

## An Analysis of Anti-Money Laundering Framework in Pakistan

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**Abstract:** Money Laundering is a covert transfer of cash from one place to another without notice to the relevant government authorities with the reason for avoiding taxes, hiding fraudulently earned wealth, and converting that money into valid assets. This involves three stages i.e. Placement, Layering, and Integration. Money laundering damages the economy of a country in a way that the financial sector institutions which are important for economic growth are slowed down. Hence, corruption and crime are promoted. When money laundering grows then it promotes two of its major sectors i.e. drug trafficking and terrorist organizations. That is why money laundering is an international threat. Pakistan has also been confronted with this issue. However, since 2010 there has been a lot of progress in Pakistan on controlling Money Laundering and Anti-Money Laundering Laws and regulations. Pakistan has been on "the Grey List" for lengthy span because challenges are faced by the Government in the fight against ML and Terrorism Financing. Western Countries have largely gained control over money laundering. On the other hand, in the past Pakistan was again on the verge of being added to "the grey List" because some ineffective efforts were being made to counter it.

**Key Words:** Anti-Money Laundering, Cash, Government Authorities, Taxes, Economy, Grey List

### Introduction

Imagine you are walking through a busy shopping plaza in Karachi, where businesses are booming, or seeing a towering real estate empire in Lahore. Perhaps you pass by a luxury car dealership in Islamabad, showing high-end vehicles with price tags that seem out of reach for the average citizen. On the surface, these places symbolize success and economic progress. But behind those dreamy vehicles, and gleaming buildings, millions in illicit funds could be flowing—laundered money that fuels corruption, drains public resources, and even finances crime. Money laundering is not just a crime confined to offshore accounts, it is an issue that is deeply rooted in Pakistan, affecting everyday lives in ways people often don't comprehend. With a large informal economy, weak financial oversight, and a culture of cash-based transactions, illicit money moves easily through real estate and businesses. From drug cartels and smuggling networks to corrupt officials, those who launder money take advantage of these loopholes, further increasing the gap between the struggling citizens and the elite. Pakistan has faced increasing global scrutiny, especially from the FATF, to implement its anti-money laundering (AML) measures. While reforms have been made there are still loopholes that allow black money to ooze into the country's economy. This paper explores the mechanics of money laundering in Pakistan, its widespread consequences, and the ongoing fight against these financial crimes. The cost of inaction isn't just economic—it's social, moral, and deeply personal for every citizen whose future is shaped by the hidden forces of illicit wealth.

### Meaning and Definition of Money Laundering

"Money laundering refers to the concealment of assets so that the assets can be spent without anyone realizing the illegal operation that earned the assets" (Madinger, 2016). Converting illegal financial assets into legal belongings is another way to describe it. Worldwide, domestic law recognizes money laundering as a crime. The United States of America Treasury Department has defined money laundering as "Money

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laundering refers to the process by which the money earned through secret operations is relocated to or from another country without paying the tax on the relocated amount." (Financial Crimes Enforcement Network, 2024) Money transfers, cash transactions, credit card payments, offshore assets, and wire transfers are the kinds of financial and marketable operations that are being used for it. Money is also laundered through trading, drug trade, smuggling, etc. It, thus, makes it possible for Anti-Money Laundering, international financial and legal bodies to define money laundering as an illegal operation (Asian Development Bank, 2003) tied to other illicit activities. Additionally, financing for terrorists and affiliate criminal groups is also done through money laundering.

The Asian Pacific Group defines money laundering as, "the act by which the proceeds of crime are made to appear legitimate." (Asia/Pacific Group on Money Laundering 2025) According to the United Nations, Money Laundering has been defined as, "A complex process designed to obscure the illegal origin of money, making it appear legitimate and clean." The World Bank denotes Money Laundering as, "Using banking or other financial maneuvers to obscure the source of illicit income." In Pakistani law, "a person shall be guilty of the offence of money laundering, if the person: - (a) acquires, converts, possesses, uses or transfers property, knowing or having reason to believe that such property is proceeds of crime; (b) conceals or disguises the true nature, origin, location, disposition, movement or ownership of property, knowing or having reason to believe that such property is proceeds of crime; (c) holds or possesses on behalf of any other person any property knowing or having reason to believe that such property is proceeds of crime; or (d) participates in, associates, conspires to commit, attempts to commit, aids, abets, facilitates, or counsels the commission of the acts specified in clauses (a), (b) and (c)" (Pakistan, 2010).

