Financial Action Task Force (FATF) & Pakistan: Commitments, Compulsions & Challenges

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Abstract

Pakistan's engagement with the Financial Action Task Force (FATF) is restricted by 3 Cs': commitments, compulsions, and challenges. In addition to Pakistan's coordination with the FATF on institutional measures, operational measures including the 27-point Action Plan given by FATF to Pakistan, are also a compulsion. In this backdrop, understanding the challenge of Money Laundering and Terrorist Financing, is an uphill task for both Pakistan and the international community. This paper is an attempt to investigate these provocations while discussing the objectives of the establishment of FATF. Pakistan's relations with the FATF and its compliance with the required limitations are also explored in details. Overall, there are three questions addressed: (1) Why is Pakistan caught up in a complex and discriminatory web of international rules and, if yes, how to get out of the situation? (2) How can Pakistan come out of FATF imbroglio? Already, Pakistan's Combating the Financing of Terrorism (CFT) Regime and National Action Plan (NAP) has

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clearly, set a narrative regarding terror-financing, heads of terrorist organizations and role of Non-Governmental Organizations (NGOs). (3) Pakistan needs to deal with the remaining two points of the Action Plan demanded by FATF, at the earliest, and encourage proactive diplomacy if it desires to reform AML/CFT seriously, and get off from the grey-list.

Keywords: Financial Action Task Force (FATF), Asia Pacific Group (APG), National Action Plan (NAP), Pakistan, India, the US

Introduction

In April 2016, acquisition of illegal money, both by the individuals and the companies, was horrendously exposed when the International Consortium of Investigative Journalists (ICIJ) uncovered Panama Papers (PPs). The investigation was led by Bastian Obermayer and Frederik Obermaier of Süddeutsche Zeitung. It largely depended upon the data shared by someone working "on the inside" at Mossack Fonseca. According to ICIJ, the records show "a never-before-seen view inside the offshore world -- providing a day-to-day, decade-by-decade look at how dark money flows through the global financial system, breeding crime and stripping national treasuries of tax revenues."[1] The information identified the names of various heads of states and their close relatives. The Iceland Premier relinquished his position within days of PPs publication. Particularly, when joined with the instances of illegal tax avoidance, including significant global banks (PNB Paribas, HSBC, JPMorgan Chase, and Deutsche Bank). The Panama Papers argue that unlawful money is intensely fierce for the international financial system. However, the news on international effort to take an action against illicit financing, with the help of FATF, was dismal. While FATF is generally obscure for individuals who do not work with it or study it, FATF and the Anti-Money Laundering (AML) rules have become essential elements of monetary and security arrangement of many nation-states. While highlighting its importance, the leaders of G20 in the wake of the 2008 worldwide financial crisis included FATF as a fundamental player in endeavours to fabricate "a new international financial regulatory architecture" together with the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD).

For what reason do we see increment in illicit money despite the presence of an organization like FATF etc.? That is why; some experts oppose the idea of the organizations like that of FATF. Depreciators call FATF as an untouchable governance body for the benefit and interests of the selected

[1] Mark T. Nance, "The regime that FATF built: an introduction to the Financial Action Task Force," *Crime, Law and Social Change* 69 (2018): p. 109.

states. It forces guidelines that are ill-conceived and expensive. For these supporters, PPs proved that principles established by the international financial governance system are incapable of putting an end to the trade of black money. On the contrary, pessimists contend that the expansion in the illegal tax avoidance cases is the result of worldwide AML systems' reinforcement. With time, these cases will diminish. Supporters accentuate that FATF's guidelines must go through local administrative frameworks before they produce results.

This research is a comprehensive understanding on the working of the FATF. Unfortunately, whether FATF is effective or not, the battle against the entrenchment of illegal cash, spread out internationally, is unquestionable. Moreover, in foreign policy, tracking and freezing assets of enemies has become a common, even primary, tool.[2] Viable AML frameworks can further advance the improvement by forestalling defilement or boosting government income. For instance, to maintain a strategic distance from AML-based fines, banks have been lately pulling out of immature areas since client confirmation is progressively troublesome -- a move known as de-risking. This leaves the poor with decreased access to credit and other budgetary administrations. These economies become increasingly reliant on money, which is a help for the underground market and for the wrongdoing and defilement of some of the time bolsters. At long last, AML has become a noteworthy expense for any substance that manages money-related administrations. Banks, law offices, and non-benefit associations burn through billions on AML consistently.

Understanding the Challenge

Money laundering (ML) can involve legal as well as illegal money, and is usually aimed at hiding illicit cradles of income. The case of the Bank of Credit and Commerce International (BCCI) is illustrative of the

[2] See Jaun Zarate, Treasury's War: The Unleashing of a New Era of Financial Warfare (New York: Public Affairs, 2013).

phenomena. Potts et al.,[3] termed it a "scandal of nearly unimaginable proportions…." About the bank, Truell and Gurwin write:[4]

"…BCCI had outwardly seemed like a normal financial institution, with attractively designed branch offices, its own traveler's check business, and a reputation for financing international trade. But behind this convincing façade, BCCI was a criminal enterprise that catered to some of the most notorious villains of the late twentieth century, including Saddam Hussein; leaders of the Medellín cartel, which controls the bulk of the world's cocaine trade; Khun Sa, the warlord who dominates heroin trafficking in Asia's Golden Triangle; Abu Nidal, the head of one of the world's leading terrorist organizations; and Manuel Antonio Noriega, the drug-dealing former dictator of Panama."

Depicting a sense of ML regime worldwide, BCCI also had links with the then-president of the US George H. W. Bush and his successor, Bill Clinton. As some suggest that the term ML came from the use of Laundromats by criminals to hide their cash, it provides underlying difficulties in fighting ML as Laundromats covers the trail of money, making source of illicit money difficult to discover. Same is the case with ML in today's world wherein money transports quicker than those chasing it. Therefore, international cooperation is required in order to control the menace of ML. Another reason for the need of a collective action is the interconnectedness of the international financial system as "advances in information technology allow investors to send money around the world quickly, cheaply and easily."[5] Thus, international community needs to cooperate.

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[3] See Mark Potts, Nick Kochan, Robert Whittington and Nicholas Kochan, *Dirty Money: BCCI, the Inside Story of the World's Sleaziest Bank* (Washington, D.C.: National Press Books, 1992).

[4] "False Profits," *Newsweek*, June 12, 1992, Available at https://www.newsweek.com/false-profits-195514, Accessed on March 14, 2020.

[5] Guy Stessens, "The FATF 'black-list' of non-cooperative countries or territories," *Leiden Journal of International Law* 14, no. 1 (2001): p. 144-207.

