



FATF GREY LIST: TIME FOR PAKISTAN TO TAKE BOLD STEPS

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The Financial Action Task Force (FATF) formally placed Pakistan on the grey list due to ‘strategic deficiencies’ in its anti-money laundering and terrorism financing regime. The highly anticipated decision was taken by the FATF Plenary that met in Paris on June 29, 2018. The global body took the decision on the basis of a monitoring report of the International Cooperation Review Group (ICRG).

Pakistan has been placed among the jurisdictions (states) with strategic deficiencies along with Ethiopia, Serbia, Sri Lanka, Syria, Trinidad and Tobago, Tunisia and Yemen.

It is pertinent to note here that Pakistan needs to devise a comprehensive plan to implement the corrective measures that can effectively control terrorism financing in the country. There are certain specific steps that FATF wants Pakistan to undertake to support the existence of a universal system of Anti Money Laundering/Countering Financial Terrorism. These include:¹

1. Identification, assessment and supervision of risk of terrorist financing.
2. Demonstrating the remedial actions taken in the cases of Anti Money Laundering and Countering Financial Terrorism violations.
3. Enforcement actions taken against illegal money or value transfer services.
4. Controls on movement of cash carriers being used for terrorist financing.

¹ FATF Recommendations 2018

5. Improving inter agency coordination between provincial and federal authorities on combating terrorism financing.
6. Enhancing the capacity and support for prosecutors and the judiciary.
7. Implementation of financial sanctions against designated terrorists and prohibiting their access to funds and financial services.

Being on the FATF watch-list, Pakistan should expect to be scrutinized on matters mentioned above. However, this should not be a matter of concern as Pakistan is well on its way to addressing most, if not all, of these issues related to Anti Money Laundering/Countering Financial Terrorism. Financial funding is considered as a lifeline of terrorist organizations around the world. All the nations dealing with problems of terrorism are advised to cut this life line first, followed by other important measures. In countries where banking system works in isolation from the counter terrorism apparatus, tracking terrorism financing is a gigantic task. Terrorists primarily collect money from sympathizers to run their criminal activities. Such groups transfer funds through formal financial system, non-profit organizations and charities. In other words, money launderers and terrorists do not leave any space to report their crime. Pakistan, therefore, will have to adopt indirect ways to trace such crime and this can only happen after evaluating the current laws and their implementation in the country.

An important question arises here: has Pakistan really been deficient in terms of dealing with its money laundering and financial terrorism issues? There is no direct answer to this question and there is no direct way to measure any country's performance in terms of controlling money laundering and financing of terrorism. FATF use secondary measures to assess a country's performance. According to the Basel AML Index 2017 by the Basel Institute of Governance, Pakistan is currently ranked on 46th position among 146 countries in the world in terms of assessing the risk of money laundering and terrorist financing.² On other hand Global Terrorism Index report in 2017 placed Pakistan on number 5th in terms of the most affected countries from terrorism.³ It is pertinent to note here that the basis of assessments in both the reports are different which raise a question mark on the credibility of such reports, especially when they are considered in evaluation by the bodies like FATF whose motivation seems more political in nature.

² Basel Institute on Governance, Basel AML Index 2017 Report, August 16, 2017.

https://index.baselgovernance.org/sites/index/documents/Basel_AML_Index_Report_2017.pdf

³ Global Terrorism Index 2017. <http://visionofhumanity.org/app/uploads/2017/11/Global-Terrorism-Index-2017.pdf>

As per motive of FATF, which is sort of creating a political pressure on Pakistan by playing the blame and shame card, it is clear that Pakistan will have to face difficulties in financial matters in the coming months. Pakistan's banking system will be adversely effected because of its connectivity with the global financial system which will now put some extra checks and barriers on Pakistani banks. Secondly, Pakistan's access to international lending's will be effected by blaming Pakistan that this money may be used in terrorists activities. Last but not the least, all foreign financial institutions will go an extra mile to ensure where the money is actually flowing into.

According to Pakistan's National Counter Terrorism Authority (NACTA) report released in March 2018, the country has taken following steps to curb terrorism financing in the country:⁴

1. Hawala/ Hundi Cases: 919, Arrests: 1209, Recovery: Rs. 1489.918 Million.
2. Federal Investigation Agency's Anti-Money Laundering Cases: 426, Arrests: 574.
3. FIA received 176 Suspicious Transaction Reports from Financial Monitoring Unit, Cases: 32, Closed: 14.
4. Suspicious Transaction Report (STR): STR received from Financial Monitoring Unit (FMU): 207 Converted into Cases: 49, Closed: 48.
5. Countering Financial Terrorism Investigation (CFT) Units established in Counter Terrorism Departments.
6. CFT Directorate in NACTA for a unified response of stakeholders.
7. Model Charities/ NGO/ NPO's Regulatory Law being prepared.

Beside the steps taken by Pakistan, there is a dire need to do more on the domestic front to gain international support. The problem of home grown extremism needs to be dealt with iron hands, and any discriminatory attitude in dealing with internal problems can create hurdles in coming off from the grey list of FATF. Any failure to defend its case in September 2019 will make it that much more difficult for Pakistan to avoid being put on FATF's black list.

A 26-point action plan has also been designed by Pakistan spanning a period of 15 months in order to avoid being blacklisted by the Financial Action Task Force (FATF).⁵ According to the Ministry of

⁴ Cultivating Peace National Action Plan, NACTA, March 21, 2018.

⁵ Ministry of Finance. http://www.finance.gov.pk/press_releases.html

Finance, the action plan is not public yet but has the potential to cover the concerning issues and can be assessed once it is in its implementation phase.

There are four basic areas that Pakistan must consider while implementing any plan of action:

1. Strict control on the financial institutions including heavy penalties and sanction to avoid money laundering.
2. Create a linkage between the federal and provincial authorities to prosecute terrorism financing, because only such linkage will enable the authorities to track down any suspicious activity on spot.
3. Take measures to prevent illicit cross-border transportation of currency and lack of cooperation with the customs.
4. Implementation of targeted financial sanctions under the United Nations Security Council Resolutions 1267 and 1373 in which Pakistan had an obligation to freeze the assets of United Nations designated terrorists groups and individuals.