### Stages of Money Laundering

Placement, Layering, and Integration are the three stages of ML. The stage of placement involves the process of depositing or placing laundered money in foreign banks (Gee, 2015). The cash is placed in international banks without any information of the local authorities hence the name. The second stage Layering includes the process of carrying out several financial transactions, which act as layers of cash. Online transactions, especially wire transfers are the quickest way of layering, (Banks, 2016) because several transfers are easily performed through them. The final stage is Integration which is the use of the laundered funds for investment or any other activity comes in the third and final step. Since the clean currency laundered earlier is being utilized at this stage. If the funds reach this stage, it becomes nearly impossible for the money laundering authorities to track such funds, unless a trial or some kind of investigation was initiated when the money was in the first two stages (Effros, 1992). The successful laundering and utilization of illicit funds abroad necessitates a complex series of interconnected transactions. A large amount of money is transferred to an overseas bank account, yet it just sits there, untouched this money would still be considered laundered money as the relevant authorities were not informed about this and/or tax wasn't paid on the laundered money.

### Causes of Money Laundering

Several factors are involved that facilitate money laundering, some of which are national or might even be operating transnationally (Ramakrishnan, 2016). Tax evasion is a concept in which people try to avoid giving taxes to the government because they feel that their tax money would not be beneficial for them or if they don't have any concern about the well-being of the general public. Tax evaders also manipulate their taxable income and do not report their correct income. Due to the fear that authorities might track their assets, they invest in properties known as *Benami* Properties. They reassign their property ownership into someone else's name but are the ones who control the property (Goodfield, 2014). A significant factor contributing to money laundering is the government's weak or insufficient financial controls. If the national tax authority lacks the capacity to scrutinize the elite, including officials and ordinary citizens regarding their income and assets, it becomes facile to obscure their wealth, evade taxation, and engage in money laundering through the acquisition of properties in more stable offshore economies (Young, 2013). Money laundering and tax evasion are offenses that must be curtailed by the regulatory authorities overseeing financial matters and institutions. The authorities must reassess their rules to identify any gaps exploited by politicians or the rich to hide their holdings. Digital transactions are not the sole method of money laundering. Money laundering is also conducted physically across borders, especially in nations

with inadequate or weak oversight of cross-border trafficking. For instance, borders where the area is too mountainous and it is difficult or too long to control, these borders are more susceptible to money laundering i.e. US-Mexico border or the Afghanistan-Pakistan border. This mode of money laundering is the safest because the launderers don't show their identity (Qureshi, [2017](#)).

### **Methods of Money Laundering**

In a couple of ways, money launderers use to launder money without any information to the AML authorities such as misuse of banking in which money launderers acquire major shares in foreign or local banks where the scrutiny of money laundering activities is weak. By holding a significant stake in the bank, they gain influence over its operations and can use it to launder money, as their status as major clients makes them less likely to be scrutinized. This form of money laundering is rarely detected because authorities often view the movement of large sums of money as routine transactions, overlooking potential illicit activity (Salinger, [2005](#)). However, in the past, authorities have investigated banks for money laundering; for instance, a company was penalized \$1.9 billion for its role in facilitating money laundering activities (United States v. HSBC Bank USA). Another method is illegal cash transfers which involve the conversion of large amounts into small divisions that need to be laundered. Money orders, online transactions, and cash deposits are used to transfer this money. During this, the nontaxable sum, which can be legally taken to a foreign country, can be taken legitimately. This method of dividing large amounts of cash into smaller divisions and transferring that small amount is known as "smurfing" (AML UAE [2025](#)). This usually happens in the first stage of money laundering i.e. online cash transfers. Money laundering through trade is done through undervaluing or overvaluing the invoices, depending on the cash inflow/outflow or costs respectively providing fake invoices and accounts (Baker, [2005](#)). Round tripping is a concept that includes the technique in which a company, trying to evade taxes, sells its assets to another company and then, at the same time, signs an agreement to buy some or all of the same assets at the same price. The buying and selling of the assets liquefies the company facilitating the quick conversion from assets to cash and vice versa. For example, an organization can hire a foreign company to do their work. Just as they pay for their services, the organization cancels the agreement (Qureshi, [2017](#)).

