

## **DEMONETIZATION- DESMENTLED TERROR FUNDING**

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### **ABSTRACT**

**Demonetization**, an economic term, means withdrawing a particular form of currency from circulation. Through demonetization the old currency is replaced by the new currency or a currency circulation is blocked. On 8 November, 2016 central government of India announced demonetization policy. This bold decision was taken to tackle many issues like inflation, corruption, parallel economy, counterfeit currency in circulation and terror funding. The term demonetization is not new to India. Indian government has demonetized the currency before, first time in 1946 and second time in 1978. This step is considered as the biggest cleanliness drive against the black money in the history of Indian economy. This step was taken by Indian government for the good of economy. In this research paper I want to discuss the impact of demonetization on terror funding. Demonetization does not directly affect terrorism but this will definitely have a check on terrorist activities as these activities are based on liquid cash transactions.

**Keywords:** Demonetization, parallel economy, counterfeit currency, terror funding, inflation, corruption.

**“Demonetization is the act of withdrawal of a particular form of currency unit of its status as legal tender”.** The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. There are multiple reasons why a country demonetizes its currency

- to combat inflation
- to combat corruption (counterfeiting, tax evasion)
- to discourage a cash-dependent economy
- to facilitate trade
- terror funding

To understand demonetization, we have to understand currency.

Currency is a legal tender guaranteed by sovereign. It demonstrates authority of a sovereign. In ancient days it was representative of the king and his authority as sovereign. Higher the number of state accepting the currency of a king, higher was his stature among kings.

This hasn't changed since then. Today currency, apart from being the means of transaction represents the identity and independence of a country. Universal acceptance of dollar/ pound and euro as international currency shows the influence that these countries have on businesses worldwide.

Currency demonetization is almost as old as the currency. The biggest demonetization phenomenon of modern currency was introduction of Euro, when all EU nations demonetized their currency and started using Euro.

In modern world many countries including developed and developing countries have done it like US, Australia, USSR, India, Pakistan, multiple African nations like Nigeria and Ghana have done it.

## **DEMONETIZATION IN INDIA**

On 8 November 2016, the Indian government decided to demonetize the 500 and 1000 rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. This step has been declared as a master stroke for the Indian economy by various experts. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills. The government claimed that the action would curtail the shadow economy and crack down on the use of illegal and counterfeit cash to fund illegal activity and terrorism.

Initially, the move received support from several bankers as well as from some international commentators. It was heavily criticised by members of the opposition parties, leading to debates in both houses of parliament and triggering organised protests against the government in several places across India. The move is considered to have reduced the country's GDP and industrial production. As the cash shortages grew in the weeks following the move, the demonetisation was heavily criticised by prominent economists and by world media. Small businesses and households struggled to find cash and reports of daily wage workers not receiving their dues surfaced.

The government's goal was to combat India's thriving underground economy on several fronts: eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist-financing activities, and to promote a cashless economy. Individuals and entities with huge sums of black money gotten from parallel cash systems were forced to take their large-denomination notes to a bank, which was by law required to acquire tax information on them. If the owner could not provide proof of making any tax payments on the cash, a penalty

of 200% of the owed amount was imposed. This parallel economy helps in terror financing which in turn hampers the growth and development of country.

As India is largely a cash economy. The cash transactions in our economy are far more than the total numbers of electronic transactions. Prime Minister Modi tried this with immense care and preparation beforehand and not it was never an act just on spur of moment. He has been working very hard for the last two years to create bank accounts for all-the-ranks and the common folk. With an estimated half of our population having bank accounts as of now, this seems right that every family has at least one bank account for making online transactions possible for the family. It is expected that this step will help in reducing the fiscal deficit of India and promote the cashless economy in India which can be easily monitored. There are many cons of demonetization also, for instance, it creates panic among the common man. Local traders and shopkeepers are facing problem. It is expected that it will affect the SME sector in India. Demonetization step of central government will surely result into something good and help in reducing the black money. It will surely bring the clear view of every transaction within the country and promote cashless transactions. This step will affect general people to some extent but for the benefit of future generation such decisions are inevitable.