To stop ML and tracking of illegal money, it became even more urgent due to funding of terrorism through this money. To stop the financing of terrorism and its proliferation has been the main goal of FATF since 2001.[6] Terrorists' networks can usually adjust whenever they get caught by the law-enforcement agencies. Numerous activities of the terrorists generally require limited cash. That is why, the system equipped itself to track down billions and millions of dollars and skip the laundering of dollars that are in thousands. This type of funding is done by *Hawala* in order to avoid tracking. *Hawala* system is considered legitimate system for funds transaction but problem remained with discriminating the desirable from the undesirable flow of money. Moreover, the linking of AML to different states' security policies, sometimes result in the politicization of AML efforts. The politicization of AML became more common during Global War on Terrorism (GWOT).

Birth of Financial Action Task Force (FATF):

With the US government's sudden suspension of gold convertibility in 1971, Bretton Woods System not only faced existential governance crisis but also resulted in the emergence of informal minilateralism.[7] Subsequently, the first international agreement on ML was issued by the Council of Europe in 1980, with the principle of "know-your-customer" by the banking sector, which would be responsible for the identity of the beneficial owner of the funds together with the "tracking of banknotes across borders."[8] It was mostly in vain. Efforts to tackle ML rose in the late 1980s, when the United Nations for the first time defined ML in the "Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic

[6] Thomas J. Biersteker and Sue E. Eckert ed., *Countering the Financing of Terrorism* (New York: Routledge, 2007)

[7] For further clarity see Orfeo Fioretos, "Minilateralism and Informality in International Monetary Cooperation," *Review of International Political Economy* (2019): p. 1-25; Moises Naim, "Minilateralism," *Foreign Policy*, no. 173 (July/August 2009): p. 135-136; Also Chris Brummer, *Minilateralism: How Trade Alliances, Soft Law, And Financial Engineering Are Redefining Economic Statecraft* (New York: Cambridge University Press, 2014).

[8] József Padányi and György Vass, "Banknote Tracking as A Tool for Counter Terrorism Financing," *Hadmérnök* VIII, no. 2 (2013): p. 33.

Substances" or the "Vienna Convention."[9] As per the Convention, state should "deprive persons engaged in illicit traffic of the proceeds of their criminal activities and thereby eliminate their main incentive for so doing…."[10] Nevertheless, many opposed the UN Convention against ML at the end of Vienna Convention negotiation on the premise that "the process was too complex, the preferences too divergent, and the outcome was too basic to be effective."[11] Resultantly, a task force to catalogue the AML statutes was proposed by the US. After a year of resistance, the members of the G7 agreed to new Financial Action Task Force on ML.[12]

The key interest of the international community in the establishment of FATF was drug-trafficking: "The Heads of the State or Government of seven major industrial nations and the President of the Commission of the European Communities… stated that the drug problem has reached a devastating proportions, and stressed the urgent need for decisive actions, both on a national and international basis. Among other resolutions on drug issues, they convened a Financial Action Task Force (FATF)…."[13] At the time of its foundation, FATF's sole purpose was to hinder the cash flow earned through narcotics business as well as the calculations regarding ML. In subsequent years, the scope of FATF widened with the additional focus on the transnational crimes, terrorism financing, Weapons of Mass Destruction (WMD) proliferation and financial exclusion. Today, the FATF's objectives are "to set standards and promote effective

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[9] David P. Stewart, "Internationalizing the War on Drugs: The UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances," *Denver Journal of International Law & Policy* 18 (1989-1990): p. 387-404.

[10] Kristen E. Boon, Aziz Huq and Douglas Lovelace ed., *Terrorist Financing and Money-Laundering* (New York: Oxford University Press, 2010), p. 379.

[11] Cited in Mark T. Nance, "The regime that FATF built: an introduction to the Financial Action Task Force," *Crime, Law and Social Change* 69 (2018): p. 114.

[12] Mark Pieth, "International standards against money laundering," In Mark Pieth and Gemma Aiolfi eds., *A* comparative guide to anti-money laundering: A critical analysis of Systems in Singapore, Switzerland, *the UK and the USA* (Northampton: Edward Elgar Mark Pieth and Gemma Aiolfi, 2004), p. 1–63.

[13] "Financial Action Task Force on Money Laundering, Report 1990-1991," Financial Action Task Force, May 13, 1991, p. 4, Available at https://www.fatf-gafi.org/media/fatf/documents/reports/1990%201991%20ENG.pdf, Accessed on March 19, 2020.

implementation of legal, regulatory and operational measures for combating money-laundering, terrorist financing and other related threats to the integrity of the international financial system." Moreover, the FATF's 40 Recommendation are also considered its basic norms, where it set standards for states to do legislation on their own instead of writing their legislation, which are also reviewed by the FATF members annually.

As far as the monitoring process of the FATF is concerned, it is considerably a powerful international organization with two key monitoring processes. 'Mutual Evaluation' is the first and the most important mechanism, entailing on-site experts' visit to conduct evaluations. Second "typology exercises" are meant for monitoring and diagnostic role. In this exercise, plethora of experts on ML gather from around the globe in order to "exchange information on any on-going cases and operations, to identify and describe current trends in money-laundering, and to identify and describe effective (and failed) counter-measures."[14] Then there comes the issue of enforcement. Despite the scarcity of empirical data, the FATF blacklisting[15] is considered to be the main diffusion process in the AML regime.[16] With the passage of time, the blacklisting mechanism was taken over by the International Cooperation Review Group (ICRG) in 2007.

[14] Mark T. Nance, "Re-thinking FATF: an experimentalist interpretation of the Financial Action Task Force," *Crime, Law and Social Change* 69 (2018): p. 139.

[15] "High-Risk Jurisdictions Subject to an Action Call" is the label given to nations that have insufficient anti-money laundering and anti-terrorism funding legislation by the FATF on its blacklist. On this list, you will find a number of nations that have a lot of money laundering and terrorist funding, and the purpose of this list is to raise awareness of these countries. Nations that are members of the FATF and international organisations are likely to impose economic penalties and other restrictions on blacklisted countries. The FATF's blacklist is a living document that is displayed and updated on a regular basis in their official publications. An updated anti-money laundering and anti-terrorism funding regulatory structure is required for a country's inclusion or removal from the blacklist. 15 countries were on the FATF's inaugural list of member nations in 2000. As part of official FATF releases and reports, the lists have been published on a regular basis since then.

[16] J. C. Sharman, "Power and Discourse in Policy Diffusion: Anti-Money Laundering in Developing States," *International Studies Quarterly* 52, no 3 (September 2008): p. 635-656.

Anti-Money Laundering Compliance/Combating the Financing of Terrorism (AML/CFT)

According to many, AML and CFT are overrated topics. According to Savona, "the economic cost of controls based on obligations and prohibitions is often underestimated, while the benefits they produce tend to be overrated."[17] It is also stated that firms will face less competition in case AML regulations are undertaken, which subsequently will diminish the annual productivity of firms.[18] Moreover, it also burdens banks with increasing transaction costs.[19] Despite all the reservations about the AML compliance, its' biggest advantage is its protection of international financial system.

