within South Asia. From 2010 to 2012, New Delhi was the country co-chair of the APG and hosted an APG plenary session in 2011 in Kochi. It was at that session where then Union minister Pranab Mukherjee noted that India had accepted enhanced responsibility and would continue to play a proactive role internationally in AML/CTF. Currently, the central government co-chairs the APG’s Operations Committee, which oversees the APG’s understanding of illicit finance typologies.

Similarly, within the EAG, New Delhi has moved from being an observer to a leader. In 2011, it signed an agreement with the EAG to enhance, inter alia, cooperation on AML/CTF measures. Furthermore, in 2013, the EAG asked New Delhi to lead a project that described the typology of “Money Laundering

Through Securities Markets.” Praising New Delhi’s active status in the EAG, the organization’s members awarded India the [presidency of the EAG](#) from November 2013 to November 2015. New Delhi then hosted the twenty-fifth EAG plenary meeting in 2016.

Outside of these AML/CTF regional bodies, New Delhi has driven the issue of financial intelligence for the South Asian region within international bodies and other regional organizations that focus on economic and geopolitical cooperation. FIU-IND represented the Asian region for two terms (2011 to 2015) on the [Egmont Committee](#). Currently, New Delhi is the leader of the [Counter-Terrorism and Transnational Crime](#) sector of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which has a sub-group that meets on AML/CTF issues. Furthermore, the central government leads the [Global Forum secretariat](#), shares vice chairmanship of the Global Forum’s [Peer Review](#) and [Automatic Exchange of Information](#) (AEOI) groups, and is a member of the [Steering Group](#).

In addition to assuming leadership roles, New Delhi has consistently sought to offer technical assistance within South Asia. The central government has been [willing to help countries](#) strengthen their respective FIUs and establish better capital market monitoring and surveillance through sophisticated IT tools. For example, in 2011, senior officials from FIU-IND were part of a high-level [mission to Bhutan](#) to discuss that country’s implementation of AML/CTF measures and provide technical assistance for setting up its FIU. More recently, in 2015, [FIU-IND assisted Sri Lanka’s FIU](#) in investigating \$2 billion of undeclared foreign assets stashed overseas by family members and aides of former president Mahinda Rajapaksa.

From leadership positions to offers of technical assistance, New Delhi has gradually assumed international responsibility on matters related to financial intelligence. Given the greater development of the Indian economy and bureaucracy vis-à-vis other South Asian countries, assuming regional leadership has been a natural progression. However, becoming more than just a regional leader requires a discussion about New Delhi’s capabilities and intentions in this space.

## Why Should India Become an International Leader in Financial Intelligence?

This question can be answered both from the perspective of New Delhi and that of the international community. Becoming an international leader in financial intelligence would allow New Delhi to build on the gains it has already accrued from its current international engagement and further its domestic agenda and foreign policy objectives. Most important, other countries, which view New Delhi as a

responsible, international leader in this field, may feel more comfortable and willing to share intelligence with it. Current statistics regarding information exchanges support this view. In 2017–2018, FIU-IND, which has currently signed MOUs with [thirty-six FIUs](#), registered a new high in the number of formal [information exchanges with other FIUs](#)—120 requests received from and 159 requests sent to foreign FIUs. In addition to formal mechanisms, FIU-IND exchanges information with other foreign FIUs spontaneously based on reciprocity. During an eleven-year period, from [2006–2007](#) to [2016–2017](#), there were 429 spontaneous disclosures from foreign FIUs and sixty-four from FIU-IND. These information exchanges are important because they can help New Delhi better understand the size and scope of its illicit economy.

The intelligence derived from this information sharing can help New Delhi carry out a signature priority of Prime Minister Narendra Modi’s domestic policy agenda: curbing [corruption and the generation and flow of black money](#). Specifically, the central government can use this intelligence to take more enforcement, diplomatic, and judiciary actions, such as interdictions, arrests, prosecutions, extradition requests, sanctions, and asset forfeitures. For example, in 2016–2017, two [foreign FIUs shared](#) with New Delhi certificates of incorporation of eleven legal entities that had been listed in the [Panama Papers](#). (These papers detailed financial and attorney-client information for more than 210,000 offshore entities.) FIU-IND shared this information with the Central Board of Direct Taxes (CBDT), whose chairman leads a [multi-agency group](#) (MAG) to investigate Indian persons included in the Panama Papers. To what extent this information specifically helped the MAG in its investigative efforts is unclear. However, thanks to the information it gathered and received, the [MAG has opened 147 cases](#) as of November 2017, which has led to the detection of undisclosed credits of about 792 crore rupees (worth \$125.7 million) and the filing of five criminal prosecution complaints.