### **Socio-Economic Impacts of Money Laundering**

The ramifications of money laundering are extensive and complex, affecting both the economic and social structures of a society. Money laundering compromises a nation's economic stability by infiltrating legitimate financial systems and prolonging several societal issues. While it functions as a societal malady, it concurrently diminishes the economy's robustness through its deleterious impact. Although it functions as a social malignancy, it concurrently diminishes the economy's robustness through its deleterious impact (McDowell & Novis, [2001](#)). Some of these impacts will be discussed below. Money laundering undermines governmental authority over economic policy and heightens the likelihood that banks, corporations, and the government may have difficulties in attaining their economic objectives. The ramifications of internationalization influence global financial systems and, contingent upon the degree of money laundering, can adversely affect foreign currencies and economies. Emerging markets are especially susceptible to the ramifications of money laundering, as financial regulatory bodies often prioritize established, robust markets over nascent ones. The private sector is adversely affected, as money launderers frequently get majority ownership in enterprises and lower the pricing of their products or services to monopolize the market. This method provides a competitive advantage, as rival companies are unable to match their prices, resulting in the demise of smaller enterprises (McDowell & Novis, [2001](#)). Money laundering undermines the reputation of financial institutions and adversely affects a nation's economy due to the misappropriation of funds. The economic policy of a nation is adversely impacted by the manipulation of critical economic indicators, such as interest rates, which subsequently influence inflation and currency valuation. This results in financial instability and escalating prices of commodities. Moreover, the significant capital flight overseas critically undermines the government's tax base, leading to considerable revenue deficits. To address this deficit, the government must raise taxes on the general populace, resulting in elevated costs of vital goods and a diminished standard of living.

Numerous socioeconomic issues are attributable to money laundering. The potential involvement of a nation's financial institutions in money laundering adversely affects its worldwide reputation.



Furthermore, it may expose or provoke a nation's population to partake in illicit activities such as drug trafficking and smuggling. Consequently, crime proliferates within society, impacting not only a nation geographically but also on a worldwide scale due to its global nature.

The magnitude of money laundering is difficult to quantify, however it is presumed to be considerable. The United Nations Office on Drugs and Crime (UNODC) estimates that 2% to 5% of global GDP is laundered annually, equating to EUR 715 billion to EUR 1.87 trillion each year (Europol, 2025). Due to the illicit nature of these transactions, precise figures are unavailable, rendering it impossible to ascertain a definitive annual sum of money laundered globally. No anti-money laundering groups have released any figures about this topic.

### International Magnitude and Battling Money Laundering

Several financial regulatory authorities have endeavored to quantify the overall amount of laundered funds. Michael Camdessus, the former managing director of the IMF, estimated that laundered money has reached up to 55% of the total GDP of all countries globally (Camdessus, 1998). However, it is infeasible to ascertain any precise statistic for the entire volume of laundered money globally. The Financial Action Task Force asserts, "Overall, it is absolutely impossible to produce a reliable estimate of the amount of money laundered" (Marmo & Chazal, 2016). Given that money laundering adversely affects a nation's economy and society, it is imperative to eradicate it by prohibiting and eliminating any conditions that facilitate its occurrence. The majority of nations, including Pakistan, must respond promptly and resolutely to eliminate this affliction from society, particularly if ML is widespread in that region. It is crucial to recognize that as money laundering is the principal source of financing for these crimes, (Unger & Van Der Linde, 2013) its reduction would consequently lead to a decline in other significant criminal activities, including drug trafficking, smuggling, and terrorism financing.

