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# FATF'S VERDICT ON PAKISTAN: SIGNS OF CAUTIOUS OPTIMISM AND PERSISTENT ACTION

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***(Views expressed in the brief are those of the author, and do not represent those of ISSI)***


**On 23 October, 2020 the Financial Action Task Force (FATF) released its verdict on the current status of Pakistan. Acknowledging Pakistan's progress across all the items of action plan, the verdict states that Pakistan "has now largely addressed 21 of the 27 action items".[1] This itself speaks volumes of Pakistan's commitment in curbing terror financing and money laundering.**

Pakistan was placed under the increased monitory jurisdiction of FATF in June 2018.[2] The countries placed under increased jurisdiction aim to resolve their strategic deficiencies in money laundering, terror financing, and proliferation financing in a set period of time. During these timeframes, the jurisdictions are subjected to strict monitoring and evaluation. This list is often referred to as the "grey list".[3] Established in 1989, FATF is an inter-governmental organization comprising 39 member states, the European Commission and the Gulf Cooperation Council.[4]As a money laundering and terror financing watchdog, FATF sets international standards aiming at curbing illegal activities and financial harms to the society. It is pertinent to note that Pakistan is not

1 "Jurisdictions under Increased Monitoring – 23 October 2020", FATF-GAFI.ORG - Financial Action Task Force (FATF), October 29, 2020, https://www.fatf-gafi.org/countries/d-i/iceland/documents/increased-monitoring-october-2020.html.
2 Fayyaz Hussain, '"To Remain on Grey List': FATF Urges Pakistan to Complete Action Plan by Feb 2021," *Dawn*, October 24, 2020, https://www.dawn.com/news/1586624
3 "Jurisdictions under Increased Monitoring."
4 "Who We Are," FATF-GAFI.ORG - Financial Action Task Force (FATF), October 29, 2020, https://www.fatf-gafi.org/about/whoweare/.

a member state of FATF, instead, it is a FATF Associate Member of the Asia/Pacific Group on Money Laundering (APG).

After FATF's review in February 2020, owing to the progress made by Pakistan in anti-terror financing activities, the watchdog extended its deadline till June 2020 for the next review. However, due to COVID, Pakistan got four more month before its October review. The recent verdict by FATF lauds Pakistan's comprehensive efforts against hawala and hundi setup, and currency smuggling. It further mentions that Pakistan could not exit the FATF grey list because it could not fully implement all the points of action plan till June 2020 (the original deadline). However, it must be noted that despite COVID, Pakistan has made robust progress by moving up the ladder from 14 compliant items to 21 within less than ten months.

It also becomes pertinent to note that due to COVID, the jurisdictions placed under increased scrutiny for strategic deficiencies were given an option either to report for their upcoming reviews or not. Unlike Barbados, Jamaica, Myanmar, Nicaragua, Panama and Uganda, Pakistan chose to report[5] for its review. It depicts its resolve and persistent commitment to pursue its case against money laundering and terror financing on a global scale.

So far, Pakistan has been fully committed in fulfilling the requirements of FATF. It has not only proscribed many groups who were a bone of contention between the two, but has also seized their assets. Moreover, Pakistan is aggressively pursuing anti-money laundering laws too. Passing three bills including the Anti-Money Laundering (second amendment) Bill-2020, Anti-Terrorism Act (ATA) (third amendment) Bill-2020 and Islamabad Capital Territory Waqf Properties Bill-2020,[6] in just one month is a testimony to this claim where Pakistan is leaving no stone unturned to meet the legal requirements of FATF.

5 "Jurisdictions under Increased Monitoring."

6 Azfar-ul-Ashfaque, "Pakistan Given 'most Challenging' FATF Plan, Says Azhar," *Dawn,* October 26, 2020, https://www.dawn.com/news/1587030/pakistan-given-most-challenging-fatf-plan-says-azhar.

 

According to the recent verdict of FATF, Pakistan has made significant progress in the following areas:


The Paris-based watchdog has further required improvements in the areas including:

1. Demonstrating that law enforcement agencies are identifying and investigating the widest range of terror financing (TF) activity and that TF investigations and prosecutions target designated persons and entities, and those acting on behalf or at the direction of the designated persons or entities.
2. Demonstrating that TF prosecutions result in effective, proportionate and dissuasive sanctions.
3. Demonstrating effective implementation of targeted financial sanctions against all 1267 and 1373 (United Nations Security Council Resolutions) designated terrorists and those acting for or on their behalf, preventing the raising and moving of funds including in relation to Non-Profit Organizations (NPOs), identifying and freezing assets (movable and immovable), and prohibiting access to funds and financial services.
4. Demonstrating enforcement against Targeted Financial Sanctions (TFS) violations, including in relation to NPOs, of administrative and criminal penalties and provincial and federal authorities cooperating on enforcement cases.[7]

[7] "Jurisdictions Under Increased Monitoring."

The next plenary of FATF is now scheduled in February 2021. This extension in the deadline without any voting is hailed as a "diplomatic victory"[8] by many in the government as this new timeframe could be utilized in implementing effective structural changes for curbing TF in Pakistan. Currently, Pakistan is facing two Action Plans from FATF. One of these plans is the most comprehensive given to any country ever.[9] Nowhere in the world FATF acts as a court of law where it inquires about the internal legal procedures and processes of a country. However, in case of Pakistan, FATF has depicted immense interest in its internal legal mechanisms. The uniqueness of the Action Plan(s) offered to Pakistan makes it more challenging. However, Pakistan remains fully committed to its resolve of fighting the menace of TF.

Against this backdrop, the way forward for Pakistan could be to define its own least common denominators and then to robustly pursue those denominators on expedited basis. Pakistan can also improve its domestic sanctions regime as per the instructions of UNSCR 1373 and 1267. One way of doing it is by building robust internal mechanisms for enforcing the domestic sanctions regime. Another issue that needs to be effectively addressed is the NPO sector. Currently, the NPO sector of Pakistan is very large. It is high time to bring the entire sector under strict scrutiny and accountability. Moreover, recently Pakistan has passed numerous charity laws both on Federal and Provincial level. One effective way of curbing TF in Pakistan could be ensuring that these laws are implemented in letter and spirit and that these charity institutes are provided optimum resources for their functionality. Moreover, Pakistan can also improve upon the effectiveness of its sentencing guidelines by ensuring their uniform application across the board.

In sum, the recent verdict is both a caution for further improvements and an admission of the positive work done by Pakistan in reinvigorating and restructuring its money laundering and terror financing based technical compliance and effectiveness.

8 "FATF Consensus Decision a 'diplomatic Victory'," *The Express Tribune*, October 24, 2020, https://tribune.com.pk/story/2269762/fatf-consensus-decision-a-diplomatic-victory.

9 Ibid.

 