According to Young, compliance is "the actual behaviour of a given subject conforming prescribed behaviour."[20] Similarly, non-compliance will be the opposite of compliance, such as moving away from prescribed behaviour. In this context, Choo et al defines AML compliance as "all actions by reporting institutions that conform to standards, rules, objectives, laws, and regulations set by authorities put in place to check against money-laundering."[21] Interestingly, FATF's Recommendations to tackle AML/CFT also evolve with the evolving techniques of the money-launderers, and its success hinges upon the "two-level game." A universal AML policy depends upon the compliance of the local governments towards AML policies. Despite the presence and evolution of 40 plus 9 FATF Recommendations, countries show reluctance in implementing AML/CFT Standards. This is because of the fact that, according to Yepes,

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[17] Ernesto Savona ed., *Responding to Money Laundering: International Perspectives* (The Netherlands: Harwood Academic Publishers, 2005), p. 7.

[18] Hans Geiger and Oliver Wuensch, "The Fight Against Money Laundering – An Economic Analysis of a Cost-Benefit Paradoxon," *Journal of Money Laundering Control* 10, no. 1 (2007): p. 91-105.

[19] Ibid.

[20] Oran R. *Young, Compliance and Public Authority* (Baltimore and London: The John Hopkins University Press, 1979); Also Ka Zeng, Wei Liang ed., *China and Global Trade Governance: China's First Decade in the World Trade Organization* (New York: Routledge, 2013), p. 5.

[21] Choo et al., "Anti-Money Laundering and its Effectiveness," *Malaysian Accounting Review* 13, no. 2 (2014): p. 109-124.

"institutional factors play a key role in AML compliance because they provide the conditions under which policy reforms or amendments are defined, and therefore, accommodate, restrain, or digress their implementation."[22]

Determinants of AML/CFT Compliance

AML/CFT Compliance can be examined through "Regulatory Quality," which gauges how well the initiative of a nation can create laws and execute approaches that make an empowering situation for the private segment to flourish. According to Sharman, the nature of International AML Policy is subject to the nature of the governance structure of a nation to a huge degree.[23] Subsequently, regardless of how great the FATF suggestions are, they will be incapable when applied to a feeble regulatory structure of local jurisdiction. Furthermore, "Technology" is also utilized as a determinant of AML/CFT Compliance because of an expansion in the battle against tax evasion, making new difficulties for controllers and other AML organizations entrusted with guaranteeing consistency on AML guidelines. Unfortunately, despite the evidences of exploitation of the web to upgrade exercises by the launderers, both at national and regional levels, there is irregularity in the online examination of tax criminals by numerous administrative organizations which are entrusted to battle tax evasion.[24] Building a force capable of internet expertise in their investigations could give a significant lift to a nation's consistency in AML laws with improved AML/CFT Compliance. In the existing literature, "Foreign Direct Investment" has also been connected to AML/CFT Compliance. Naheem compared investment laundering to the

[22] Concepcion Verdugo Yepes, "Compliance with the AML/CFT International Standard: Lessons from a Cross-Country Analysis," *International Monetary Fund Working Paper* 11/177 (July 2011): p. 17.

[23] J. C. Sharman, "Power and Discourse in Policy Diffusion: Anti-Money Laundering in Developing States," *International Studies Quarterly* 52, no. 3 (2008): p. 635-656.

[24] David S. Wall and Matthew L. Williams, "Policing Cybercrime: Networked and Social Media Technologies and the Challenges for Policing," *Policing & Society* 23, no. 4 (2013): p. 409-412.

layering and coordination phases of illegal tax avoidance.[25] Yepes had a different view on the impact of FDI on AML Compliance.[26] He found that FDI net inflows have a positive effect on compliance. Along these lines, the degree of "Trade Openness" of nations is viewed likewise, as a key determinant of consistence with AML approach, with Ferwada et al affirming that Trade-Based Money Laundering (TBML) is extremely unmistakable between the United States and nations that have low degrees of consistence with AML guidelines.[27] Writing likewise sets up a nexus between Bank Concentration and AML/CFT Compliance. According to Rawlings and Unger, "a high level of bank competition exists for laundered funds… Banks compete for laundered funds through the implementation of high-grade bank secrecy policies, in a bid to attract illicit funds. The threats that bank concentration presents to the global AML framework called for the intervention of the FATF."[28]

FATF & Pakistan

One of the key roles and objectives of the establishment of FATF is to devise guidelines in order to control terror-financing (TF) together with grouping international standards to tackle ML. It plays a critical role in saving the reliability of the international financial system by countering ML/TF around the globe with the help of its 'Recommendations,' which countries are required to comply with. As per the rules of FATF, it holds three meetings in a year for evaluating states' 'compliance', as well as initiatives in fulfilling FATF Recommendations and cautions regarding loopholes in a state's AML/CFT legal regime. The new Resolution 2462 adopted by the United Nations (UN) in March 2019, urges "all states to implement FATF recommendations specially to evaluate the risks

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[25] M. A. Naheem, "Money laundering using investment companies," *Journal of Money Laundering Control* 18 no. 4 (2015): p. 438-446

[26] Concepcion Verdugo Yepes, "Compliance with the AML/CFT International Standard: Lessons from a Cross-Country Analysis."

[27] Ferwerda et al., "Gravity models of trade-based money laundering," *Applied Economics* 45, no. 22 (2013): p. 3170- 3182.

[28] Greg Rawlings and Brigitte Unger, "Competing for Criminal Money," *Tjalling C. Koopmans Research Institute Discussion Paper Series* no. 05-26 (June 2005): p. 5.

associated with terrorist financing."[29] For evaluation, the FATF follows the parameters of its "Assessment Methodology" in order to assess "the technical compliance about legal and institutional framework"[30] and "the level to which the legal and institutional framework is giving the estimated effects."[31]

This is not the first time Pakistan has been put on FATF's grey-list.[32] It has been on FATF's grey-list from 2012 to 2015 too. At that time, "Pakistan proficiently reversed to the specific list by taking specific measures."[33] However, Pakistan was again put on FATF's grey-list at the FATF meeting in Paris on June 29, 2018, "due to non-compliance of International Standards especially against proscribed organizations."[34] In response, Pakistan had only one option: improve and reinforce its CFT legal framework. Pakistan was also required to remove insufficiencies in its CFT legal regime, if any, in response to its placing on the grey-list. As Pakistan is not a direct member of the FATF; it was therefore linked to one of FATF-Style Regional Bodies (FSRBs) – Asia Pacific Group (APG). In order to observe Pakistan's improvements in response to the FATF's Recommendations, APG delegation visited Pakistan in August 2018. Lack of supervisory controls in the financial sector, risk-based actions to prevent cash smuggling and investigation, and prosecution on all sorts of terrorist financing activities by Pakistan, have also been an

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[29] "Resolution 2462, Adopted by the Security Council at its 8496th meeting, on 28 March 2019," *United Nations Security Council*, March 28, 2019, Available at https://undocs.org/S/RES/2462(2019), Accessed on April 4, 2020.