### International Anti-Money Laundering Standards and Practices

At the international level many organizations work to stop ML for example The Financial Action Task Force (FATF), the Asian Pacific Group (APG), the International Monetary Fund (IMF), and The United Nations Office on Drugs and Crime (UNODC). The FATF was established in 1989 by the G7 nations and its main office is in Paris, France. As of right now, 36 nations are FATF members. FATF's primary objective is to develop a global response to stop ML, but in 2001, following 9/11, it also took on the crucial task of preventing the funding of terrorists. It develops strategies and policies and advises governments on AML and CFT (Combating Financing Terrorism) legislation and policy changes (Commonwealth Secretariat, 2006). It also looks over any government's financial activities to figure out if any misappropriation has been done which relates to ML regulations and then provides recommendations to the government if they identify any anomaly. If any country does not obey the regulations and policies made by FATF, they can authorize sanctions for them (FATF 2006). The Asia/Pacific Group on Money Laundering (APG), established in 1997 during the Fourth Asia Money Laundering Symposium in Bangkok, is a leading regional body focused on anti-money laundering (AML). The APG was initially backed by Australia through the FATF-Asia Secretariat, but it now boasts the largest membership and geographical reach among the Financial Action Task Force-Style Regional Bodies (FSRBs). The APG Secretariat which is located in Sydney, coordinates its activities, which are funded by member contributions and with support from Australia. The APG promotes international cooperation, while collaborating with organizations such as the IMF, World Bank, and INTERPOL, in fighting money laundering and terrorist financing, ensuring strong regional adherence to its standards. Pakistan is not a member of FATF but of the Asia/Pacific Group on Money Laundering, which holds associate member status with FATF (APG, 2025). The IMF is an institution established in 1944, in the aftermath of the Great Depression of the 1930s, aimed at fostering growth and prosperity for its 191 member nations. It endorses economic policies that foster financial stability and monetary collaboration, essential for improving productivity, generating employment, and promoting overall economic welfare. The IMF functions under the control and accountability of its member nations (IMF 2025). The United Nations Office on Drugs and Crime has undertaken the responsibility of maintaining current data pertaining to drug trafficking, smuggling, money laundering, and terrorist funding. It was established in 1997 to create a framework to combat money laundering and illicit narcotics



trafficking. Furthermore, it offers nations financial and technical assistance to establish effective strategies for preventing money laundering (UNODC 2023).

Many nations around the world base their policies against money laundering and terrorism financing on a number of standards. "The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" was originally passed in 1988-1989 creating an international legal instrument to counter drug trafficking (U.S. Government Printing Office, [1989](#)). The Convention obliges Member States to adopt measures to prevent and combat illicit drug trafficking. The United Nations Convention against Transnational Organized Crime was presented in 2000 which aims to reduce transnational organized crime. On November 15, 2000, the United Nations General Assembly ratified this agreement, known as the Palermo Convention. There are three main ways to stop transnational crimes preventing drug and human trafficking, particularly for women and children, stopping the smuggling of migrants through all networks of traveling, and hindering illegal arms manufacturing that may be used by terrorists. In The United Nations Convention against Corruption, there are eight chapters and seventy-one articles. It emphasizes stopping money laundering, bribery, corruption, and financial misappropriation. Additionally, it provides governments with asset recovery mechanisms, data exchange, and technical assistance (UNODC 2016). The most important and relevant of them all are the FATF recommendations. FATF has a total of 40 recommendations which were provided by them in 1989. This forms the foundation for all the AML laws implemented in countries around the world so far. These recommendations provide methods to prevent organized crime, drug trafficking, money laundering, and various forms of smuggling (Hauck & Peterke, [2016](#)). The 40 Recommendations offer a comprehensive set of measures to prevent money laundering through the entire criminal justice system, the police, the financial system and its governance, and international relations. Many international organizations have already accepted, endorsed, or adopted them for use.