The government has pegged GDP growth at a higher-than-expected 7.1% for the current fiscal despite note ban with agriculture sector doing exceptionally well, helping India retain the tag of world's fastest growing major economy. The growth rate was on a higher base after the Central Statistics Office (CSO) revised 2015-16 GDP growth rate to 7.9% from the earlier provisional estimate of 7.6%.

India's growth was higher than China's 6.8% for the October-December period of 2016. Economic Affairs Secretary Shaktikanta Das said the CSO numbers have vindicated the government's position and the criticism of note ban was anecdotal and not supported by data. The CSO data revealed that GVA (Gross Value Added) is anticipated to increase from Rs 104.70 lakhs crore in 2015-16 to Rs 111.68 lakhs crore in 2016-17.

Over 3 trillion rupees, or over \$44 billion in old currency, was deposited with Indian banks in just the first week after the demonetization. There was concern that the uncertainty and short-term liquidity squeeze would take some momentum off the Indian economy, the fastest-growing in the world. But experts believed any slowdown would only be short-lived once the systems adjusted to the new normal, especially if the government heeded calls to lower interest rates by groups like the Federation of Indian Chambers of Commerce and Industry (FICCI). Credit rating agency India Ratings & Research maintained its GDP growth forecast for India at 7.8% for FY17, albeit with a downward bias.

### **INDIA'S HISTORY WITH DEMONETSATION: FROM 1946 TO 2016**

The French were the first to use the word Demonetize, in the years between 1850 -1855. Since then many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large. India is no new to demonetisation. India has demonetized before: First time on 12 Jan 1946 (Saturday), second time on 16 Jan 1978 (Monday), Third time on 8th November 2016 (Tuesday).

#### **The first currency ban:**

In 1946, the currency note of Rs 1,000 and Rs 10,000 were removed from circulation. In the first time, the measure did not succeed, as by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged. Thus, notes worth only Rs. 9.07 crores were probably 'demonetized', not having been presented. The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people. It was more of "conversion", at varying rates of profits and

losses than “demonetization”. However, both the notes were reintroduced in 1954 with an additional introduction of Rs 5,000 currency.

Rs 500 and Rs 1000 notes were introduced in 1934 and after four years in 1938, Rs 10,000 notes were introduced.

#### **The second:**

In January 1946, banknotes of 1,000 and 10,000 rupee were withdrawn and new notes of 1000, 5000 and 10000 rupee were introduced in 1954. **In second time, demonetisation was done by the first non-congress government in independent India by Morarji Desai- led Janata Party in January 1978.** The Janata Party coalition government demonetized banknotes of 1000, 5000 and 10000 rupee on 16 January 1978 as a means to curb counterfeit money and black money. In the second time, the then Finance Minister H.M. Patel in his budget speech on 28 Feb 1978 remarked: “The demonetization of high denomination bank notes was a step primarily aimed at controlling illegal transactions. It is a part of a series of measures which Government has taken and is determined to take against anti-social elements”. The sole aim of the ban was to curb black money generation in the country.

The third:

On 8 November 2016, the Indian government decided to demonetize the 500 and 1000 rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country’s circulating cash. The Reserve Bank of India manages currency in India and derives its role in currency management on the basis of Reserve Bank of India Act, 1934 and a new designed currency of Rs 500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since 10 November 2016.

On 28 October 2016 the total banknotes in circulation in India was ₹17.77 lakhs crore (US\$260 billion). In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to ₹16.42 lakhs crore (US\$240 billion) of which nearly 86% (around ₹14.18 lakhs crore (US\$210 billion)) was ₹500 and ₹1000 banknotes. In terms of volume, the report stated that 24% (around 22.03 billion) of the total 90,266 million banknotes were in circulation.