[30] "Methodology: For Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems," *Financial Action Task Force*, February 2013, Available at https://www.fatf-gafi.org/media/fatf/content/images/FATF%20Methodology%2022%20Feb%202013%20.pdf, Accessed on April 2, 2020.

[31] Ibid.

[32] The FATF also has a "grey-list" which is called "Jurisdictions Under Additional Monitoring". Countries on the FATF grey-list, like those on the blacklist, have a much higher risk of money-laundering and terrorist financing, but they have agreed to work with the FATF to set up action plans to improve their AML/CFT compliance.

[33] "Pakistan elevated from grey list to white by task force: Dar," *DAWN*, February 28, 2015, Available at https://www.dawn.com/news/1166482, Accessed on April 02, 2020.

[34] Anwar Iqbal, "Pakistan Placed on FATF 'grey list' Despite Diplomatic Efforts to Avert Decision," *DAWN*, June 28, 2018, Available at https://www.dawn.com/news/1416630, Accessed on April 04, 2020.

equally important cause of concern in FATF community. According to APG observations, there is a "lack of coordination among the Federation and Provinces, and lack of initiation of appropriate measures against individuals involved in terrorist financing."[35] Moreover, FATF showed grave concerns regarding Pakistan's performance and asked it for the completion of FATF's Action Plan. More specifically, FATF asked Pakistan to address TF related risks; to remove deficiencies in its understanding of transnational TF risks; to ensure the completion of FATF Action Plan with the agreed timeline and to address TF risks emanating from the jurisdiction.

As a result of FATF's concerns, Pakistan assured FATF and APG to restart its CFT regime to counter CFT-related deficiencies. Pakistan was supposed to follow a FATF approved/recommended 'Action Plan' to overcome CFT deficiencies in its system. First of all, according to the 'Action Plan,' Pakistan will assess and identify TF anomalies in order to deal with them. Second, the financial institutions which are not fulfilling CFT Standards will have to operationalize required remedial measures. Third, all the enforcement institutions should ensure actions against illegal funds' transfers with full commitment and in true letter and spirit. Fourth, cash couriers will be dealt strictly, if found involved in illegal cash transfers. Fifth, there is lack of efficient coordination among federal and provincial governments, which has to be improved for overcoming CFT deficiencies. Moreover, federal and provincial authorities should coordinate in their legal actions pertaining to Targeted Financial Sanctions (TFS) cases. Sixth, individuals involved in ML and TF activities should be identified and dealt strictly according to law. Seventh, persecution of TF-related cases, including those militants who are placed on 1267 and 1373 designated list, need to be dealt with, speedily and effectively, and their assets must be frozen.

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[35] Mehtab Haider, "Pakistan Briefs FATF About Steps Against Money-Laundering," *News International*, August 16, 2018, Available at https://www.thenews.com.pk/print/355854-pakistan-briefs-fatf-about-steps-against-money-laundering, Accessed on April 05, 2020.

Pakistan is well aware of the effects of its grey-listing. Pakistan realized the efficacy of law and regulation enforcement to counter ML/TF much earlier, even before it was put on grey-list. In this context, Pakistan re-evaluated many of its laws in comparison to International Standards, pertaining to ML/TF. Some major legal initiatives taken by Pakistan for enhancing its capacity against ML/TF include "Anti-Money Laundering Act-2010,"[36]"Investigation for Fair Trial Act, 2013,"[37] "Anti-Terrorism Amendment Act, 2013,"[38] "Anti-Terrorism (2nd Amendment) Act, 2013,"[39] "Protection of Pakistan Ordinance, 2013 (Lapsed),"[40] "National Counter Terrorism Authority (NACTA) Act, 2013,"[41] "Anti-Money Laundering Regulations, 2015,"[42]"Prevention of Electronic Crimes Act, 2016,"[43] "AML/CFT Regulations for Banks and DFIs, 2017,"[44] "NACTA

[36] The Gazette of Pakistan, "Anti-Money Laundering Act, 2010," *Senate Secretariat*, March 27, 2010, Available at http://anf.gov.pk/library/law/anti_money_ laundering_ act_2010.pdf, Accessed on March 06, 2020.

[37] The Gazette of Pakistan, "Investigation for Fair Trial Act, 2013," *Senate Secretariat*, February 22, 2013, Available at http://www.na.gov.pk/uploads/documents/ 1361943916_947.pdf, Accessed on March 06, 2020.

[38] The Gazette of Pakistan, "Anti-Terrorism (Amendment) Act, 2013," *Senate Secretariat*, March 19, 2013, Available at http://www.senate.gov.pk/uploads/ documents/1364482779_599.pdf, Accessed on March 06, 2020.

[39] The Gazette of Pakistan, "Anti-Terrorism (Second Amendment) Act, 2013," *Senate Secretariat*, March 26, 2013, Available at http://www.ilo.org/dyn/natlex/docs/ ELECTRONIC/96215/113653/F1388136337/PAK96215.pdf, Accessed on March 06, 2020.

[40] The Gazette of Pakistan, "Protection of Pakistan Ordinance, 2013," *Senate Secretariat*, January 22, 2014, Available at http://www.na.gov.pk/uploads/documents/ 1391322775_795.pdf, Accessed on March 06, 2020.

[41] Government of Pakistan, "National Counter Terrorism Authority Act, 2013," *National Counter Terrorism Authority*, 2013, Available at https://nacta.gov.pk/wp-content/uploads/2017/08/National-Counter-Terrorism-Authority-Act-2013-1.pdf, Accessed on March 06, 2020.

[42] The Gazette of Pakistan, "Anti-Money Laundering (Amendment) Act, 2015," *National Assembly Secretariat*, December 16, 2015, Available at http://www.na.gov.pk/uploads/documents/1450697492_862.pdf, Accessed on March 06, 2020.

[43] The Gazette of Pakistan, "Prevention of Electronic Crimes Act, 2016," *National Assembly Secretariat*, August 11, 2016, Available at http://www.na.gov.pk/uploads/ documents/1470910659_707.pdf, Accessed on March 06, 2020.

[44] "Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations," State Bank of Pakistan, November 14, 2017, Available at http://www.sbp.org.pk/bprd/2017/CL29.htm, Accessed on March 06, 2020.

Act (Amendment), 2017,"[45] and "Security and Exchange Commission of Pakistan (AML/CFT) Regulations, 2018."[46]

Furthermore, Pakistan also launched National Action Plan (NAP) to combat TF. To curtail TF, "the NAP requires the relevant ministries to share information with other countries regarding sponsors of terrorist groups operating within Pakistan."[47] Furthermore, the State Bank of Pakistan (SBP) also issues numerous guidelines for financial institutions to augment Pakistan's fight against ML/TF. According to SBP guidelines, CFT regulations are needed to be aligned with FATF action plan by introducing necessary amendments in the regulations pertaining to the transfer of funds and minimum documentation required for the opening of new accounts. For curbing TF, comprehensive guidelines were also promulgated for implementing the United Nations Security Council (UNSC) Act 1948, and Anti-Terrorism Act (ATA), 1997's SROs and Notifications. Moreover, it was also recommended to disqualify any bank associated individual, who has relations with entities, proscribed under ATA or UNSC Resolution, 1997. Steps including enhancing Know Your Customer (KYC) standards; Issuance of guidelines regarding the licensing of INGOs under "Association with Charitable & Not for Profit Objects" regulation 2018; CFT/AML Regulations 2018, for financial institutions working under Stock Exchange Commission of Pakistan (SECP); CFT/AML Guidelines for Real Estate Agents 2018; CFT/AML Regulation 2018, by Pakistan Post; bringing Designated Non-Financial

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[45] The Gazette of Pakistan, "National Counter Terrorism Authority (Amendment) Act, 2017," *National Assembly Secretariat*, June 7, 2017, Available at http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/104939/128174/F-1344008560/PAK104939.pdf, Accessed on March 06, 2020.