The Recommendations are not unreasonable or rigorous; they also do not attempt to infringe on the right to perform legitimate economic activities or stifle economic growth. They provide a framework and expect a reasonable degree of compliance from countries depending on their specific situations and constitutional customs.

While not an international convention, many states worldwide have made a political commitment to combat money laundering through the implementation of the 40 Recommendations.

First drafted in 1990, the Recommendations were reviewed for the first time in 1996 to take account of developments in the trend towards money laundering and to anticipate potential future threats. Recently, the FATF has made a thorough examination and revision of the 40 Recommendations in 2003. The FATF has also prepared several Interpretative Notes that are designed to make individual Recommendations more easily comprehensible and to provide more guidance. (Financial Action Task Force [2004](#)). UN Security Council has passed Resolutions in favor of FATF Recommendations. Therefore, these are binding on the members of UNO.

In the past few years, some cases of money laundering have become public due to the unexpected and high-profile criminals and the high amount of money laundering evidence found in these cases. In the case of "United States v. HSBC Bank USA", "H.S.B.C" was found to be involved in ML, and the approval of transactions of criminals such as drug traffickers banned Iranian organizations and terrorists from 2001-2010. They were fine in 2012 and paid around \$1.9 billion (United States v. HSBC Bank USA [2012](#)). In another case, "The Liberty Reserves Bank of Costa Rica" was found laundering \$6 billion. After finding credible evidence and proving it in court, the bank was suspended and closed (United States v. Budovsky, [2016](#)). The Standard Chartered Bank was accused of violating the U.S. Sanctions by processing illegal transactions linked to Iran, Sudan, and Myanmar. They had to pay \$1.1 billion as a fine (United States v. Standard Chartered Bank, [2019](#)).

### **Money Laundering and Pakistan**

ML has taken root in Pakistan. Due to the access to black money, which the nation's elite and political classes possess along with their political clout and influence, this crime has thrived over the past thirty years. Unfortunately, there was no implementation of laws to stop ML and its associated crimes such as



drug trafficking, smuggling, and corruption (Yusuf, [2014](#)) by the governments; neither has any government devised any effective mechanism to eliminate these crimes. As the accountability for unpaid taxes is not strict enough, many people try to evade taxes (Kemal, [2007](#)). Even though new laws have been made from time to time, they have unfortunately lost their efficiency.

Money laundering is done in Pakistan through different networks such as Drug Trafficking, Smuggling of cash, Corruption, Tax evasion, and *Hawala Hundi*. Pakistan is located in an area where opium and its production and trade are widespread due to its geographical position. Its neighboring countries, Iran, Afghanistan, and India, all share a high level of opium production and trade sources. Drug lords operate covertly in Pakistan and its neighboring nations, selling drugs to traffickers who transport them across the border in exchange for payment. The cash movement is typically done discreetly and without reporting, which constitutes money laundering (INL U.S. Department of State [2007](#)). Due to the drugs being high prices, the cash received for them is in huge amounts, sometimes even in hundreds of millions of Rupees. Such type of money is termed "black money". It usually stays unchecked because the authorities are involved in corruption (Jordan, [2016](#)). In Pakistan, money is usually smuggled through the borders of Iran and Afghanistan including airports. In order to achieve this, the smugglers try to evade security by bribing authorities. Unfortunately, corrupt politicians and officials might be a major contributing factor to the rise in serious crimes. Corrupt officers either engage directly in ML, cross-border property dealings, drug trafficking, smuggling, and misappropriation of funds, or accept bribes from individuals involved in these crimes. In addition to government officials, personnel in administrative and anti-corruption departments have also been found guilty of accepting bribes from money launderers, allowing them to transfer large sums of money to foreign countries. Employees in the anti-narcotics force and airport authorities have also been implicated in aiding money launderers and drug traffickers (AFP, [2012](#)). There is an urgent need for strict oversight of personnel working in border departments offering large bribes in exchange for facilitating illicit activities. Tax evasion is one of the biggest issues in Pakistan because many elites avoid paying taxes. With this aim in mind, they usually offer money to officers to either show their tax status as "paid" or to not let the authorities know the fact that their tax has not been paid (Malik, [2010](#)). A bribe is usually a small amount of money as compared to the evasive tax amount, but it is enough for government employees to maintain their lifestyle. Because of this, Pakistan is among the countries with the highest perceived levels of corruption in South Asia (Hussain, [2016](#)). The Hawala system is an alternative remittance method that facilitates underground banking and supports illicit networks in achieving their unlawful objectives.

