

# Money Laundering, Terror Financing and FATF: Implications for Pakistan

Adeel Mukhtar\*

## Abstract

*In 2018, the Financial Action Task Force (FATF) put Pakistan on the so-called 'grey list' for not taking sufficient actions against money laundering and terror financing. Financing has represented a noteworthy challenge in tackling the scourge of terrorism, as it is fundamental in directing all terrorism-related activities. Though Pakistan had taken numerous actions regarding Anti-Money Laundering (AML) and Counter Terror Financing (CTF), still there are many gaps in its existing AML/CTF framework. In this vein, this paper tries to comprehend money laundering and terror financing mechanisms, together with their origins and impacts in general and on Pakistan specifically. Moreover, the paper discusses the role of FATF, Pakistan's efforts to fulfill its recommendations and way forward.*

**Keywords:** Financial Action Task Force, Pakistan, Anti-Money Laundering, Counter-Terror Finance Regime.

## Terror Financing (TF) and Money Laundering (ML)

There are hundreds wishing to carry out martyrdom-seeking operations, but they can't find the funds to equip themselves. So funding is the mainstay of jihad.<sup>1</sup>

---

\* The author is currently pursuing MPhil degree at the National Defence University, Islamabad, Pakistan. His areas of research include the nexus of climate change and security, climate justice, energy/human security, and South Asian politics.

<sup>1</sup> Ari Shaprio, "Obama Stays the Course on Terrorist Financing," *National Public Radio*, March 11, 2009, <https://www.npr.org/templates/story/story.php?storyId=101676777>.

This announcement by al-Qaeda's Sheik Saeed depicts the significance of financing for terrorist organisations. *Ab initio*, terrorism does not appear exorbitant as the cost of many terrorist attacks has been meager. For instance, the total budget estimated to carry out 9/11, which started the menace of terrorism in the Twenty-first Century, was only 'USD 500,000, cost of the infamous 2015 Paris attacks was USD 10,000 or less,'<sup>2</sup> and the 'cost of conducting the 26/11 Mumbai attack was only 2-2.5 crores (USD 2,94,703 million).'<sup>3</sup> Sean Paul Ashley, however, contends that these figures do not show the full picture of operating a terrorist association, specifying them as 'just tip of the iceberg'<sup>4</sup> owing to the need of spending considerable money to manage terrorist troops. For instance:

Al-Qaeda's support and organisation costs take around 90 per cent of their aggregate pay, though just 10 per cent is spent for operational purposes.<sup>5</sup>

---

[TF] provides funds for terrorist activity. It may involve funds raised from legitimate sources, such as personal donations and profits from businesses and charitable organizations, as well as from criminal sources, such as the drug trade, the smuggling of weapons and other goods, fraud, kidnapping and extortion.<sup>6</sup>

On the contrary, the source of ML is usually criminal. Therefore, it is essential to have an in-depth understanding of ML to completely understand terrorist financing (see Figure 1). ML is an activity wherein a

---

<sup>2</sup> Robert Windrem, "Terror on a Shoestring: Paris Attacks Likely Cost \$10,000 or Less," *NBC News*, November 19, 2015, <https://www.nbcnews.com/storyline/paris-terror-attacks/terror-shoestring-paris-attacks-likely-cost-10-000-or-less-n465711>.

<sup>3</sup> Vicky Nanjappa, "Did the 26/11 Terror Strike Cost Only Rs. 25 Lakh?" *Rediff.com*, December 2, 2013, <http://www.rediff.com/news/report/did-the-2611-terror-strike-cost-only-rs-25-lakh/20131202.htm>.

<sup>4</sup> Sean Paul Ashley, "The Future of Terrorist Financing: Fighting Terrorist Financing in the Digital Age," *Penn State Journal of International Affairs* 1, no. 2 (2012): 9-26, [https://psujia.files.wordpress.com/2012/04/terrorist\\_financing\\_final1.pdf](https://psujia.files.wordpress.com/2012/04/terrorist_financing_final1.pdf).

<sup>5</sup> Thomas J. Biersteker and Sue E. Eckert, *Countering the Financing of Terrorism* (New York: Routledge, 2008), 8.

<sup>6</sup> Financial Transactions and Reports Analysis Centre of Canada, GoC, "What is Terrorist Financing?" (Government of Canada, 2015), <http://www.fintrac-canafe.gc.ca/fintrac-canafe/definitions/terrorist-terroriste-eng.asp>.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

money launderer (person or organisation) transfers illegal money through different channels by fudging its source in order to decriminalise it. The exceptionally ‘complex nature of the global financial framework’<sup>7</sup> has given opportunity to fraudsters to control financial organisations. Criminals, for the most part, use different methods to change their illegal money into legitimate income. The unlawful ML mafia is global in its scope. According to an investigation led by the United Nations Office on Drugs and Crime (UNODC) while studying the size of ML found that, ‘criminal proceeds amounted to 3.6 per cent of global Gross Domestic Product (GDP), with 2.7 per cent (or USD 1.6 trillion) being laundered.’<sup>8</sup> The diverse sources of ML include:

...drugs trafficking, weapons trafficking, illegal trafficking of animals and animal products, human trafficking, trafficking of all types of illegal items, tax evasion, bribery, kidnapping, extortion, corruption, fraud, counterfeit currencies etc., and different mechanisms that are used to launder the money are casinos, horse racing, lotteries, single premium insurance policies, smurfing, electronic funds transfers, creating shell corporations, securities transaction, real estate investments etc. among others.<sup>9</sup>

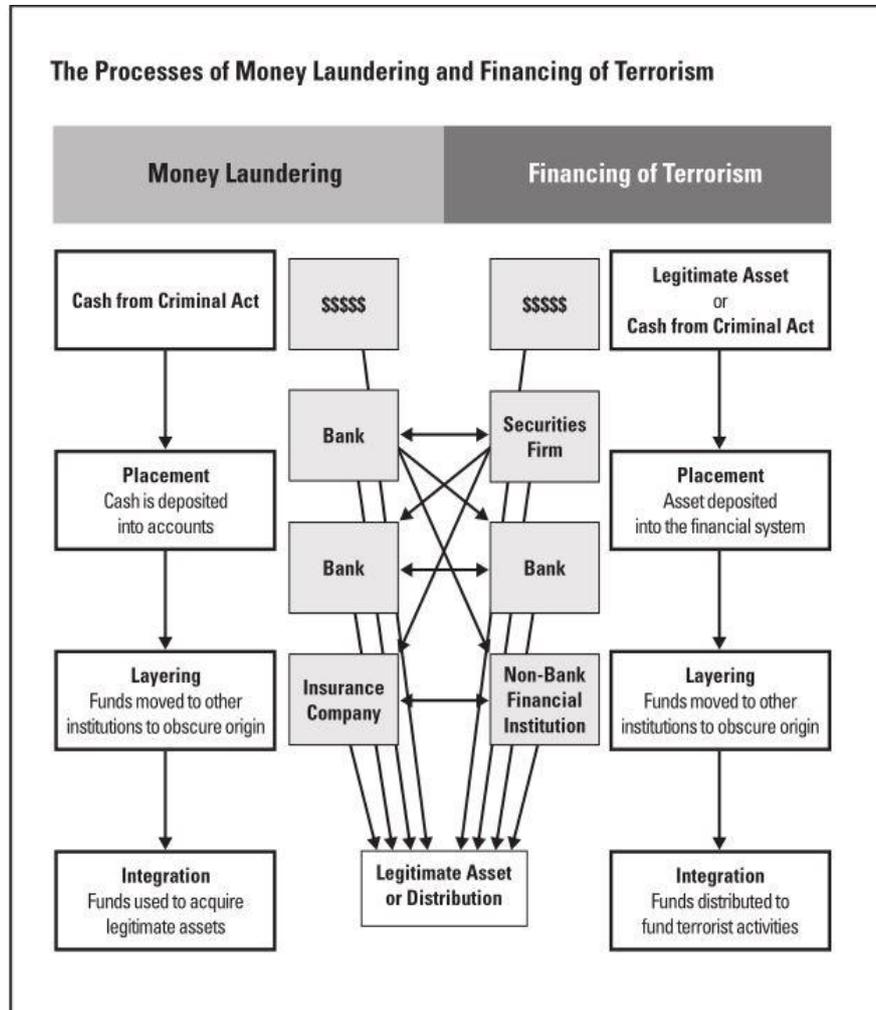
---

<sup>7</sup> Antoinette Verhage, “Between the Hammer and the Anvil? The Anti-Money Laundering-Complex and its Interactions with the Compliance Industry,” *Crime Law and Social Change* 52, no. 1 (2009): 9-32 (10-15), <https://doi.org/10.1007/s10611-008-9174-9>.