[46] Government of Pakistan, "Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulation, 2018," *Securities and Exchange Commission of Pakistan*, June 13, 2018, Available at https://www.psx.com.pk/psx/themes/psx/documents/legal-framework/SECP/regulations/secp-(aml-and-cft)-regu-2018/SecExg_LicensingOperations_Reg16.pdf, Accessed on March 06, 2020.

[47] Zahid Gishkori, "National Action Plan: Pakistan in Fresh Push to Choke Terror Funding," *Express Tribune*, January 10, 2015, Available at https://tribune.com.pk/story/819528/national-action-plan-pakistan-in-fresh-push-to-choke-terror-funding/, Accessed on April 5, 2020.

Business and Professions (DNFBPs) under CFT regime; and scores of initiatives taken by Federal Board of Revenue (FBR) to curb ML/TF. FATF's 27-point Action Plan for Pakistan is as following:[48]

1. Understanding risks categorized under countering Financing of Terrorism (CFT) by the financial sector;
2. Outreach sessions of Anti-Money Laundering (AML) and CFT for the financial institutions;
3. Developing an integrated database at airports;
4. Mechanism to publicize designated persons and entities;
5. Terror Financing (TF) specific units and analysis done by the Financial Monitoring Unit (FMU) and State Bank of Pakistan (SBP);
6. Audit of financial institutions by the SBP;
7. Dissemination of Suspicious Transactions Reports (STRs) and analysis done by FMU;
8. Terror financing risk assessment and its implementation;
9. Inter-coordination mechanism of federal and provincial departments;
10. Parallel investigations by Counter Terrorism Departments (CTDs);
11. Risk assessment of cash smuggling;
12. Implementation of domestic cooperation to counter cash smuggling;
13. Understanding of TF by the judiciary, and conducting awareness and training sessions;
14. Risk based outreach of Designated Non-Banking Financial Institutions (DNBFI) and Non-Profit Organizations (NPOs);
15. Pakistan will have to demonstrate the effectiveness of sanctions including remedial actions to curb terrorist financing in the country;
16. Pakistan will have to ensure improved effectiveness on countering terror financing by financial institutions with particular reference to banned outfits;
17. Pakistan will have to take actions against illegal Money or Value Transfer Service (MVTS) such as *Hundi-Hawala*;

[48] Jamal Aziz, Noor Fatima Iftikhar and Hira Arif Riar, "Analyzing Pakistan's Compliance on FATF's 27-Point Action Plan," *Research Society of International Law (RSIL)*, 2021, https://rsilpak.org/wp-content/uploads/2021/02/FATF_compliance_pakistan_RSIL.pdf, (accessed on May 2, 2022).

18. Pakistan will have to place sanction regime against cash couriers;
19. Pakistan will have to ensure a logical conclusion of ongoing terror financing investigation by law-enforcing agencies (LEAs) against banned outfits and proscribed persons;
20. Pakistani authorities will have to ensure international cooperation based on investigations and convictions against banned organizations and proscribed persons;
21. The country will have to place effective cooperation between FMU and LEAs in the investigation of TF at the domestic level as well;
22. Prosecution of the banned outfits and proscribed persons;
23. Demonstrate convictions from the court of law on banned outfits and proscribed persons;
24. Seizure of the properties of banned outfits and proscribed persons;
25. Conversion of *madrassas* to schools and health units into official formations;
26. To cut off funding of banned outfits and proscribed persons; and
27. Pakistan will have to place permanent mechanism for the management of properties and assets owned by the banned outfits and proscribed persons.

Pakistan's Compliance with FATF Action Plan[49]

Year	Pakistan's Compliance
2012-2015	From 2012 to 2015, Pakistan remained on FATF's grey-list.
June 29, 2018	Pakistan was grey-listed again with a 15 months' timeline to enforce FATF's 27-points Action Plan.
August 09-16, 2018	APG Team visited Pakistan and highlighted loopholes in Pakistan's Action Plan in its report through on-site inspections.
October 19, 2018	Pakistan's progress was declared unsatisfactory.
February 17-22, 2019	Under FATF's Action Plan, proscribed organizations were banned by Pakistan.

[49] Compiled by the Author.

June 16-21, 2019	FATF approved of Pakistan's efforts against ML/TF.
August 18-23, 2019	APG Evaluation Report, indicating improvement in Pakistan's Action Plan follow-up.
October 13-18, 2019	Pakistan was given February, 2020, deadline to implement Action Plan.
February 16-21, 2020	Pakistan's efforts were appreciated and was given a further June 2020 deadline, to implement Action Plan in order to come out of grey-listing.
October 21-23, 2020	Pakistan addressed 21 of the 27 action items of FATF Action Plan. However, the country will remain on FATF's 'grey-list' until February 2021.
February 21-March 4, 2021	Pakistan remains on 'grey-list' with a deadline till June 2022 and instructions for further legislations.
June 21-25, 2021	Pakistan remained on 'grey-list' and asked to address the single remaining item on June 2018 Action Plan, and items on APG's Action Plan.
October 19-21, 2021	Pakistan had to complete two concurrent Action Plans with a total of 34 items. It has addressed 30 of the items until then.
March 2-4, 2022	Pakistan is on the 'grey-list until June 2022.
June 14-17, 2022	Pakistan completed two Action Plan with a total of 34 action points and is all set for 'strategic review.' The Berlin Plenary decided on June 17, 2022.

After October 2019 meeting, Pakistan was given time till February 2020, to fill in the gaps in its Compliance with the FATF Recommendations. On that occasion, the FATF President Xiangmin Liu (President, 2019) apprised media personnel regarding Pakistani compliance:[50]

[50] "Anti-Money Laundering and Counter-Terrorist Financing Measures, Pakistan, Mutual Evaluation Report," *Asia Pacific Group*, October 2019, Available at https://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/APG-Mutual-Evaluation-Report-Pakistan-October%202019.pdf, Accessed on April 9, 2020.

"Pakistan agreed to the National Action Plan to fix serious weaknesses in terrorist financing and money-laundering framework. Despite high-level commitment to fix these weaknesses, Pakistan has not made enough progress. Pakistan is required to take further measures but with fast pace. FATF is giving strong message that if by February 2020, Pakistan failed to make a significant progress, further actions would be considered due to noncompliance."