More recently, FIU-IND, through its foreign counterparts, has identified two bank accounts in [Belgium belonging to Nirav Modi](#), the perpetrator of a massive 11,400 crore rupee (about \$1.67 billion) bank scam in February 2018. FIU-IND then shared this information with the Enforcement Directorate (ED), which asked the Belgian authorities to freeze those accounts; the [authorities honored that request](#). Additionally, FIU-IND helped the ED and the Income Tax Department with their [investigation of Sanjay Bhandari](#), a former arms dealer, by asking its counterparts in Europe and the Middle East for information about Bhandari’s assets abroad. The [ED later seized 26.6 crore rupees](#) (\$3.89 million) of assets to offset his undisclosed deposits in foreign bank accounts in the United Arab Emirates (UAE), beneficial ownership of companies incorporated in the UAE, and properties based in the UAE and the United Kingdom.

Through its international participation in and contributions to the field of financial intelligence, New Delhi can advance other foreign policy objectives. The central government can use the international stage to advocate for cracking down on terrorist financing, namely as it pertains to Pakistan-based terrorist organizations, like Lashkar-e-Taiba and Jaish-e-Mohammed (JeM). Particularly, New Delhi has been frustrated at the [UN Sanctions Committee](#), for which China, as a veto-wielding member, has repeatedly blocked the designation of JeM's leader Masood Azhar as a global terrorist.

Furthermore, it can provide technical assistance and offer its expertise to improve the financial intelligence capabilities of countries beyond South Asia. In turn, these countries could gather more information about their underground economies, deter future threats to their financial systems, and recoup tax revenues from undisclosed assets. Together, these benefits promote better financial governance and transparency, which in turn can strengthen investor confidence and lead to economic growth. More symbolically, their gratitude for such assistance may lead these countries to view New Delhi favorably, thus opening the possibility for stronger diplomatic relations and cooperation on other issues.

From the international community's viewpoint, if the central government could scale up its technical assistance and share its best practices globally, other countries would be more inclined to view India as an international leader. Indeed, New Delhi is on the path toward success in this arena. In [November 2015](#), New Delhi held the third Networking the Networks Conference of the United Nations Office on Drugs and Crime (UNODC). This annual conference, whose iteration in India focused on how financial intelligence units counter illicit money flows, resulted from a visit between the UNODC Executive Director and Union Finance Minister Arun Jaitley. In fact, during that visit, the UNODC executive director said that India should emerge as the leading player in [countering transnational organized crime](#), not only in this region but also beyond, given its location and expertise as a transit point for drugs and illicit funds.

At the same time, to increase international regard for India as a leader, it must continue to develop its technical capabilities and human capital. Commendably, the central government has improved in financial intelligence within the last five years. In 2016–2017, FIU-IND disseminated roughly 57,000 [suspicious transactions reports](#) (STRs), a 272-percent increase from those disseminated in 2013–2014. Collectively, during this four-year span, those [STRs led to the detection](#) of more than 16,000 crore rupees (about \$2.34 billion). Yet this amount pales in comparison to that representing the [overall illicit economy in India](#), which, according to a 2012 study commissioned by the central government, is likely greater than 1 million crore rupees (approximately \$146.23 billion). Although there is no consensus on the practice of measuring a country's illicit economy, and its measurement suffers from insufficient data,



most estimates, such as that calculated in a 2017 study by [Global Financial Integrity](#) (GFI), are multiple orders of magnitude greater than India or any other country have detected. For this reason, before the central government can become an international leader in financial intelligence, it must have a better handle on the size and scope of its own shadow economy.