<sup>8</sup> FATF, “How Much Money is Laundered per Year?” (Paris: Financial Action Task Force), accessed September 15, 2018, <http://www.fatf-gafi.org/faq/moneylaundering/>.

<sup>9</sup> Peter Reuter and Edwin M. Truman, “Money Laundering: Methods and Markets,” in *Chasing Dirty Money: The Fight against Money Laundering* (Washington, D.C.: Peterson Institute for International Economics, 2004), [https://piie.com/publications/chapters\\_preview/381/3iie3705.pdf](https://piie.com/publications/chapters_preview/381/3iie3705.pdf).

**Figure-1**  
**Similarities and Variations of ML and TF**



Source: Shashank Ramesh, "Countering Terrorist Finance: Case Study of India's Efforts to Counter Terrorism Finance," *Foreign Policy News*, October 16, 2016, <http://foreignpolicynews.org/2016/10/16/countering-terrorist-finance-case-study-indias-efforts-counter-terrorism-finance/>.

The main obstacle in following TF is that it incorporates every type of ML to produce assets, including legitimate sources of money. The origin of financing could be gifts, philanthropy for the sake of religion,

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

raising support for a noble cause, salaries created by Non-Governmental Organisations (NGOs) and so on. For instance, the Global Relief Fund (GRF) started working in the United States of America (USA) as an NGO to give philanthropic care to war-affected Muslim states, such as Bosnia, Afghanistan, Lebanon etc. However, the US Department of the Treasury reported in 2002 that ‘GRF has affiliations with al-Qaeda, Osama bin Laden and other terrorists and has backed them economically.’<sup>10</sup> It is near to impossible to control the activities of these organisations as they work independently and are usually not under governmental jurisdiction.

NGOs in India received about Rs 12,500 crores (182,20,25000 USD) from outside supporters in 2013 and just 2 per cent of the country’s estimated 20 lakh NGOs reported it, and the motivation behind the cash received was not specified by any of the NGOs.<sup>11</sup>

This makes the task of Anti-Money Laundering and Counter Terror Financing (AML/CTF) much more troublesome.

### **ML and TF: Ways, Means and Impacts**

There are numerous factors responsible for ML and TF, plus these factors ‘may be present within a country or state, or might operate transnationally,’<sup>12</sup> as deliberated in this section.

Tax Evasion (TE) prompts stowing away of money ‘to dodge taxes, individuals [and/or organisations] conceal their profits and the sources of their earnings.’<sup>13</sup> The usual logic in abstaining from paying taxes is accrument of wealth. Additionally, many do not pay taxes because they

---

<sup>10</sup> Office of Public Affairs, US Department of the Treasury, Government of the United States, “Treasury Department Statement Regarding the Designation of the Global Relief Foundation,” press release, October 18, 2002), <https://www.treasury.gov/press-center/press-releases/Pages/po3553.aspx>.

<sup>11</sup> Rahul Tripathi, “Rs 12,500 cr from Abroad and only 2% NGOs Report it: Home Ministry,” *Indian Express*, June 16, 2014, <http://indianexpress.com/article/india/india-others/rs-12500-cr-from-abroad-and-only-2-ngos-report-it-home-ministry/>.

<sup>12</sup> For more details see Kannan Subramanian, *The Money Laundering and Financing of Terrorism Eco-System* (Chennai: Notion Press, 2016).

<sup>13</sup> Richard Weber, “Introduction,” in “Money Laundering,” *United States Attorneys’ Bulletin* 55, no. 5 (2007): 1-2, <https://www.justice.gov/sites/default/files/usao/legacy/2007/10/16/usab5505.pdf>.

do not find it profitable for them.<sup>14</sup> So, in order to hide their [illegal] money, fearing that the authorities may track their disguised fiscal resources and profit, they either transfer their resources to banks in neighbouring countries, or ‘put resources into property ventures quickly by concealing their identities.’<sup>15</sup> Another reason for ML is the inefficiency of state financial regulations.

Another source of ML is bribery which is connected to powerless financial authorities or, for example, airport authorities. Money launderers usually pay bribes to AML authorities at airports to exchange money abroad without paying the applicable taxes and by not tracking down its sources or destinations. Moreover, politicians, public officials and others conceal, through myriad of ways, their money accumulated through corruption<sup>16</sup> and other illegal means. ML becomes easier given ‘the inability of banks to report the cash in their reserves that is being laundered.’<sup>17</sup> Enormous cash is exchanged by tax criminals to remote banks, and ‘some acknowledge without any assessment as to their source.’<sup>18</sup>

Regrettably, there is no mechanised system contrived on the international level to track down sources of money, and ‘neither do most banks generally give careful consideration to it due to the expenses related with it.’<sup>19</sup> Moreover, there is no motivation to research ‘the cash that has been put in their monetary reserves.’<sup>20</sup> For instance, in 2010 ‘HSBC was

---

<sup>14</sup> Randy Billingsley, Lawrence J. Gitman, Michael D. Joehnk, *Personal Financial Planning*, 14th ed. (Boston: Cengage Learning, 2015), 82.

<sup>15</sup> Mark Goodfield, “Transferring Property among Family Members: A Potential Income Tax Nightmare,” *LinkedIn*, September 23, 2014, <https://www.linkedin.com/pulse/20140923125602-8635921-transferring-property-among-family-members-a-potential-income-tax-nightmare>.

<sup>16</sup> CS, *Combating Money Laundering and Terrorist Financing: A Model of Best Practice for the Financial Sector, the Professions and other Designated Businesses*, 2nd ed. (London: Commonwealth Secretariat, 2006), 66.

<sup>17</sup> *Encyclopedia of White-Collar and Corporate Crime*, Lawrence M. Salinger, ed. (London: Sage Publications, 2005), 78.

<sup>18</sup> Linda Gustitus, Elise Bean and Robert Roach, “Correspondent Banking: A Gateway for Money Laundering,” in “The Fight against Money Laundering,” *Economic Perspectives: An Electronic Journal of the US Department of State* 6, no. 2 (2001): 26-29 (27), [https://www.taxjustice.net/cms/upload/pdf/State\\_Dept\\_journal\\_2001.pdf](https://www.taxjustice.net/cms/upload/pdf/State_Dept_journal_2001.pdf).

<sup>19</sup> Steven Mark Levy, *Federal Money Laundering Regulation: Banking, Corporate and Securities Compliance* (New York: Wolters Kluwer Law & Business, 2015), 1-17.

<sup>20</sup> Michael H. Tonry, ed., *The Oxford Handbook of Crime and Public Policy* (Oxford: Oxford University Press, 2009), 375.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

charged/accused of being engaged in tax evasion (TE) as it did not investigate the washed money that its diverse branches worldwide were getting and transacting.<sup>21</sup>

Furthermore, money is snuck physically through borders as well, especially ‘in those nations where there is feeble or no surveillance over cross-border trafficking.’<sup>22</sup> The trend is typical over the borders where the area is difficult to monitor or control, e.g., over the US-Mexico border<sup>23</sup> or Pak-Afghan border.<sup>24</sup> This is the most secure method of ML as there is usually no need to make any financial balances and to demonstrate the identity amid online exchanges.

There are plenty of other ways to deceive AML authorities. First, structuring money by dividing ‘a lot of money, which is to be laundered, into little amounts. Each separated sum is then exchanged, through cash orders, online exchanges, and money deposits to foreign banks.’<sup>25</sup> Such nontaxable amounts<sup>26</sup> can be then travelled with to any state. This partitioning technique of cash into smaller stacks and exchanging the bits is called ‘smurfing.’<sup>27</sup> This is the main phase of ML and TF either through online exchanges, wire exchanges, cash requesting, or going as a group, with every individual having the money to legitimately travel with.<sup>28</sup>

Second, smuggling includes taking money to an outside nation by deluding the airport or border authorities. Afterwards, this sum is stored in a foreign bank, where the ‘money laundering laws may be weaker or not

---

<sup>21</sup> Irene Finel-Honigman and Fernando B. Sotelino, *International Banking for a New Century* (London: Routledge, 2015), 202.

<sup>22</sup> Margaret E. Beare, *Transnational Organized Crime* (Burlington: Ashgate, 2013), 37.