#### **Similarities in 1978 and 2016 ban:**

The note ban by Morarji Desai also aimed to drive away black money out of circulation from economy. Hence, The High Denomination Bank Notes (Demonetisation) Act was implemented. Narendra Modi announced the currency ban in an address that was broadcasted across all news channels. Similarly, Desai announced the ban over the radio after which the banks were closed the following day.

Both the affairs were kept confidential.

#### **Differences in the ban:**

Unlike Modi, Desai didn’t have the backing of the RBI Governor. The Governor I.G. Patel believed that the ban was implemented simply to immobilize the funds of the opposition party. Patel also believed that people never store black money in the form of currency for too long.

It didn’t have much effect on the people and affected only the privilege few. While the recent ban has shaken out the whole country.

#### **EFFECT OF DEMONETISATION ON TERRORISM FUNDING:**

One of the biggest benefits of this move is that demonetization made a giant stroke over terrorism in nation. Enemies of the country which are involved in counterfeit currency and terrorism will not be able to continue it further for quite some time at least. Since, there were reports of investigative agencies that the terrorists were mainly funded by big amount of fake Indian currency from Pakistani establishments. When the valid notes of 500 and 1000 denominations

lost legal tender, then it was obvious that their all fake notes and some of the valid notes both became scrap. In that condition the economic strength or paying capacity of the terror out-fits was destroyed. Thus affecting the funding of terror networks in Jammu and Kashmir, North-eastern states and Naxalite hit states.

Here are some **effects** of demonetisation on terrorism funding:

**1. A 'surgical strike' on terrorism funding:** Union Defence Minister Manohar Parrikar called demonetisation the Prime Minister's "surgical strike" on black money, terrorism funding and drug money. Terror financing is sourced through counterfeit currency and hawala transactions. This is how terror financing works. Fake currency circulation is routed through a multi-layered network of *hawala* operators which are closely linked to *satta* (gambling) and smuggling of drugs, opium and arms. Indirectly, they all end up financing terrorism. In addition, the terrorists collect huge donations and then route the money through *hawala* transactions. With the circulation of counterfeit Indian currency completely stalled and hawala transactions stopped, all windows for terror financing are closed.

**2. Curbing terrorism funding from 'hostile intelligence agencies:** The government told the Supreme Court that demonetisation - in addition to stamping out black money in India - would make void fake Indian money printed by "hostile intelligence agencies" - an obvious reference to Pakistan's Inter Services Intelligence - and used to finance terrorist activity in India. Prime Minister Narendra Modi, too, had mentioned terrorism funding provided by "enemies from across the border" when he announced the currency ban on November 8.

**3. Hawala transactions:** Demonetisation has crippled the *hawala* rackets. *Hawala* is a method of transferring money without any actual money movement. *Hawala* route is used as a means to facilitate money laundering and terror financing. *Hawala* rackets run again on black money. With black money suddenly being wiped out of the market, thanks to demonetisation, *hawala* operations have come to a grinding halt. 'Hawala' cash transfers to terrorists and separatists in Kashmir, which were mostly made using the defunct bills, have dried up. That has made it harder for activist to pay young people to stage violent protests.

**4. Counterfeit currency:** Around 90% of the fake Rs 500 and Rs 1000 notes come in India from ISI and its associates in Pakistan and demonetisation will impair their capacity to fund terror in India. India has made significant gains in the war on fake currency, inflicting anoxic damage on terrorism in Kashmir and elsewhere in the country. Two main Pakistani presses engaged in printing counterfeit Indian currency have been forced to shut shop, investigating agencies have told the Centre after assessing the impact of demonetisation on national security. This has choked terrorism financing, they said, with the result that terrorism-related violence in Kashmir saw a sharp decline of nearly 60% during December, with just one bomb blast in the Valley during the month, and left-wing extremism suffered a debilitating blow.

**5. Left-wing extremism:** According to intelligence inputs, Left-wing extremism has been hit hardest by the currency ban. Upto 584 Maoists have surrendered in the last 28 days, and 469 of them did so on or after November 8 - the day on which the Rs 500 and Rs 1000 notes were demonetised. Areas affected by left-wing extremism have suffered an even more pronounced impact. "Senior Maoist leaders in Bastar (Chhattisgarh) and Jharkhand have contacted people to seek help in converting old notes into new currency. The replenishing will not happen with new levy collection. There is pressure on them to surrender in large numbers.