Pakistan has never led from the front in the implementation of Anti-Money Laundering international standards all the while being a member of those standards and while participating in the annual meetings since their founding, actively. The U.N.O.D.C. also provides Pakistan with technical and advising support which helps to overcome the ML and drug trade through its northwest border area (UNODC [2016](#)).

In addition, Pakistan also has a cooperative relationship with INTERPOL so that it could approach them for the arrest of any criminal on major charges who has managed to elude its law-enforcing authorities and is carrying on criminal activity from foreign soil. INTERPOL could also furnish information to Pakistan about any individual involved in money laundering and related offenses.

### AML/ CFT Legislations in Pakistan

The seeds of corruption and money laundering are maintained by a selective approach. The government can also strictly enforce A.M.L. regulations to fine its opponents, but it never does the same thing to members of its own political party. Nonetheless, the most prominent legislation made so far against money laundering and its related crimes include "The United Nations (Security Council) Act", 1948 which was introduced in 1948 in compliance with the "United Nations Security Council" (hereinafter UNSC) which meant if the UNSC called on the government for implementation of certain measures which would make any decision made by the Council effective, the government has to make such provisions as required. Certain provisions should also be made for the punishment of any person offending against the order (UNSCA 1948). The Control of Narcotics Substance Act 1997 was introduced to comply with the 1988 Vienna Convention. Given that narcotics have become a major source of illicit money, destabilized economies and harming the youth, it was crucial to implement stringent measures to address the issue. The sale of

narcotics is also linked to money laundering, making it essential to counter this problem effectively. The "Anti-Terrorism Act" (ATA), enacted on August 20, 1997, aimed to prevent terrorism, and sectarian violence, and ensure the speedy trial of serious offenses, along with related and incidental matters. It underwent significant amendments in 2020 to address emerging challenges in the areas of ML and Terrorist Financing (TF). The National Accountability Ordinance 1999 provided measures for the detection, investigation, prosecution, and swift resolution of cases involving corruption, abuse of power, misappropriation, and kickbacks. These offenses are considered predicate crimes for money laundering. "The Anti-Money Laundering Ordinance 2007" was in effect until November 2009 which introduced an effective framework for preventing money laundering. It outlined regulatory and financial sector requirements, and mechanisms for detecting suspicious transactions, and established the "Financial Monitoring Unit" (FMU) to combat money laundering. By ensuring the banking sector operated under the provisions of the AML Ordinance, the transfer of funds through legitimate banking Networks was encouraged, discouraging the use of informal methods like *Hawala Hundi*. "Anti-Money Laundering Act 2010" was promulgated on March 27, 2010. It has elucidated definitions, proceeds of crime, offenses of ML, punishment of ML, procedures, investigation, search and seizure, arrest powers, prosecution, and other matters. The latest amendment came in September 2020. "The Financial Monitoring Unit" (FMU), established under Section 6 of the "Anti-Money Laundering Act, 2010", serves as Pakistan's central agency for handling financial intelligence. It is responsible for receiving, analyzing, and disseminating financial information related to suspected criminal proceeds and activities potentially linked to money laundering or terrorist financing to investigative and regulatory authorities. "The National Counter Terrorism Authority Act, 2013" was promulgated because terrorism was becoming an existential threat to the state and a menace to society, this act was made to enable the government to constitute an authority that would unify state response by planning, combining, coordinating and implementing Government's policy through an exhaustive strategic planning and necessary ancillary mechanism (NACTA Act, 2013). In 2023, the National Anti-Money Laundering and Counter Financing of Terrorism Authority was established under an Act to serve as a central institution for unifying the state's response. Its purpose is to plan, integrate, coordinate, and implement government policies through comprehensive strategic planning and necessary subsidiary mechanisms, as well as to foster international collaboration and coordination (GOP 2023).