<sup>23</sup> *Ibid.*, 8.

<sup>24</sup> Bureau of International Narcotics and Law Enforcement Affairs, US Department of State, GoUS, *International Narcotics Control Strategy Report: Money Laundering and Financial Crimes*, vol. 2 (Government of the United States, 2011), <https://www.state.gov/documents/organization/156589.pdf>.

<sup>25</sup> Pierre-Laurent Chatain, Andrew Zerzan, Wameek Noor, Najah Dannaoui, and Louis de Koker, *Protecting Mobile Money against Financial Crimes: Global Policy Challenges and Solutions*, report (Washington, D.C.: World Bank, 2011), 35, <https://doi.org/10.1596/978-0-8213-8669-98>.

<sup>26</sup> The maximum amount of cash which is legal to possess while travelling abroad.

<sup>27</sup> Chatain, Zerzan, Noor, Dannaoui, and Koker, *Protecting Mobile Money against Financial Crimes: Global Policy Challenges and Solutions*, 54.

<sup>28</sup> Philip Reichel and Jay Albanese, *The Handbook of Transnational Crime and Justice* (London: Sage Publications, 2014), 170-260, <http://dx.doi.org/10.4135/9781452281995>.

entirely enforced.’<sup>29</sup> This method is the ‘most widely recognised technique for ML.’<sup>30</sup>

Third, ML can also take place through trade, that is, when solicitations are either underestimated or exaggerated, contingent on money influx/efflux or expenses, separately: ‘Traders regularly achieve this by giving phony solicitations and accounts.’<sup>31</sup>

Fourth, establishing an NGO and enlisting it in a foreign state can augment ML ‘if the NGO is not making utilization [of] the assets for a noble aim for the general public.’<sup>32</sup> Some people found trust associations and give their cash to them with the goal that the altruistic sum is not taxed.<sup>33</sup> Incidentally, some NGOs have been reported to be connected with terrorist organisations as discussed earlier.<sup>34</sup>

Fifth, round tripping is a strategy through which an organisation pitches its assets for another organisation, and after that consents to an arrangement to get a few or the majority of similar resources at a similar cost. Such ‘selling and purchasing of advantages liquefies’<sup>35</sup> the latter, encouraging their snappy change into money, and the other way around. The money can be moved to another country under the guise of Foreign Direct Investment (FDI) that is often relieved from tax duties.<sup>36</sup>

Sixth, under the bank control strategy, money launderers turn out to be investors of a bank where there is feeble examination of ML. In this way, money launderers evade taxes without investigation as they turn into important ‘customers’ of that bank. The cases of such banks have been investigated recently, see Figure 2:

---

<sup>29</sup> Beare, *Transnational Organized Crime*, 37.

<sup>30</sup> Radio Free Afghanistan Act, Pub. L. No. 107-148, 116 Stat. 64 (2002), <https://www.congress.gov/107/plaws/publ148/PLAW-107publ148.pdf>.

<sup>31</sup> Raymond W. Baker, *Capitalism’s Achilles Heel: Dirty Money and How to Renew the Free-Market System* (New Jersey: John Wiley & Sons, 2005), 25.

<sup>32</sup> This aspect was identified by the US Bank Secrecy Act (1970).

<sup>33</sup> Globally, nonprofit charity organisations are generally exempt from paying taxes.

<sup>34</sup> Meenaz Kassam, Femida Handy, Emily Jansons, *Philanthropy in India: Promise to Practice* (London: Sage Publications, 2016), 40.

<sup>35</sup> Liquefying assets implies turning them into cash. Such an asset can be bought and sold at the same price.

<sup>36</sup> Beare, *Transnational Organized Crime*, 37.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

**Figure-2  
International ML and TF Bank Cases**

No.	Bank	Case
1	Bank of New York	The episode of money laundering occurred in the late 1990s, when Russian capital identical to USD 7.1 billion was laundered through the Bank of New York. Reportedly, one of the VPs of the bank was recognised as liable of exchanging capital and was accused of offenses after an intensive examination was completed. Initially, the bank was not discovered liable and the offence stayed toward its representative side. Nonetheless, after further examination, in 2005, the bank acknowledged its mistake of not following the prescribed technique of AML directions and paid USD 38 million in fines.
2	Bank of Credit & Commerce International (B.C.C.I)	B.C.C.I. was discovered involved in money laundering in the mid-1980s. The evaluated sum laundered was in the billions of dollars. As a punishment, the bank was compelled to close and was sold in 1991 upon demonstrating tax evasion charges.
3	Hongkong and Shanghai Banking Corporation (H.S.B.C)	H.S.B.C was observed to be engaged with keeping laundered cash and supporting the exchanges of drug traffickers, restricted Iranian associations, and terrorists from 2001 to 2010. It was punished in 2012 and paid around USD 1.9 billion in fines.
4	Standard Chartered Bank (SCB)	SCB was discovered blameworthy of laundering billions of dollars for Iran for 10 years in the 2000s. It encouraged around 60,000 exchanges for Iran and the aggregate worth of these exchanges was roughly USD 250 billion. The bank was fined USD 340 million for its inclusion in laundering cash and encouraging unlawful exchanges.
5	Liberty Reserves Bank	The Liberty Reserves Bank of Costa Rica was observed to be engaged with money laundering around USD 6 billion. After the charge was proved, the bank was suspended and shut by US government authorities.
6	Vatican Bank	The Vatican Bank in the Vatican City, referred to in Italian as Istituto per le Opere di Religione (I.O.R.), was money laundering. The bank was explored by the Italian experts and USD 30 million was seized from it.

Source: Author's compilation.

Impacts of ML and TF are not just financial,<sup>37</sup> since they influence the economy of a state, and ‘aggravates social ills’.<sup>38</sup> They ruin the ‘quality of the economy by causing a destructive impact’<sup>39</sup> and become a social evil.<sup>40</sup>

On the economic front, ML damages the economy and the reputation of its financial institutions, particularly when ML additionally becomes a source of embezzlement. In this scenario, market credibility lessens and, as a result, stockholders hesitate in investing in such markets.<sup>41</sup> Additionally, it decreases FDI.<sup>42</sup> Consequently, in the long run, it prompts weaker financial development and it becomes harder to restore the economy.<sup>43</sup> ML may, likewise, influence related financial markets and factors, for example the loan cost that can influence currency’s value, a rise in prices and Consumer Price Index (CPI), which results in financial volatility.<sup>44</sup> Waning tax returns is another impact of ML.

On the social front, ML brings forth various social dilemmas. It influences the credibility of a nation at the global level by creating an impression of governmental support of ML and TF.<sup>45</sup> Furthermore, it can entice the more vulnerable within the general population towards piracy and trafficking. ML can add to the number of smugglers, drug lords, and black money owners, etc.<sup>46</sup> Hence, tax evasion gives a place of refuge to

---

<sup>37</sup> Susanne Rösner, “Money Laundering: Effects and Measures” (essay, The Mainz University of Applied Sciences, Mainz, 2009), 4.

<sup>38</sup> John McDowell and Gary Novis, “The Consequences of Money Laundering and Financial Crime,” in “The Fight against Money Laundering,” *Economic Perspectives: An Electronic Journal of the US Department of State* 6, no. 2 (2001): 6-8, [https://www.taxjustice.net/cms/upload/pdf/State\\_Dept\\_journal\\_2001.pdf](https://www.taxjustice.net/cms/upload/pdf/State_Dept_journal_2001.pdf).

<sup>39</sup> *Ibid.*, 6.

<sup>40</sup> Donato Masciandaro, ed., *Global Financial Crime: Terrorism, Money Laundering, and Offshore Centres*, Global Finance Series (Burlington: Ashgate, 2004), 63.

<sup>41</sup> McDowell and Novis, “The Consequences of Money Laundering and Financial Crime,” 8.

<sup>42</sup> I Wayan Nasa Nugraha, “The Impact of Corruption and Money Laundering on Foreign Direct Investment in ASEAN,” *Jurnal Ekonomi Kuantitatif Terapan-JEKT* 6, no. 2 (2013): 106-111 (106, 109).

<sup>43</sup> *Ibid.*

<sup>44</sup> McDowell and Gary Novis, “The Consequences of Money Laundering and Financial Crime,” 7.