## Recommendations

1. **Improve domestic capacities and mechanisms for the financial intelligence apparatus.** If New Delhi wants to take on global responsibilities and increase its international engagement, it must first have the capacities and mechanisms in place to do so. Reforms to its financial intelligence apparatus are thus necessary to ensure the central government can handle this growth in its mission. To do so, New Delhi needs to
  - a. *Retain a financial intelligence cadre of All India Services officers and internationally recognized experts within the bureaucracy.* For many in the Indian civil service, career appointments for any specific position last at most from three to four years. Furthermore, an officer's next appointment may not always be related to their previous one. Situations thus may arise in which an incoming officer, who has limited exposure to the subject matter that his upcoming rotation entails, takes one to two years to get acclimated, at which time they have only a year or two left before moving on to the next assignment. As a result, [both the institution and the officer suffer](#). The former does not retain the experiential knowledge that the officer gained to help it adapt, whereas the latter does not become a genuine expert in any one field. Given that financial intelligence is a niche field, this apparatus must retain an officer's specialized expertise and talent in a regularized, systematic way. To this end, two sub-recommendations follow:
    - i. Make sure that appointments within this field are for at least three years and officers circulate among departments and agencies for at least three tours. For example, a mid-level Indian Police Service (IPS) officer who works within the ED could be in that position for at least three years. His next two rotations could include tours at other financial intelligence agencies and departments, such as the FIU-IND or the Directorate of Revenue Intelligence.
    - ii. Employ more lateral hires—specifically including professionals from the banking sector—to positions within the financial intelligence apparatus. For example,

partner with commercial banks, such as ICICI, to establish a mid-level career program, wherein local branch managers or junior vice presidents (having roughly ten years of experience) join a financial intelligence agency or department for three years and then return to their firms. The bureaucracy thus gains an outside perspective from a qualified expert, and the firms benefit from their employees having a better understanding of the regulatory environment.

- b. *Ensure that agencies and departments involved in financial intelligence are completely staffed to meet their missions.* Many of the agencies within New Delhi's financial intelligence apparatus have consistently been understaffed. For example, as of March 31, 2017, FIU-IND had thirty-six out of seventy-five positions filled. Moreover, as of November 30, 2017, the ED had filled 913 out of its sanctioned strength of 2,066 positions, and the Central Economic Intelligence Bureau had a working strength of sixty-five officers and staff out of a sanctioned strength of 113. Understaffed bureaucracies find it difficult to carry out their missions effectively. These agencies and departments thus will be unable to accommodate the additional administrative and technical duties resulting from increased international engagement.
- c. *Improve interagency coordination to ensure prosecution and successful conviction of financial crimes related to money laundering and terrorist financing.* Although prosecutions and convictions for tax evasion have increased by 184 percent and 269 percent, respectively, from January 2017 to 2018, those related to the PMLA, which was passed in 2002 and enacted in 2005, have risen either meagerly (18 percent for prosecution complaints) or remained static (only four convictions ever made under this law as of February 2018). The low numbers of prosecutions and the unlikelihood of convictions for money laundering and terrorist financing affects New Delhi's image as a responsible global leader in financial intelligence. Other countries that cooperate with New Delhi's financial intelligence and law enforcement services have been displeased with these outcomes. Not following through on investigative leads, whether generated domestically or provided by international partners, hampers New Delhi from engaging in a comprehensive offensive against violators and related groups.

PMLA cases are hard to prosecute and subsequently seldom lead to convictions because they require connecting circumstantial evidence to demonstrate that the crime and the motive behind it fit under the PMLA. Exacerbating this challenge is the fact that intelligence and law enforcement agencies are not always keen on sharing information or

coordinating investigations. Only recently has New Delhi added a new clause in its international treaties allowing for the [sharing of data](#) between multiple law enforcement departments. Without effective interagency coordination and information sharing, New Delhi authorities often duplicate investigative and intelligence collection efforts or miss crucial links necessary to carry out prosecutions and successful convictions.

- d. *Invest further in employee skill development and training as it relates to understanding cybercrime, cryptocurrencies, and financial technologies.* The digitization of financial services and payments and the push for financial inclusion of the poor, while accelerating the growth and development of India's economy, brings with them illicit financial risks. As demonstrated by the [outlawing of cryptocurrencies](#), the central government wants to manage this financial transformation and mitigate the corresponding threats. To do so within the context of financial intelligence requires a workforce knowledge about these trends. FIU-IND has already provided its employees with opportunities for [cyber-domain-related training](#) that the Ministry of Electronics and Information Technology has organized. As such, all members of the financial intelligence apparatus should do the same.
2. **Increase international engagement on financial intelligence beyond the Asia Pacific region and Eurasia.** New Delhi's international engagement has mostly been confined to the Asia Pacific region and Eurasia. For example, most of New Delhi's MOUs on financial intelligence have been signed with Eurasian and Asia Pacific nations. Conversely, there are currently only six MOUs between FIU-IND and its FIU counterparts in Africa (Mauritius, Nigeria, Senegal, South Africa, and Togo) and Latin America (Brazil). There are notable business dealings, including [drug trafficking](#) and [human smuggling](#), between criminal organizations in India and those in [Africa](#) and Latin America. Thus, illicit funds circulate between India and these two regions. To become a global leader on this issue, the central government must expand its bilateral involvement and attention to include Africa and the non-U.S. Western Hemisphere.
3. **Promote personnel exchanges and liaisons within domestic and foreign financial intelligence agencies and departments.** Personnel exchanges help build the technical capacity of an organization. Those involved can learn different techniques and practices from the exchange agencies and departments within which they work, and bring back best practices to be implemented in their home offices. Moreover, exchanges can help with interoperability when agencies and departments, whether domestic or international, must work together to solve a