AML legislation has not been proven to be effective yet, but it shows that authorities have been taking steps to curb ML. There have been instances where high-profile politicians have been taken to court in allegations of money laundering which is a step in the right direction but in the same instance, we have seen many high-profile individuals escape the court of law because of the laws not being strict enough. We will discuss this case in the next topic.

## FATF and Pakistan

FATF has issued numerous statements regarding the system of AML & CFT in Pakistan since 2008 (FATF 2025).

1. On 28<sup>th</sup> February 2008, FATF showed concern about the lack of comprehensive AML/CFT systems in Pakistan.
2. On 20<sup>th</sup> June, 2008, FATF reaffirmed its statement of 28 February 2008.
3. On 16<sup>th</sup> October 2008, during the FATF Plenary XX in Rio de Janeiro, the FATF issued a statement concerning Pakistan and the improvements required.
4. On 9<sup>th</sup> July 2009, a mutual evaluation of Pakistan was done as it became a member of the Asia Pacific Group.
5. On 22 October 2010, FATF identified jurisdictions that have strategic AML/CFT deficiencies for which they developed an action plan.
6. On Feb 27, 2015, the Financial Action Task Force (FATF) acknowledged the significant progress made by Pakistan and other countries in enhancing their AML and CFT frameworks. As a result, Pakistan was removed from the FATF's monitoring process.
7. On 30<sup>th</sup> September 2020, FATF gave a follow-up report analyzing the progress of Pakistan in addressing the technical compliance deficiencies identified in its MER.
8. On 4<sup>th</sup> June 2021, FATF gave a follow-up report to Pakistan's assessment of anti-money laundering and counter-terrorist financing measures.



9. On 26<sup>th</sup> August 2022, FATF gave a follow-up report analyzing the progress of Pakistan in addressing the technical compliance deficiencies identified.

### Pakistan's Response to FATF's Statements

Pakistan has made fundamental changes to decrease the risk of Money Laundering (ML) and Terrorism Financing (TF) for the country to be removed from the FATF grey list. Like many other countries, over the years Pakistan has developed legal and procedural frameworks which include the enforcement of rigorous legislation and policies to meet international standards and regulations. As a result, Pakistan was taken off the FATF grey list in October 2022. The response by the country which included multiple Federal and Provincial government departments was unified. The FATF recognized these efforts by confirming that Pakistan had undertaken the required actions outlined in the 2018 and 2021 Action Plans. The policies implemented helped to form a greater supported Anti Money Laundering and Combating Financing of Terrorism (AML/CFT) regime in the country to meet changing needs. Pakistan as a member of the FATF engaged with other members to strengthen these measures and share their experience and also committed to further improve international engagement in the field of AML/CFT (MOFA 2023).

### National Risk Assessment

The FATF affirms that pinpointing, assessing, and comprehensively understanding the risks associated with ML and TF is a fundamental starting point in the construction of a national system aimed at combatting these activities. In this case, the FATF urges member countries to carry out a National Risk Assessment (NRA) to measure their ML/TF risk exposure. This facilitates the adoption of a risk-based strategy in the fight against money laundering and terrorist financing (AML/CFT), thus enhancing the effective allocation of resources and priorities. Pakistan accepts its international commitments and is determined to undertake vigorous action to eliminate ML and TF. In support of this commitment, Pakistan undertook its first complete NRA of ML/TF in 2017, revised it in 2019, and has now completed its third NRA in 2023. Considerations such as where the country lies, its social and economic conditions and its weaknesses in border control with Afghanistan were important in undertaking the National Risk Assessment (NRA) 2023. Important aspects such as the demographic structure of the country, the economic situation, the level of education, the informal economy, and international, regional, and national factors, were taken into account in determining the risks and vulnerabilities of ML and TF.