<sup>45</sup> *Ibid.*

<sup>46</sup> Bureau of Justice Statistics, US Department of Justice, GoUS, *Drugs, Crime, and the Justice System* (Government of the United States, 1992), 8, <https://www.bjs.gov/content/pub/pdf/dcjs-nrbjs.pdf>.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

offenders and militants to conceal their wrongfully earned cash and, along these lines, instigate the general public towards ML and other criminal activities.<sup>47</sup>

**Strangling ML and TF: Role of the Financial Action Task Force (FATF)**

The FATF is made out of 35 member states (Appendix 1) coupled with two regional organisations.<sup>48</sup> It was created to battle TE and TF, alluded to as ‘anti-money laundering/combating the financing of terrorism (AML/CFT) measures.’ There are strict protocols in place in order to become a member (Appendix 2). The Task Force works through self-appraisals and shared assessments by a group of internal specialists to assess member states’ compliance to the FATF rules. It has no implementation ability other than suspending member nations that neglect to follow its rules. For example, the FATF cautioned Turkey in mid-2013 that its membership would be suspended unless it totally criminalises illegal TE. The FATF is situated at the headquarters of the Organization for Economic Co-operation and Development (OECD) in Paris and utilises some OECD staff, yet the FATF is not a part of the OECD structure.<sup>49</sup> At the ministerial gathering in April 2012, member nations re-affirmed the Force’s mandate through December 31, 2020. The FATF emphasises six significant areas to curb ML and TF:

1. FATF recommendations<sup>50</sup>
2. High-risk and non-cooperative jurisdictions<sup>51</sup>

---

<sup>47</sup> Baker, *Capitalism’s Achilles Heel: Dirty Money and How to Renew the Free-Market System*, 25.

<sup>48</sup> FATF, “Financial Action Task Force” (Paris: Financial Action Task Force), accessed September 15, 2018, <http://www.fatf-gafi.org/pages/members/financialactiontaskforcefatf.html>.

<sup>49</sup> FATF, “General Questions” (Paris: Financial Action Task Force), accessed September 15, 2018, <http://www.fatf-gafi.org/faq/generalquestions/>.

<sup>50</sup> The FATF issued its Forty Recommendations to serve as global standards to protect the integrity of the international financial system and enhance international cooperation on AML/CFT by increasing transparency and assisting countries in successfully taking action against the illicit use of their financial system.

<sup>51</sup> The FATF attempts to identify those countries that are not complying with its recommendations. On the basis of reviews by the International Co-operation Review

3. Financing of proliferation<sup>52</sup>
4. Mutual evaluations<sup>53</sup>
5. Methods and trends<sup>54</sup>
6. Corruption.<sup>55</sup>

When it was founded in 1989, it was responsible for looking at illegal TE methods and patterns, and investigating its activities. In 1990, the FATF issued a report containing an arrangement of 40 recommendations,<sup>56</sup> and provided a far-reaching design of activities to tackle TE. After 9/11, it diverted its endeavours to TE and TF. On October 31, 2001, the Task Force issued another arrangement of rules and eight proposals on TF.<sup>57</sup> It demonstrated that it had expanded its main goal of TE to focus on TF, urging all nations to comply with the latest arrangement of rules. A ninth ‘special suggestion’ was included in 2005.

---

Group (ICRG), jurisdictions may be publicly identified in one of the two FATF public documents that are issued three times a year: 1) FATF’s Public Statement identifies jurisdictions that have strategic AML/CFT deficiencies and to which counter-measures apply and jurisdictions which have deficiencies, but have not made progress in addressing them or have not committed to an action plan to address them; and 2) Improving Global AML/CFT Compliance: Ongoing process in which the FATF identifies those jurisdictions that have deficiencies but have provided a high-level political commitment to address the deficiencies through a plan developed with the Task Force.

<sup>52</sup> The FATF updated its standards to include measures on the implementation of targeted financial sanctions related to proliferation of Weapons of Mass Destruction (WMD).

<sup>53</sup> The Task Force conducts peer reviews of each member on an ongoing basis to assess levels of implementation of its recommendations, providing an in-depth description and analysis of each country’s system for preventing criminal abuse of the financial system.

<sup>54</sup> It monitors and updates the constant evolution of the methods used to launder proceeds of criminal activities and finance illicit activities. Recently, the FATF surveyed the vulnerability of *Hawalas* and other similar service providers to money laundering and terrorist financing as a result of their use of non-bank settlement methods. It also surveyed the vulnerabilities and risks of diamond trade to money laundering, including production, rough diamond sale, cutting and polishing, jewelry manufacturing and jewelry retailers.

<sup>55</sup> The FATF focuses on the linkage between corruption and money laundering, both of which are generally committed to obtain or hide financial gain.

<sup>56</sup> FATF, “FATF 40 Recommendations” (Paris: Financial Action Task Force, 2003), <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/the40recommendationspublishedoctober2004.html>.

<sup>57</sup> OECD, “FATF Cracks Down on Terrorist Financing” (Washington, D.C.: Organisation for Economic Co-operation and Development, 2001), [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=PAC/COM/NEWS\(2001\)91&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=PAC/COM/NEWS(2001)91&docLanguage=En).

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

The same year, the United Nations Security Council (UNSC) embraced Resolution 1617, 'asking all U.N. Party States to actualize the FATF 40 proposals on tax evasion and the nine suggestions on terrorist financing.'

The risk-based approach embraced by FATF urges nations to distinguish, survey, and comprehend the dangers postured by TE and TF; and to welcome suitable measures to address those dangers, accommodating more adaptable measures. Also, the new recommendations address TF by incorporating measures for fighting it through all FATF recommendations, consequently wiping out requirement for the nine Special Recommendations that had supplemented Forty Recommendations. Specifically, the new standards prescribe:

...that terrorist financing should be criminalized (Recommendation 5); that countries should implement targeted financial sanctions related to terrorism and terrorist financing (Recommendation 6); that countries should implement targeted financial sanctions related to the prevention, suppression, and disruption of proliferation of weapons of mass destruction and its financing (Recommendation 7); and that countries review their laws and regulations to ensure that non-profit organisations are not used to finance terrorism (Recommendation 8).<sup>58</sup>

On February 15, 2012, the FATF received an overhauled and refreshed arrangement of Forty Recommendations, which included expansion in financing of WMD to its zones of reconnaissance. The new command indicates various tasks for the FATF, including:

1. Identifying threats to the international financial system e.g., ML and TF.
2. Cogitating a framework to fight against ML and TF.
3. Monitoring its members through mutual evaluations to ensure their compliance to combat ML and TF.
4. Engaging with non-cooperative high-risk entities to avoid any harm to the international financial system.

---

<sup>58</sup> James K. Jackson, *The Financial Action Task Force: An Overview*, report (Washington, D.C.: Congressional Research Service, 2012), 4, <https://fas.org/sgp/crs/terror/RS21904.pdf>.

5. Ensuring implementation of FATF recommendations through international organisations, and strengthening capacity of FATF-like regional bodies.
6. Keeping new threats to international financial system at bay through the international community.
7. Coordinating the implementation of the UNSC resolutions on non-proliferation and ‘preparing guidance as needed to facilitate implementation of relevant international obligations in a manner compatible with the FATF standards.’
8. Engaging and training civil society and private sector on matters related to the work of FATF.
9. Undertaking any new assignments concurred by its Members.

In February 2016, the Task Force discharged an updated procedure to augment endeavours by the FATF individuals to address what it decided as an escalation of global terrorist dangers. The new technique comprises of the structure, instruments, and activities set up; the present dangers that are confronted; and the key arrangement targets and the priority activities the FATF and the global system will take in its battle against terrorism and TF.<sup>59</sup>

### **ML and TF: The Case of Pakistan**

Pakistan is considered a Golden Crescent<sup>60</sup> for activities like ML and TF. Adjacent states such as Iran, Afghanistan, and India, are also hubs of ML owing to extensive growth of opium and its trafficking.<sup>61</sup> Drug trafficking in and out of these states are an order-of-the-day because of fragile border management, especially since these borders are too long to completely secure and monitor.<sup>62</sup> In this vein, lack of steady observation has helped

---

<sup>59</sup> FATF, *Consolidated FATF Strategy on Combatting Terrorist Financing* (Paris: Financial Action Task Force, 2016), 1, <http://www.fatf-gafi.org/media/fatf/documents/reports/FATF-Terrorist-Financing-Strategy.pdf>.

<sup>60</sup> Veena Kukreja, *Contemporary Pakistan* (New Delhi: SAGE Publications, 2003), 193.