**6. Maoism:** Maoist sympathisers call Modi's demonetisation move an "undeclared financial emergency". There are reasons to it. Demonetisation has hit Maoists and their movement hard. Black money is the oxygen for these groups. According to an estimate, they manage to raise Rs 300 to Rs 400 crore annually through donations, levy and extortions. The illicit money is used to purchase arms and ammunition, food and medicine and daily essentials, apart from distributing it among the ranks and the cadre. Police sources in both Chhattisgarh and Odisha have told the

writer that the Maoists have stashed old high denomination notes to the tune of over Rs 10,000 crore at their dumps in the dense jungles of Odisha- Chattisgarh boarder. No wonder, with Modi's demonetisation drive, all those illegal money are reduced to paper scrap. Maoists are in a state of coma and Maoist activities see a crippling blow. Ever since the demonetisation announcement was made, no major violence was reported from the Maoist infested states like Chhattisgarh, Odisha, Andhra Pradesh and Telangana.

**7. Kashmir unrest:** The four month long unrest in Kashmir valley is on a backburner, thanks to demonetisation. No stone pelting on security forces has been reported in Kashmir ever since the demonetisation announcement was made. An intelligence estimate suggests that Pakistan sends Rs 1,000 crore annually to the separatists for fuelling unrest in Kashmir. The money is transferred through *hawala* route. With *hawala* transactions completely choked up, the separatists are now clueless. With terror sponsors running short of big currency notes analysts say situation in the Valley will improve drastically in coming time. It won't be wrong to say that "stone pelter" Modi completely shattered the Kashmir unrest with his stone called demonetisation.

**8. Naxalite:** The Kashmiri separatists are not the only ones to face the heat of demonetisation. The Naxalite are equally hard hit. The Naxals have been running a thriving protection racket in the tribal dominated states for years. All the privately owned mines or foreign companies pay protection money to the Naxals. Since this money has to be used to pay 'salaries' to cadres and sympathisers, it has to be perforce in cash. According to a rough estimate, the Naxals have suffered a loss of close to Rs 7,000 crore (Rs 70 billion) due to demonetisation. Demonetisation has severely handicapped their capacity to procure firearms, ammunition, medicines, and commodities of daily use and pay salaries to cadres.

**9. North-East insurgency:** Demonetisation has severely affected the multiple militant groups operating in the North-East. According to intelligence estimate the north-eastern insurgent groups together have a corpus of Rs 400 crore annually. The insurgents source their funding in two ways. They raise funds through levy and extortions like the Maoists do. But unlike Maoists, the leaders of North-East militant outfits do not live in the jungle. Their English speaking high ranking leaders run operations from their dens in Myanmar, Bangladesh and Nepal. From there they also transfer huge illegal money via *hawala* route to their cadre for running the militancy. With the extortion money stopped completely in the absence of cash inflow and *hawala* operations coming to a complete halt, all activities of North-East militants have shuttered down.

## CONCLUSION:

Currency Demonetization has taken the world by surprise. It expressed the commitment of the Indian Government to beat the terrorists and Naxalites. Demonetisation has given a shot in the arm for the fight against terror funding as their cash reserves stored in bulk is now redundant. There were problems in implementation of it but we all should support it as this is historical step towards the terrorism. This move was called financial surgical and widely supported by common man. It was meant to be implemented suddenly so it will not give time to the people who have unlawful money and to control terror funding from our neighbour country. At the same time, people who have lawful money are not to worry. Demonetization step of central government will surely result into something good and help in reducing the black money. It will surely bring the clear view of every transaction within the country and promote cashless transactions curbing funds for financing terrorist activities. This step will affect general people to some extent but for the benefit of future generation such decisions are inevitable. We should welcome such brave step of Indian government which will curb black money to some extent.

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