Though the Minister of Economic Affairs Mr. Abdul Hafeez Shaikh reaffirmed Pakistan's commitment to FATF's Recommendations, the Joint Director of Sustainable Development and Policy Institute (SDPI), Dr Vaqar Ahmed was of the opinion that, Pakistan cannot achieve the target given by FATF in four months. Moreover, "technical institutions, banks and surveillance institutions lack capacity to counter the financing of terrorism and money-laundering."[51] According to FATF Compliance Index, which shows a holistic picture of a country's compliance with FATF's Recommendations, "Pakistan has fully compliant with one, mainly compliance with nine, partial compliance with twenty-six and zero compliance with four recommendations."[52] As per these rankings, Pakistan stands at 23rd position in comparison with the other countries' ML/TF risks.

During February 2020 meeting, the results were not different as Pakistan was given a further four-month extension in order to overcome the strategic deficiencies in its Action Plan and to avoid further penalization. Moreover, Pakistan was supposed to prepare a compliance report by April

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[51] Anwar Iqbal, "Pakistan to implement FATF action plan by February: Hafeez," *DAWN*, October 22, 2019, Available at https://www.dawn.com/news/1512153, Accessed on April 10, 2020.

[52] Basel Institute on Governance, "Basel AML Index 2019: A Country Ranking and Review of Money Laundering and Terrorist Financing Risks Around the World," *International Centre for Asset Recovery*, August 2019, Available at https://www.baselgovernance.org/sites/default/files/2019-08/Basel%20AML%20Index%202019.pdf, Accessed on April 14, 2020.

30, 2020,[53] which has been delayed due to COVID-19 pandemic. Moreover, Pakistan is fully committed to getting out of the grey-list. Though being on grey-list does not have direct[54] economic consequences in terms of economic sanctions, it can have dire implications on the inflows of Foreign Direct Investment (FDI) and remittances.[55] Moreover, according to the Foreign Office of Pakistan, "Pakistan risks facing 10 billion dollars annual loss as a result of indirect cost of FATF grey listing."[56]

Furthermore, Pakistan's banking deals will be affected; imports and exports will be diminished; Pakistan's financial institutions may have to undergo additional checks on the financial transactions; and bourses prices can also be affected at Pakistan Stock Exchange (PSE). Therefore, to get out of FATF's grey list is a matter of survival for Pakistan's economy. The adoption of new charity laws in all provinces are followed by the establishment of the provincial charity commissions to register, monitor and regulate. NPOs is yet another important step by Pakistan. Asia Pacific Group (APG) on Money-Laundering has published the results of Pakistan's third Mutual Evaluation follow-up Report on August 12, 2021. As per the report, Pakistan has achieved a compliant/largely compliant rating in four more recommendations leading aggregate to 35/40, in Recommendations rated as Compliant (C) or Largely Compliant (LC). Pakistan is now in the top tier of countries that have achieved a rating of C/LC for over 30 of the 40 FATF Recommendations. Moreover,

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[53] Mehtab Haider, "FATF wants swift completion of plan: Pakistan gets until June to get out of grey list," The *News International*, February 22, 2020, Available at https://www.thenews.com.pk/print/617626-fatf-wants-swift-completion-of-plan-pakistan-gets-until-june-to-get-out-of-grey-list, Accessed on April 10, 2020.

[54] http://country.eiu.com/article.aspx?articleid=277294411&Country=Pakistan&topic=Economy

[55] Shahid Karim and Usman Hayat, "Pakistan on FATF's grey list: what, why and why now?" *DAWN*, June 10, 2019, Available at https://www.dawn.com/news/1418143, Accessed on April 14, 2020.

[56] Dipanjan Roy Chaudhury, "Pakistan risks losing $10 billion annually following FATF 'Grey List'," *Economic Times*, April 3, 2019, Available at https://economictimes.indiatimes.com/news/international/world-news/pakistan-risks-losing-10-billion-annually-following-fatf-grey-list/articleshow/68697831.cms?from=mdr, Accessed on April 4, 2020.

Pakistan has also achieved the rating of Largely Compliance/Compliance in all Big Six Recommendations of the FATF, which include R.3 (Money laundering offense), R.5 (Terrorist financing offense), R.6 (Targeted financial sanctions related to terrorism & terrorist financing), R.10 (Customer due diligence), R.11 (Recordkeeping) and R.20 (Reporting of suspicious transactions).

In addition to above-mentioned efforts towards AML/CFT, Pakistan has been showing "high-level political commitment," which was also appreciated[57] by FATF in the latest plenary. In a four months period until the latest plenary, Pakistan has made considerable advancement[58] and completed 14 out of 27 action items under the Action Plan together with the introduction of amended Tax Laws Ordinance, 2019,[59] and SVP's advance monitoring of financial institutions.[60] In FATF's 150 questions[61] for Pakistan, the issue of *madrassas* linked to proscribed organizations[62] was one of the main concern of the watchdog, to which Pakistan responded by taking administrative control of 113 *madrassas*.[63]

[57] "Jurisdictions under Increased monitoring," *FATF*, February 21, 2020, Available at https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-february-2020.html#pakistan, Accessed on April 5, 2020.

[58] "FATF observes Pakistan's significant progress in 14 of 27 action points," *Dunya News*, February 18, 2020, Available at https://dunyanews.tv/en/Business/533066-FATF-observes-Pakistan-significant-progress-in-14-of-27-action-points, Accessed on April 14, 2020.

[59] Mehtab Haider, "Tax Laws (2nd amendment) Ordinance 2019: Sharing of Information with FMU Clause Inserted," *News International*, January 2, 2020, Available at https://www.thenews.com.pk/print/592325-tax-laws-2nd-amendment-ordinance-2019-sharing-of-information-with-fmu-clause-inserted, Accessed on April 14, 2020.

[60] Rizwan Bhatti, "FATF Challenge: SBP Speeds Up Action Plan," *Business Recorder*, January 01, 2020, Available at https://www.brecorder.com/2020/01/01/557958/fatf-challenge-sbp-speeds-up-action-plan/, Accessed on April 14, 2020.

[61] Mehtab Haider, "FATF Puts 150 Questions to Pakistan," *News International*, December 22, 2019, Available at https://www.thenews.com.pk/print/587019-fatf-puts-150-questions-to-pakistan, Accessed on April 14, 2020.

[62] "Proscribed Organizations," *National Counter Terrorism Authority NACTA Pakistan*, Available at https://nacta.gov.pk/proscribed-organizations/, Accessed on April 14, 2020.

[63] "113 madrassas now under govt supervision, FATF told," *Express Tribune*, December 06, 2019, Available at https://tribune.com.pk/story/2113083/1-113-madrassas-now-govt-supervision-fatf-told/, Accessed on April 14, 2020.