<sup>61</sup> For details, see “Drugs – References,” *GlobalSecurity.org*, accessed March 7, 2018, <https://www.globalsecurity.org/military/world/afghanistan/opium-refs.htm>.

<sup>62</sup> Bureau of International Narcotics and Law Enforcement Affairs, US Department of State, GoUS, *International Narcotics Control Strategy Report: Drug and Chemical Control*, vol. 1 (Government of the United States, 2010), 353, <https://www.state.gov/documents/organization/137411.pdf>.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

drug traffickers and money launderers in these areas.<sup>63</sup> As discussed earlier, smuggling of cash is an important channel of ML and subsequent TF, wherein money is snuck along the borders of Iran and Afghanistan,<sup>64</sup> in addition through airport terminals by sidestepping checkpoints or by bribing inspectors to move the money abroad.<sup>65</sup>

Lamentably, corrupt government officials and politicians are also involved in significant violations of ML in Pakistan:

...by becoming directly involved in money laundering, making offshore properties, drug trafficking, smuggling, corruption, misappropriation of funds, bribery, etc. or by taking bribes from those who are involved in such crimes.<sup>66</sup>

Reportedly, investigations have been initiated against politicians, working with money launderers. In Pakistan (as elsewhere in South Asia), there is an additional need to keep an eye on the individuals who are working in AML/CTF divisions as money launderers can lure them by offering bribes.<sup>67</sup> In addition to this, tax criminals purchase assets, such as property, utilising illegal money to sell it afterwards to make money ‘authentically earned.’ This encourages transformation of black money into legitimately earned money and prompts money laundering.<sup>68</sup> For this, money launderers influence tax office representatives.<sup>69</sup> Usually, the

---

<sup>63</sup> Arvind Goswami, *3D Deceit, Duplicity & Dissimulation of US Foreign Policy towards India, Pakistan & Afghanistan* (Bloomington: AuthorHouse, 2012), 112.

<sup>64</sup> Bureau of International Narcotics and Law Enforcement Affairs, US Department of State, GoUS, *International Narcotics Control Strategy Report: Drug and Chemical Control*, 353.

<sup>65</sup> Karen Beeks and Delila Amir, *Trafficking and the Global Sex Industry* (Lanham: Lexington Books, 2006), 67.

<sup>66</sup> IBP, *Pakistan: Doing Business and Investing in Pakistan: Strategic, Practical Information, Regulations, Contacts* (Washington, D.C.: International Business Publications, 2015), 126.

<sup>67</sup> “Report Unmasks Tax Evasion among Pakistan Leaders,” *Express Tribune*, December 12, 2012, <http://tribune.com.pk/story/478812/report-unmasks-tax-evasion-amongpakistan-leaders>.

<sup>68</sup> Shahram Haq, “Property Market Befuddled by Tax Measures,” *Express Tribune*, August 26, 2016, <http://tribune.com.pk/story/1170097/property-market-befuddled-tax-measures>.

<sup>69</sup> Anas Malik, *Political Survival in Pakistan: Beyond Ideology* (New York: Routledge, 2010), 170.

payoff is a chunk of money to officials to avoid the payment of full tax amounts and transfer of their assets abroad.<sup>70</sup>

In India and Pakistan, the *Hundi/Hawala* has also been notoriously used for ML.<sup>71</sup> The system works like a money exchange without having to move money physically.<sup>72</sup> Therefore, neither the government nor the economy sees the exchange. Pakistan, in this regards, has banned this practice,<sup>73</sup> yet numerous facilitators have been working clandestinely<sup>74</sup> as ‘the total volume of annual currency transfers through *Hundi/Hawala* is around USD 15 billion.’<sup>75</sup> As terrorist activities require funds, the sponsorship is given by the benefactors, who are generally observed to be money launderers and drug traffickers, and government officials, who bolster them. Terrorist associations usually secure finances through ML practices.<sup>76</sup> This has been the case in Pakistan as well,<sup>77</sup> where external foreign intelligence agencies, in particular India’s Research and Analysis Wing (RAW) and the US Central Intelligence Agency (CIA), have been facilitating anti-state elements. For example, an Indian Army intelligence officer, Kulbhushan Jadhav, was involved in terrorist activities in

---

<sup>70</sup> Waheed Mughal, *Beyond London* (Morrisville: Lulu Enterprises, 2010), 162.

<sup>71</sup> Peter Lilley, *Dirty Dealing: The Untold Truth about Global Money Laundering, International Crime and Terrorism*, 2nd ed. (London: Kogan Page, 2003), 142.

<sup>72</sup> The branch or representative person of *Hundi* in the foreign country takes the cash and asks the representative in the other country to give an equal or smaller amount of cash to the concerned person to whom the cash has to be sent.

<sup>73</sup> Arif Hasan and Mansoor Raza, “Migration and Small Towns in Pakistan,” Working Paper Series on Rural-Urban Interactions and Livelihood Strategies (paper no. 15, International Institute for Environment and Development, London, 2009), 40.

<sup>74</sup> Virginia N. Sherry, ‘*Bad Dreams*’: *Exploitation and Abuse of Migrant Workers in Saudi Arabia*, vol. 16, no.5, report (New York: Human Rights Watch, 2004), <https://www.hrw.org/sites/default/files/reports/saudi0704.pdf>.

<sup>75</sup> Shahid Iqbal, “Annual *Hundi, Hawala* Payments cross \$15 Billion,” *Dawn*, December 31, 2015, <http://www.dawn.com/news/1229711>.

<sup>76</sup> Arun Kumar, *The Black Economy in India* (New Delhi: Penguin, 2002), 261.

<sup>77</sup> Khaleeq Kiani, “Asia Pacific Group Finds ‘Deficiencies’ in Pakistan’s FATF Action Plan,” *Dawn*, August 17, 2018, <https://www.dawn.com/news/1427502/asia-pacific-group-finds-deficiencies-in-pakistans-fatf-action-plan>.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

Pakistan,<sup>78</sup> especially Quetta and Karachi.<sup>79</sup> In such cases, all the money that the militants get is 'laundered'.<sup>80</sup>

### **Impact of ML and TF on Pakistan**

Pakistan has been greatly affected by terrorism; and through it by ML and TF practices. According to the US State Department's annual *Money Laundering and Financial Crimes Volume*:

Pakistan does not have firm control of its borders, which facilitates the flow of illicit goods and wealth into and out of Pakistan.<sup>81</sup>

It takes note that in 2016, Pakistanis living abroad transmitted USD 19.7 billion to Pakistan by means of the formal banking sector, a 2.3 per cent rise from 2015:

Though it is illegal to operate a *hawala* without a license in Pakistan, the practice remains prevalent because of poor ongoing supervision efforts and a lack of penalties levied against illegally operating businesses.<sup>82</sup>

The Altaf Khanani case gets extraordinary reference in the report as a money laundering organisation situated in Pakistan:

The group, which was designated a transnational organized crime group by the United States in November 2015, facilitates illicit money movement between, among others, Pakistan, the UAE, US, UK, Canada, and Australia... The Khanani MLO offers money laundering services to a diverse clientele, including Chinese, Colombian, and Mexican

---

<sup>78</sup> "Govt Airs Video of Indian Spy Admitting Involvement in Balochistan Insurgency," *Dawn*, March 29, 2016, <https://www.dawn.com/news/1248669>.

<sup>79</sup> Syed Ali Shah, "Arrested 'RAW Agent' Trained Separatists to Target Pakistani Ports: Security Official," *Dawn*, March 27, 2016, <http://www.dawn.com/news/1248254>.

<sup>80</sup> Philip P. Purpura, *Terrorism and Homeland Security: An Introduction with Applications*, Butterworth-Heinemann Homeland Security Series (London: Butterworth-Heinemann, 2011), 147.

<sup>81</sup> Anwar Iqbal, "Khanani Group Launders Billions of Dollars: US Report," *Dawn*, March 4, 2017, <https://www.dawn.com/news/1318333>.