problem. Finally, these exchanges help personnel among the participating organizations develop relationships, which are necessary when trying to understand another agency's or department's culture. So far, New Delhi has conducted these exchanges and liaisons internationally with respect to the **military**, as exemplified by **Indo-Japanese defense cooperation**. Domestically, exchanges occur in ad hoc task forces and coordinating bureaucratic structures, such as the **Central Economic Intelligence Bureau** or the MAG. In the past, FIU-IND conducted temporary visits to established FIUs from countries like Australia, Canada, Thailand, and the United States.

4. **Share expertise in informal banking, such as hawalas or hundis, through trainings and forums.**

A **hawala or hundi** is a form of informal banking that originated in South Asia—specifically India—but has become popular around the world, including in the Middle East, Southeast Asia, and even Latin America. Built upon trust and the extensive use of familial connections and regional affiliations, this parallel remittance system allows money laundering to occur because it does not distinguish between the transfer of funds for legitimate and illegitimate purposes. Despite being outlawed by the FEMA and PMLA, New Delhi has a difficult time identifying and **shutting down hawalas** because of the lack of a monetary and electronic trail. Nevertheless, the central government has a wealth of experience from handling this form of informal banking; thus, it can pass on its knowledge to other countries who have yet to grapple with this system regarding its regulation and oversight.

5. **Push for formal leadership roles within international bodies.** New Delhi is the proven leader on financial intelligence within the South Asia region. Upon implementing recommendations one through four, India should push for leadership positions within international bodies, whether for the FATF vice presidency, which would lead to the presidency the following year, or the Egmont Group presidency. Such visibility and increased stature would confer on New Delhi the mantle of an international leader in financial intelligence.

## Conclusion

New Delhi's trajectory on international engagement of financial intelligence is quite remarkable, considering that the Indian economy has liberalized only within the last three decades. New Delhi should prioritize reforms to its financial intelligence apparatus and legal system over any desire for expanded international engagement. Enacting the recommendations above, though, requires political will, which, given the central government's history of corruption, cannot be underscored enough. However, should it follow through on these actions, New Delhi can most certainly become an

international leader on this issue. Such a position can yield tangible benefits with limited costs, possibly requiring only marginally more manpower and financial resources. However, even outside of a reductive cost-benefit analysis, becoming an international leader on this issue could help New Delhi attain recognition from the international community as a rising global power—a [vision Modi and his team have charted](#). Global powers already appreciate New Delhi because of its leading international role in [fighting climate change](#). If New Delhi takes on the responsibility of maintaining the integrity of the global financial system, it would add to this already favorable view.

---

*Neil Noronha is a Henry Luce scholar, and a visiting scholar with Carnegie India. He previously worked in former U.S. president Barack Obama's administration, both at the National Security Council Staff and the Department of Defense. He graduated from Georgetown University with a BS in foreign service and an MA in security studies. He tweets @NeilNoronha2.*

*He would like to express his gratitude to the staff of Carnegie India, particularly Constantino Xavier, Saksham Khosla, and Rhea Menon, as well as all of those interviewed, to include Ramanand Garge, Kabir Taneja, Gaurav Bansal, Aditya Phatak, Michael Rosenthal, Sushant Sareen, Dhruva Jaishankar, Colonel Vivek Chadha, Ashish Joshi, Kevin Gomez, and Abhinav Pandya.*



12, Dr. APJ Abdul Kalam Road | New Delhi, India 110011 | P: +011 4008687

[CarnegieIndia.org](http://CarnegieIndia.org)