Additionally, Hafiz Saeed, founder of Lashkar-e-Taiba and head of Jamaat-ud-Dawa (JuD), was also convicted by Anti-Terrorism Court in Lahore on February 12, 2020.[64] In this context, Pakistan has had hopes of acknowledgement by FATF.

Pakistan had two concurrent 'Action Plans' with a total of 34 action points of which 30 had either been fully or largely addressed to curb money-laundering and terror financing. The most recent action plan of 202, on money-laundering from the FATF's regional affiliate Asia Pacific Group (APG), had largely focused on money-laundering and had found serious deficiencies. Overall, Pakistan is making good progress on this additional action plan (2021). Four out of seven items were largely addressed. On the other hand, Pakistan has addressed or largely addressed 26 out of 27 action items from the 2018 FATF Action Plan.

In its Action Plan, FATF has told Pakistan that it needs to finish up on the three remaining points on the plan: it has to prove that TF investigations and prosecutions target individuals and entities, acting on behalf of or at the direction of designated persons and entities; prove that the sanctions are effective, proportionate, and dissuasive; and finally, it has to prove that targeted financial sanctions against all 1267 and 1373 designated terrorists are being properly implemented.

Since June 2021, Pakistan has taken swift steps towards improving its AML/CFT regime, including the enactment of the legislative amendments to enhance its international cooperation framework, demonstrated DNFBP (Designated Non-Financial Business and Professions) monitoring for PF TFS (Proliferation Financing and Targeted Financial Sanctions), and DNFBP supervision commensurate with the risks and apply sanctions for noncompliance with the beneficial ownership requirements. The remaining items in the additional Action Plan included investigation and

[64] Asad Hashim, "Pakistan Court Convicts Mumbai Mastermind in Terrorism Case," *Aljazeera*, February 12, 2020, Available at https://www.aljazeera.com/news/2020/02/pakistan-jails-mumbai-attacks-suspect-hafiz-saeed-lawyer-200212103850045.html, Accessed on May 2, 2020.

prosecution of money-laundering cases, confiscation of assets and UN listings. According to the former Foreign Minister of Pakistan, Shah Mahmood Qureshi, "We had been given 27 points in the FATF Action Plan, out of which work on 26 has been completed. In this situation, there is no justification to keep Pakistan on the grey-list."[65]

During the October 2021, Plenary FATF meeting, recognizing Pakistan's efforts and gains towards AML/CFT, FATF President Dr Marcus Pleyer said, "Pakistan had to complete two concurrent action plans with a total of 34 items. It has now addressed or largely addressed 30 of the items. Pakistan has taken a number of important steps but needs to further demonstrate that investigations and prosecutions are being pursued against the senior leadership of the UN-designated terror groups."[66]

In the latest FATF Plenary meeting of March 2022, Pakistan again remained on the grey-list. Foreign Office of Pakistan, prior to the latest meeting, said that "Pakistan had fully complied with the conditions laid down by the FATF for exiting from its 'grey-list,' and suggested that only political considerations of the members of the illicit financing watchdog can hold it back in that category." FO spokesman Asim Iftikhar said, "In the context of FATF, we have faithfully complied with and completed all technical requirements and hope that the outcome would be in the positive direction."[67] In another development, an anti-terrorism court awarded a combined sentence of 33 years imprisonment to Jamaatud Dawa (JuD) chief Hafiz Muhammad Saeed in two cases of TF.[68] It fulfills the last agenda item on the FATF's Action Plan too, as "the sentence comes in the wake of pressure applied by the FATF on the state to 'do more' against militant actors."[69] Lately, in the FATF Plenary in March, 2022, Pakistan reported to have complied with 32 out of 34 action items (27 for 2018 TF

[65] "No justification to keep Pakistan on FATF grey list: FM Qureshi," *Dawn,* June 23, 2021.
[66] Tahir Sherani, "Pakistan to remain on FATF grey list," *Dawn,* October 21, 2021.
[67] Baqir Sajjad Syed, "Only politics can keep Pakistan on FATF grey list: Foreign Office," *Dawn,* February 19, 2022.
[68] Wajih Ahmad Sheikh, "Hafiz Saeed sentenced to 33 years in jail," *Dawn,* April 9, 2022.
[69] "Hafiz Saeed sentenced," *Dawn,* April 10, 2022.

Action Plan & 7 for 2021 ML Action Plan). One action item from each 2018 and 2021, Action Plan is partially addressed and expected to meet during Pakistan's next review.

Analysis

Pakistan has taken appreciable measures for AML/CFT. However; APG's Mutual Evaluation Report for Pakistan, 2019,[70] highlighted some deficiencies in Pakistani CFT Regime. According to the report, Pakistan convicted just 58 individuals out of 228 registered cases for TF. On Pakistan's defense, it was mainly because of lack of technical capability to collect evidence and prosecute such cases. There are also technical shortcomings in SROs issued under UNSC Regulation 1267, together with not fully implementing UNSCR 1373 and ATA 1997. There are also insufficient checks on Financial Institutions (FIs) and DNFBP pertaining to CFT obligations and TF risks. The value of monetary sanctions by the SBP are also at a lower level; SECP lacks sufficient understanding of TF risks, and also lacks in measures to implement risk-based approach; and non-supervision of TF risks linked with Trusts and *Waqfs* in Pakistan.

More interestingly, it is also FATF's non-appreciation of Pakistan's AML/CFT because of which Pakistan is being continuously kept in the grey-list since June 2018. There should be no doubt in Pakistan's successful operations[71] against banned outfits as well as drastic measures

[70] "Anti-Money Laundering and Counter-Terrorist Financing Measures, Pakistan, Mutual Evaluation Report."

[71] Khalid Rasheed, "Punjab Issues List of 73 Banned Outfits; Four Political Parties Under observation," *Express Tribune*, August 10, 2019, Available at https://tribune.com.pk/story/2032235/1-home-department-issues-list-73-banned-outfits/?__cf_chl_jschl_tk__=d7c969db7a2206c8b4099845881b856ced6c25a4-1582648282-0-AUKU6ovuv2CtJraQqJ2CiISWOTSpudVdjINqNyOXbFwmx6zwR2YxPy_WSdWody2j_Ex9QGsLSs4BP0yjQ6CIPWK6DAMIZlW3_XpyOMA45pR5tDpxcgLcRxV0EX2rv8s91M5JrSb31PvvPwHZA0S5Bk_53TXjLhGYTlK99IO-2W_fuO8eouYadBjU byin3N89i9l1WM6-RESDOSNGu-FX0XOansb6IPLpe_qlvxBMdUPGXnF GJgO9 uiNQxFj6j8A13cK hNoY1Z-KwSL6F2kqkLVhGOH7 djCrowfercpdL 1ZQCGPD 4i3tP-mZWr_5Iq Xf03NyLTWEsv-7totRmWFa0VtxVzLNDr3DElrBX-IqoX4_Z, Accessed on April 14, 2020.