<sup>82</sup> *Ibid.*

organized crime groups and individuals associated with designated terrorist organisations.<sup>83</sup>

According to the then-head of the State Bank of Pakistan (SBP) in 2013, the appraisals were over USD 9 billion in funds illicitly transferred outside Pakistan. There is sufficient evidence that militants get financed through this dirty money in and outside Pakistan. An investigation by the SBP in 2010, *The Size of Informal Economy in Pakistan* indicated that the ‘aggregate size of the informal economy is around 30 per cent of the total economy.’<sup>84</sup> This implies that every year somewhere in the range of PKR 800-900 billion<sup>85</sup> is produced in Pakistan by the parallel economy, legitimate and illicit. Black cash is about PKR 1,300 billion<sup>86</sup> that does not show up in the SBP investigation, rather is archived in *Pakistan: Enigma of Taxation*. Moreover, *Pakistan: Drug-trap to Debt-trap* speculates that ‘the aggregate figure of the informal economy is at USD 95 billion.’<sup>87</sup>

For a long time, Pakistan was on the FATF’s ‘grey list’ from 2012-15, which Pakistan successfully managed to reverse.<sup>88</sup> 72 organisations, associated with terrorist outfits, were prohibited in Pakistan. According to the Public Statement dated February 27, 2015, the FATF refreshed its list about jurisdictions no longer subject to monitoring; and because of successful measures, particularly against *Hawala*, FATF referred Pakistan to that specific list. It appreciated Pakistan’s efforts in enhancing its AML/CFT administration and commented that:

Pakistan has established the legal and regulatory framework to meet its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in June 2010. Pakistan is, therefore, no longer subject to the FATF’s monitoring process under its on-going global AML/CFT compliance process. Pakistan will work with APG as it

---

<sup>83</sup> Ibid.

<sup>84</sup> Muhammad Farooq Arby, Muhammad Jahanzeb Malik and Muhammad Nadim Hanif, “The Size of Informal Economy in Pakistan,” SBP Working Paper Series (paper no. 33, State Bank of Pakistan, Karachi, 2010), 10, <http://www.sbp.org.pk/repec/sbp/wpaper/wp33.pdf>.

<sup>85</sup> USD 7,302,231,000.

<sup>86</sup> USD 10,547,667,000.

<sup>87</sup> Huzaima Bukhari and Ikramul Haq, “Black Money, Grey Laws,” *Friday Times*, March 10, 2017, <https://www.thefridaytimes.com/tft/black-money-grey-laws/>.

<sup>88</sup> “Pakistan Elevated from Grey List to White by Task Force: Dar,” *Dawn*, February 28, 2015, <https://www.dawn.com/news/1166482>.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

continues to address the full range of AML/CFT issues identified in its mutual evaluation report, in particular, fully implementing UNSC Resolution 1267.<sup>89</sup>

However, on the eve of the FATF meeting in Paris in February 2018, Pakistan was put on the ‘grey list’ for not being fully in compliance with the international financial regime’s guidelines, especially FATF recommendations and for taking little action against proscribed organisations.

Latest action against these groups, such as the government’s decision to ‘amend the ATA, 1997 as part of its damage-control campaign after the FATF’<sup>90</sup> decision is a welcome step in fulfilling international obligations pertaining to AML/CTF.<sup>91</sup> Before the TF’s decision, Pakistan also augmented its diplomatic efforts to avoid being put on the list, however, China and Saudi Arabia backed out at the last moment. According to Ambassador (R) Abdul Basit, China has been careful because it has to follow international norms to prove itself a responsible state so as to become Vice President of FATF in 2018. Plus, Saudi Arabia is not a member of FATF, and has an observer state which it wants to graduate from.<sup>92</sup> According to Dr Vaqar Ahmed, China has also advised Pakistan to be careful in respecting international norms regarding financial inflows in the country, especially since it has four banks here.<sup>93</sup> It has been inferred from recent history that Pakistan has been under a microscopic lens geopolitically for several years now. Perhaps, the country’s deteriorating relations with the US resulted in joint efforts by Washington and London to put it back on the watchlist.<sup>94</sup>

---

<sup>89</sup> FATF, “Improving Global AML/CFT Compliance: On-Going Process” (Paris: Financial Action Task Force, 2015), <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-february-2015.html#Pakistan>.

<sup>90</sup> Malik Asad, “Govt Mulls Permanent Ban on JuD, Other ‘Terror’ Groups,” *Dawn*, April 8, 2018, <https://www.dawn.com/news/1400320/govt-mulls-permanent-ban-on-jud-other-terror-groups2018>.

<sup>91</sup> *Ibid.*

<sup>92</sup> Awaz-e-Pakistan, “FATF Aur Pakistan kay Imtehan,” *News One*, YouTube, February 26, 2018, [https://www.youtube.com/watch?v=\\_OvwbuVYqWY](https://www.youtube.com/watch?v=_OvwbuVYqWY).

<sup>93</sup> Vaqar Ahmed (Executive Director, Sustainable Development Policy Institute, Islamabad), in discussion with the author, April 9, 2018.

<sup>94</sup> *Ibid.*

Contrary to the claims of the then-Prime Minister's Advisor on Finance Miftah Ismail that the 'country's economy would not be affected due to FATF's grey list',<sup>95</sup> Pakistan Stock Exchange's KSE-100 Index plunged 411 points and closed at 42,942 points even before FATF's final verdict.<sup>96</sup> Similarly, this can slow down the momentum of Pakistan's fast growing USD 300 billion economy, which has been 'expanding at its fastest rate in a decade at above 5 per cent.'<sup>97</sup>

Following several successful military operations against terrorism in Pakistan as well as effective operationalisation of the China-Pakistan Economic Corridor (CPEC), Pakistan's economy has grown 6 per cent this fiscal year (July 2017-June 2018). According to Mike Casey, a partner at law firm Kirkland & Ellis in London, 'being put back on the "grey list" would heighten Pakistan's risk profile and some financial institutions would be wary of transacting with Pakistani banks and counterparties.'<sup>98</sup> Furthermore, it is expected that there will be decline in foreign transactions, drop in foreign currency inflows and widening of current account deficit. Incidents wherein 'Pakistan's biggest lender, Habib Bank, was fined USD 225 million and effectively forced to shut its US operations by the New York regulator due to compliance failures'<sup>99</sup> over ML and TF added fuel to the fire. The dilemma is that even in such

---

<sup>95</sup> Javaid-ur-Rahman, "FATF's Grey List Status 'Won't Affect' Economy, NA Told," *Nation*, March 2, 2018, <https://nation.com.pk/02-Mar-2018/fatf-s-grey-list-status-won-t-affect-economy-na-told>.

<sup>96</sup> "Bearish Spell Continues at PSX, Benchmark Plunges 411 Points," *Dawn*, February 15, 2018, <https://www.dawn.com/news/1389582>.

<sup>97</sup> "Terrorist Financing 'Grey List'," *Financial Daily*, February 20, 2018, 4, <https://www.iba.edu.pk/News/TheFinancialDaily20-02-2018.pdf>.

<sup>98</sup> Drazen Jorgic, Michelle Price and Sumeet Chatterjee, "Pakistan could Face Economic Pain from Return to Terrorist Financing 'Grey List'," *Reuters*, February 16, 2018, <https://www.reuters.com/article/us-pakistan-militants-financing-economy/pakistan-could-face-economic-pain-from-return-to-terrorist-financing-gray-list-idUSKCN1G00PB>.

<sup>99</sup> Michelle Price, "Pakistan's Habib Bank to Pay \$225 Million New York Fine for Compliance Failures," *Reuters*, September 7, 2017, <https://www.reuters.com/article/us-pakistan-bank-new-york/pakistans-habib-bank-to-pay-225-million-new-york-fine-for-compliance-failures-idUSKCN1BI291>.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

circumstances, the previous government offered an Amnesty Scheme<sup>100</sup> which the FATF is not satisfied with.<sup>101</sup>

### **Pakistan's AML/CTF Efforts**

ML is defined in the Section 3 of the Anti-Money Laundering Act (AMLA), 2010 of Pakistan, which can be used by the National Accountability Bureau (NAB), Federal Investigation Agency (FIA), the Anti-Narcotics Force (ANF), and other relevant agencies to investigate criminals. In 2007, Pakistan promulgated the Anti-Money Law (AML) Ordinance, setting up controls for AML and combatting ML and TF. Under the statute, the Financial Monitoring Unit (FMU) was established. It is responsible for taking care of Suspicious Transaction Reports and Cash Transactions Reports. The FMU Unit has cut down numerous unlawful money exchanges in coordination with the FIA and Police Provincial Counter Terrorism Departments:

This can be crossed [sic] checked by the raw numbers discharged by NACTA<sup>102</sup> which expresses that the cases announced in *Hawala/Hundi* are 777, captures made against these cases are 1060 and recuperation of PKR 1320.705 million has been done in such manner.<sup>103</sup>

The FIA investigates ‘money laundering, terrorism, human smuggling and trafficking, and cybercrime’; and the SBP and the Securities and Exchange Commission of Pakistan (SECP) are the essential money-related controllers. Despite the non-attendance of AML enactment, the SBP and SECP have set up AML units to plug monetary loopholes in the system. The SBP has also been following FATF’s proposals regarding ‘know your customer policy, record maintenance, due persistence of

---

<sup>100</sup> Khaleeq Kiani, “By the Govt, For the Govt,” *Dawn*, April 9, 2018, <https://www.dawn.com/news/1400474/by-the-govt-for-the-govt>.

<sup>101</sup> Shahbaz Rana, “FATF Expresses Concern over PM’s Tax Amnesty Scheme,” *Express Tribune*, April 7, 2018, <https://tribune.com.pk/story/1679574/2-fatf-expresses-concern-pms-tax-amnesty-scheme/>.

<sup>102</sup> National Counter Terrorism Authority Pakistan.

<sup>103</sup> Asad Ullah Khan, “Deconstructing Terror Financing in Pakistan” (brief, Institute of Strategic Studies Islamabad, 2018), [http://issi.org.pk/wp-content/uploads/2018/02/IB\\_Asad\\_February\\_16\\_2018.pdf](http://issi.org.pk/wp-content/uploads/2018/02/IB_Asad_February_16_2018.pdf).

banks, and the revealing of Suspicious Transaction Reports (STRs).<sup>7</sup> Figure 3 outlines the consecutive policy actions taken by Pakistan:

**Figure-3**  
**Policy Actions taken by GoP for AML/CTF**

No.	Year	Steps Taken
1	1986	SAARC Regional Convention on Suppression of Terrorism.
2	1988	UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (The Vienna Convention).
3	1997	- Pakistan becomes a member of the Asia Pacific Group on Money Laundering (APG). - The Anti-Terrorism Act (ATA) was formulated.
4	1999	Signed the OIC Convention on Combatting International Terrorism.
5	2000	Signed UN Convention against Transnational Organized Crime (The Palermo Convention).
6	2002	The SBP establishes exchange companies to handle the <i>Hawala</i> system.
7	2003	- Become a signatory to the UN Convention against Corruption. - Effectively banned and sanctioned some NPOs and charity-based organisations.
8	2004	- The SBP takes steps to freeze terrorist funds and to assist financial institutions to identify such funds. - The Anti-Terrorism Act (ATA) of 1997 amended to extend its scope.
9	2007	- Criminalises money laundering through the Anti-Money Laundering Ordinance (AMLO). - Sets up its Financial Monitoring Unit (FMU).
10	2009	Money laundering was made an extraditable offence.
11	2010	Anti-Money Laundering Ordinance revised and passed as the Anti-Money Laundering Act.
12	2015	The National Action Plan (NAP) established to counter terrorism financing and related offences.
13		Pakistan executing the UN Security Council (UNSC) resolutions against terrorist financing and participating with the 1373 and 1267 Committee to boycott terrorist associations.
14		Pakistan SROs No. 773(1)2003 and 155(1/2004) were issued in compatibility of UNSC Resolution Nos. 1267(1999), 1333(2000), 1373(2001), 1390(2002), 1455(2003), and 1526(2004).
15		Pakistan has also signed bilateral and multilateral agreements with different nations on terrorism and extradition treaties with 29 nations.

Source: Author's compilation.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

Given privacy of the data held by banks, it has been important to set up links between indictment and implementation authorities so as to enable this data to flow while respecting confidentiality prerequisites. These links resulted in the FMU. However, despite Law Enforcement Agencies' (LEAs) accessibility to this data, they do not have the know-how and capacity (in many cases) to recognise, among the data produced by day-to-day monetary exchanges, activities that are suspicious or that cover ML and TF exercises.

Despite the measures taken by the US, UN member states, including Pakistan, ML and TF is expanding. On June 14, 2015, the SBP Governor asserted before a Senate Committee that from 2010-15, 300 instances of money laundering, including 34 major exchanges made to suspected terrorist outfits, and 5775 money laundering cases were reported to the Bank. Regardless of these cases, the directions under the AML Act, 2010 have been obscured by section 5 and 9 of the Protection of Economic Reforms Act, 1992 and section 111(4) of Income Tax Ordinance, 2001 that indirectly facilitates TE. According to these provisions, no inquiry can be initiated as to whether anyone transmits illegitimate money into Pakistan through bank accounts, and capitulated foreign currency to the SBP in lieu of rupees. For ML, an individual only has to offer a little premium to a cash exchanger to transmit a payment. The Federal Board of Revenue (FBR) authorities have no legal power to hold an enquiry into foreign money accounts, such as judgment of the Lahore High Court in *Hudabiya Engineering (Pvt.) Ltd. v. Pakistan*. Such conflicting laws and arrangements, such as frequent amnesty schemes, are a serious lacuna for Pakistan in its AML/CTF efforts.

In the presence of such laws, the AML Act, 2010 has turned into a lethargic law as criminals usually go unpunished. Individuals can use loopholes in Section 111(4) of the Income Tax Ordinance, wherein if anyone brings cash through normal bank accounts, the authorities cannot make inquiries pertaining to the 'source'. The banks, likewise seek, shelter under Sections 5 and 9 of the Protection of Economic Reform Act, 1992 to withhold data from relevant government agencies. Unfortunately, NAB, FIA, ANF and FBR have also not been able to work jointly against ML till now. Moreover, NAB has been facilitating 'plea bargains' as per the request of offenders. Terrorist organisations also get millions every day

through *Hundi/Hawala*. This is because of the deficient money exchange information by banks to the FMU set up under section 6 of the AMLA, 2010. The SBP, as of February 2017, did try to introduce an automated framework that could adequately screen suspicious exchanges. The press reported that it had inaugurated a system ‘for the automated detection of possible money laundering and terror financing that uses the banking system.’ Earlier, this was done manually.

The GoP has instituted different policies to check the abuse of *Hawala*. Under the Foreign Exchange Regulation Act Pakistan 1947, all Informal Value Transfer System (IVTS) are illicit, in light of its negative effects. The SBP and SECP have set up AML units to improve monetary oversight. The same units are working towards controlling this framework. SBP has arrangements to decrease the occurrence of Alternative Remittance Systems (ARS) in Pakistan and support utilisation of formal channels for remittances. As indicated by the guidelines of SBP, organisations are required to register with the SECP and after that apply to the SBP for a permit to start money exchange operations.<sup>104</sup>

The FATF Special Recommendation VI proposed that the *Hawala* framework ought to be managed by pressuring *hawaladars* to get licenses. To meet the global principles contrived by the Task Force and the UN, Pakistan has altered the Anti-Terrorism Act, 1997. In June 2004, the SBP informed all *hawaladars* to register as approved foreign exchangers. Departments like NAB, the ANF, the FIA, and the Directorate of Customs Intelligence and Investigations (CII) are supervising conceivable utilisation of this framework for detecting ML and TF. In addition, Pakistan additionally has a helpful connection with the International Criminal Police Organization (INTERPOL)<sup>105</sup> and can approach it for capturing any criminal worldwide. INTERPOL can likewise advise Pakistan about the activities of a Pakistani individual who is suspected to be associated with ML and TF.<sup>106</sup> Despite these efforts, unlicensed

---

<sup>104</sup> FATF, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*, report (Paris: Financial Action Task Force, 2013), 1-70, <https://www.imolin.org/pdf/imolin/Role-of-hawala-and-similar-in-ml-tf-1.pdf>.

<sup>105</sup> Hossein Bidgoli, ed., *Handbook of Information Security: Information Warfare, Social, Legal, and International Issues and Security Foundations*, vol. 2 (New Jersey: John Wiley & Sons, 2006), 205.

<sup>106</sup> For more details see Nafisa Hoodbhoy, *Aboard the Democracy Train: A Journey through Pakistan's Last Decade of Democracy* (New York: Anthem Press, 2011).

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

*Hawala* administrators are still working in the country, especially in prominent urban areas like Peshawar and Karachi to this day.