to resolve structural impediments.[72] Regrettably, politicization of FATF is yet another reason of the non-recognition. Since long, a perpetual Indian acrimonious approach and the partisanship of FATF is allowing the grey-list status for Pakistan despite the warning given by China.[73] In fact, the Indian diplomacy has tried its best to push Pakistan into the black-list. Moreover, it was observed that "the FATF relief will be given to Pakistan only as a *quid pro quo* for supporting the US withdrawal from Afghanistan."[74]

Like any other institution, there are opposing views on these international monetary organizations. According to Dr Khurram Iqbal, Assistant Professor at National Defence University, Pakistan, there is a long history of the US to use or misuse the international organizations and monitor institutions to its political and geo-strategic advantage.[75] Similarly, according to Dr. Iqbal, the mere purpose of these monitory institutions linked to Bretton Wood financial system is to sustain American hegemony and whosoever intends challenging the American hegemony in any manner, such international institutions are instrumentalized to discourage those efforts. Though for some, FATF policies are exploitative, particularly when placed against the time of unfriendly wave in the US-Pakistan relations. Pakistan was grey-listed when the former US President Donald Trump, during initial few months in the office, started blaming Pakistan for insecurity in the South Asian region, and the decision is taken as more politicized.

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[72] Khawaja Khalid Farooq, "Pakistan and FATF," *News International*, December 28, 2019, Available at https://www.thenews.com.pk/print/589626-pakistan-and-the-fatf, Accessed on April 14, 2020.

[73] "China Vows to Not Let US & India Politicize FATF to Damage Pakistan," *Global Village Space*, Available at https://www.globalvillagespace.com/china-vows-to-not-let-us-india-politicize-fatf-to-damage-pakistan/, Accessed on April 15, 2020.

[74] Rehman Malik, "USA-Afghan Deal vs Pak Trial in FATF," *Nation*, February 24, 2020, Available at https://nation.com.pk/24-Feb-2020/usa-afghan-deal-vs-pak-trial-in-fatf, Accessed on April 15, 2020.

[75] Iqbal, Khurram, "FATF and Pakistan: Commitments, Compulsions and Challenges," Interview by the Author.

Nonetheless, the issue of FATF and its relations with Pakistan has two sides: political and technical. To deal with this issue, it is very important to focus on both the aspects. However, Pakistan needs to acknowledge the significance of political and diplomatic influence, which often overshadows the technical side of FATF. Historically, we have seen that it was mainly political and diplomatic persuasion on the action plan along-with the technical compliance which has helped Pakistan to dissuade the black listing in the FATF's previous reviews. Pakistan's timely contacts with friendly countries, including Turkey, Malaysia, China and Saudi Arabia proved supportive since FATF and its Regional Bodies' decisions regarding black-listing are consensus-based. Due to the support of these friendly countries, it became hard for opposing forces, particularly India to get Pakistan into black-list.

Islamophobia and 'Islamic Extremism' has also been widely used to inflate the prejudice and shape the opinions of the FATF members countries politically or other international organizations.[76] On the contrary, the other variants of extremism and terrorism in other FATF member countries such as far-right extremism in the shape of *Hindutva*, left-wing terrorism etc., are all conveniently ignored. Pakistan needs to raise this issue on the international forums more proactively. There are several media reports which distinctly demonstrate Pakistan's initiatives/compliance with the technical aspects of FATF Action Plan. For instance, since the recent past, several political converging points have evidently exhibited that the US and Pakistan have evolved an understanding and there is a hope that the US will gradually accommodate Pakistan's concerns, whether they are in terms of FATF or the rise of *Hindutva* in India.

Similarly, during 2018-22, there was a tacit understanding between the government of Pakistan and China that no details of strategic projects on China-Pakistan Economic Corridor (CPEC) will be shared with any

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[76] Iqbal, Khurram, "FATF and Pakistan: Commitments, Compulsions and Challenges," Interview by the Author.

Bretton Wood financial system, though Islamabad has now decided to share all the details of the strategic projects in CPEC with the US and international monitoring institutions.[77] This has led to the scaling down of the pace of CPEC projects but the chances of the de-listing of Pakistan from the FATF's grey-list are much higher than before.

Pakistan-US convergence on the Afghanistan issue has also helped in improving Pakistan's relations with the US, and the decisions taken in June 2022, FATF meeting are already favourable towards Pakistan.

It is time for Pakistan to reinforce its stance on other international economic forums to highlight the rising human rights violations in Illegally Indian Occupied Kashmir (IIOJK), since Pakistan enjoys support and Indian acts are already being criticized by the people of the United States at various forums. The rise of *Hindutva*, extremism, and highhandedness of Prime Minister Narendra Modi's regime against the non-Hindu population living in India, further exaggerates the extremist and xenophobic tendencies, generally unacceptable to the Western societies. If used effectively, the political instrumentation of public opinion and its engineering could create a positive impact for Pakistan. In the past, there have been gaps in Pakistan's financial systems and laws have further deteriorated Pakistan's case in the FATF. The capacity of law-enforcement agencies to implement the laws has been very weak. Pakistan has often fallen short of international standards. This has been fairly realised by the implementation of FATF which has been duly acknowledged by the world. It is, therefore, recommended that once we are out of the grey-list of the FATF, we need to make the system sustainable in order to avoid future restrictions.

[77] Iqbal, Khurram, "FATF and Pakistan: Commitments, Compulsions and Challenges," Interview by the Author.

Recommendations

- Pakistan needs to make its FIs and DNFBPs to strictly comply with CFT obligations.
- A nation-wide consensus is also needed to restrict TF risks strengthening the sanctions regime against those found involved in Ml/TF. Moreover, regional countries have to be convinced to stop cross-border illegal cash transaction.
- FMUs need to enhance their access to TF risks and financial intelligence; and Federal and provincial governments should also improve their support to institutions dealing with the TF.
- Diplomacy is needed to lobby for Pakistan's point of view and its attempts to reform AML/CFT and get off the grey-list.
- Pakistan needs to show that its new AML/CFT rules work and look for international help in ML/TF cases through mutual legal aid.

Conclusion

The FATF's influence has increased as it has focused on preventing terrorists from obtaining funds and ensuring that the financial system functions properly. They are trying to fill up the gaps in the framework for combating money-laundering, funding terrorism and distributing WMDs. In general, Pakistan has adopted the FATF Action Plan, although it lacks the ability to influence other FATF members to cooperate with it. The burden of achieving FATF compliance in a short period of time is enormous, yet thus far, the results have exceeded expectations. Pakistan's economic security was put at jeopardy by being placed on the grey-list. Pakistan has been urged by the FATF to complete 'Action Plans' as soon as possible. Nearly every goal of the FATF Action Plan has been completed. In February 2021, it evaded the FATF's blacklist and is making incredible progress far ahead of the FATF requirements. In the latest June 2022 meeting, FATF said that Pakistan had met all 34 items on two separate Action Plans, adding that the watchdog will now schedule an on-site visit to verify the implementation and sustainability of the country's money-laundering and counter-terrorism financing measures before removing it from the grey-list. Therefore, precautions must be taken.■