Besides, under NAP, Counter-Financial Terrorism (CFT) investigative units have been set up in Police Counter Terrorism Departments (CTD). The CTF Directorate is additionally present in NACTA. On February 15, 2018, the Minister of State for Finance informed the Senate that ‘Pakistan has taken vibrant steps to seize the assets of banned groups in compliance with the FATF regulations.’ The Punjab government began seizing all the moveable and immoveable resources of proscribed outfits like the Jamaat-ud-Dawah (JuD) and the Falah-e-Insaniyat Foundation (FIF) working in the territory. This move has been made after the change in the Anti-terrorism Act of 1997 earlier in February 2018, and enabling the state to take action against these proscribed associations on the UN list. Experts have also investigated different ML and TF related cases.<sup>107</sup>

### **Conclusion**

Pakistan has always tried to comply with norms of the international financial regime and has taken several initiatives towards that end. The country has committed to submit various reports to the FATF authorities to justify its commitments regarding AML/CFT efforts. The government has shared that:

Since 2015 to 2018, the Federal Investigation Agency (FIA) has registered 1, 111 cases against suspected terror financiers, seized PKR 2 billion, arrested 1,466 accused and secured 254 convictions from various courts.<sup>108</sup>

---

<sup>107</sup> “FIA Counter-Terrorism Wing to Collect Evidence against MQM’s Altaf Hussain in Money Laundering Case,” *Daily Times*, April 30, 2018, <https://dailytimes.com.pk/234289/fia-counter-terrorism-wing-to-collect-evidence-against-mqms-altaf-hussain-in-money-laundering-case/>. According to sources, money laundering case was registered against him in September 2017 at the FIA State Bank circle on the complaint of Sarfaraz Anwar Merchant.

<sup>108</sup> *Ibid.*

Pakistan also submitted a 26-point comprehensive action plan<sup>109</sup> against ML and TF, wherein it has committed to:

...proactively cooperate with counterpart bilateral agencies to choke financing to Daish, al-Qaeda, Jamaat-ud-Dawah and its affiliate FIF, LeT, JeM, the Haqqani Network and persons affiliated with the Taliban.<sup>110</sup>

On June 08, 2018, moreover, ‘the National Security Committee reaffirmed its commitment to cooperate with the FATF’, while SECP ‘issued Anti-money Laundering and Countering Financing of Terrorism Regulations (2018)’ on June 20, 2018.<sup>111</sup>

There has been progress on Pakistan’s part in the fight against ML and TF and the understanding of private banks pertaining to the issue has also increased through scores of capacity building workshops.<sup>112</sup> Much more needs to be done about the informal financial network in the shape of *Hundi/Hawala*, through physical measures, such as border control, increasing physical checks, to ensure that any kind of liquid cash does not change hands. Transactions should be through banks that can be seen by the financial regulator - State Bank of Pakistan.

Despite these efforts, in the FATF meeting in February 2018, Pakistan was blamed for ‘negligence’ and for:

...lack of adequate implementation of terrorism-related targeted financial sanctions against Jamaat-ud-Dawah (JuD), Falah-e-Insaniyat Foundation (FIF), Lashkar-e-Taiba (LeT), lax supervision over financial institutions, inaction over the exploitation of money service businesses by terrorist groups

---

<sup>109</sup> Shahbaz Rana, “Pakistan Enacts Ambitious Reforms to Comply with FATF,” *Express Tribune*, June 27, 2018, <https://tribune.com.pk/story/1743452/2-pakistan-enacts-ambitious-reforms-comply-fatf/>.

<sup>110</sup> Ibid.

<sup>111</sup> Danyal Haris, “Pakistan Likely to Avoid Being Placed on FATF’s Blacklist,” *News International*, June 26, 2018, <https://www.thenews.com.pk/print/333796-pakistan-likely-to-avoid-being-placed-on-fatf-s-blacklist>.

<sup>112</sup> National Counter Terrorism Authority, GoP, “Countering Financing of Terrorism” (Government of Pakistan), accessed September 25, 2018, <https://nacta.gov.pk/counter-financing-of-terrorism/>.

*Money Laundering, Terror Financing and FATF:  
Implications for Pakistan*

and inadequacy of measures to detect and prevent illicit cross-border transportation of cash.<sup>113</sup>

The FATF authorities remain unconvinced and officially placed Pakistan on the 'grey list' after the Paris plenary meeting in June 2018.<sup>114</sup> Later, a six-member visiting delegation of the Asia Pacific Group (APG) found 'deficiencies in Pakistan's systems, agencies and laws to meet its global obligations against money laundering and terror financing, but noted that progress was taking place.'<sup>115</sup> The APG delegation that visited Pakistan from August 13, 2018 to August 17, 2018 'raised concern that absence of dedicated inter-ministerial focus group and lack of coordination among the Centre and provinces was causing problems to come up with an effective plan and its execution against elements involved in money laundering and terror financing.'<sup>116</sup>

According to Ikram and Bukhari, Section 111 of Income Tax Ordinance 2001, SRO 120 of FBR and Economic Protection Freedom Act 1992, have such loopholes that facilitate the working of *Hundi/Hawala*. Its amount is 36 per cent of Pakistan's economy.<sup>117</sup> It is Parliament which needs to fix this law.

Similarly, the FATF is very specific about the earnings and spending of certain organisations which is being misused under the aegis of philanthropic works, like charity. Pakistan banned these organisations and closed their bank accounts. But, the government needs strong will and commitment to stick to this, rather than unfreezing them as it once did before.

---

<sup>113</sup> Zahid Gishkori, "Pakistan Puts Strong Case in FATF Meet," *News International*, June 26, 2018, <https://www.thenews.com.pk/print/333611-pakistan-puts-strong-case-in-fatf-meet>.

<sup>114</sup> Anwar Iqbal, "Pakistan Placed on FATF 'Grey List' Despite Diplomatic Efforts to Avert Decision," *Dawn*, June 28, 2018, <https://www.dawn.com/news/1416630/pakistan-placed-on-fatf-grey-list-despite-diplomatic-efforts-to-avert-decision>.

<sup>115</sup> Kiani, "Asia Pacific Group Finds 'Deficiencies' in Pakistan's FATF Action Plan."

<sup>116</sup> Mehtab Haider, "Pakistan Briefs FATF about Steps against Money Laundering," *News International*, August 16, 2018, <https://www.thenews.com.pk/print/355619-pakistan-briefs-fatf-about-steps-against-money-laundering>.

<sup>117</sup> Zafar Iqbal and Abdus Satter, *The Contribution of Workers' Remittances to Economic Growth in Pakistan*, report no. 187 (Islamabad: Pakistan Institute of Development Economics, 2005), <https://www.pide.org.pk/Research/Report187.pdf>.

*Adeel Mukhtar*

The government should immediately, through FBR or Ministry of Finance, make a working group for the documentation of Pakistan's economy. India has been facing the same problems, but they are experimenting again and again as to how this kind of parallel economy can be curbed. This is necessary because in a cash economy, any defaulter can easily be traced, captured and punished. If GoP wants to curb ML and TF, private sector money exchangers should be invited and asked for input as they know the channels through which illegal transactions are being carried out. Last but not least, Pakistan should augment its diplomatic efforts and proactively deal with the FATF and observer organisations and countries.

### **FATF Membership**

The FATF members are Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, India, Ireland, Italy, Japan, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, People's Republic of China, Portugal, Russian Federation, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Israel and Saudi Arabia have observer status; the two international organisations are the European Commission (EC), and the Gulf Cooperation Council (GCC).

The following organisations have observer status:

1. Asia/Pacific Group on Money Laundering
2. Caribbean Financial Action Task Force
3. Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures
4. Eastern and Southern Africa Anti-Money Laundering Group
5. Financial Action Task Force on Money Laundering in South America
6. African Development Bank
7. Asia Development Bank
8. European Central Bank
9. International Monetary Fund
10. Organization of American States
11. Organization for Economic Co-operation and Development
12. United Nations Office on Drugs and Crime; and,
13. The World Bank.

*Source:* FATF, "Financial Action Task Force" (Paris: Financial Action Task Force), accessed September 15, 2018, <http://www.fatf-gafi.org/pages/members/financialactiontaskforcefatf.html>.

### **FATF Membership Protocols**

To be admitted to the FATF, a country must:

- be fully committed at the political level to implement the 40 Recommendations within a reasonable time frame (three years) and to undergo annual self-assessment exercises and two rounds of mutual evaluations;
- be a full and active member of the relevant FATF-style regional body;
- be a strategically important country;
- have already made the laundering of the proceeds of drug trafficking and other serious crimes a criminal offense; and
- have already made it mandatory for financial institutions to identify their customers and to report unusual or suspicious transactions.

*Source:* FATF, “Financial Action Task Force” (Paris: Financial Action Task Force), accessed September 15, 2018, <http://www.fatf-gafi.org/pages/members/financialactiontaskforcefatf.html>. ■