The assessment provided an in-depth review of various sectors, including financial services, Designated Non-Financial Businesses and Professions (DNFBPs), National Savings (NS), legal entities and arrangements, and Non-Profit Organizations (NPOs). Additionally, the emerging but unregulated area of virtual currencies was also examined based on the available data. Pakistan's 2023 ML danger ratings for predicate offenses show "Very High" threats for tax crimes, smuggling, cash smuggling, corruption, bribery, and illegal MVTS/Hawala Hundi. Drug trafficking, human trafficking, fraud, forgery, and cybercrime are examples of high-risk offenses. Kidnapping, arms trafficking, extortion, insider trading, product counterfeiting, environmental crimes, robbery, and theft are all associated with moderate dangers. Sexual exploitation, trafficking in stolen goods, counterfeiting currency, murder, serious injury, and maritime piracy are examples of low-risk offenses. In order to improve financial and security frameworks, these evaluations highlight the necessity of targeted interventions against crimes with the greatest degrees of ML danger (Financial Monitoring Unit, 2025).

### Prominent Cases Regarding Money Laundering

In the case of "Hussain Nawaz Sharif v National Accountability Bureau (NAB)", the National Accountability Bureau investigated the Sharif family's wealth particularly their unexplained (benami) properties such as the Aven Field Apartments in London. The NAB declared Hussain Nawaz as an absconder because he failed to appear in court despite multiple summons. His properties in Pakistan were sealed and he faced non-bailable warrants (Hussain Nawaz Sharif v NAB 2018).

In the case of "State v Ayyan Ali", a Pakistani model was apprehended at Islamabad Airport when authorities discovered a substantial sum of \$506,000 in her luggage intended for Dubai. This amount far exceeded the legal limit for outbound cash from Pakistan, which is set at \$10,000 per trip and \$60,000



annually (Mashhud, [2015](#)). She was sent to jail after legal action was taken against her and she was found guilty. However, she was granted bail and was released after paying heavy fines of around 50.5 million (5.5 crore) Pakistani rupees. (State v Ayyan [2016](#))

The case of "State v Muhammad Nawaz Sharif" arose when the then Prime Minister of Pakistan was accused of having unexplained (benami) properties in London when the Panama Papers came out in 2016. NAB filed cases regarding the properties which were disclosed in the Panama Papers. The court ruled judgment against Nawaz Sharif, her daughter, and son-in-law, and sentenced him to prison for 10 years. He was also sentenced to 7 years imprisonment in another case regarding the Al-Aziziya Steel Mills case (state v MNS [2017](#))

### Challenges and Risks

Pakistan faces a lot of challenges and risks in combating money laundering because Pakistan has a large informal economy, making it difficult to detect and control financial activities. ML and TF are often conducted through unofficial channels like Hawala Hundi etc., that bypass traditional financial institutions and regulation. Pakistan is bordering countries where terrorist networks are active, which facilitate cross-border cash transactions. This makes it difficult to monitor and supervise foreign financial transactions, as well as enforce AML laundering laws. Government, police, and bank corruption undermine efforts against ML and TF. Collusion by corrupt public officials facilitates the proceeds of illicit activities. Regardless of progress over the last several years, the AML and CFT regulation regime of Pakistan could remain porous and incomplete. This ranges from ineffective regulations enforcement to lacking observation of banks, and a decayed legislated framework. Pakistan's capacity to strongly preclude ML and TF could be constrained by the scarcity of resources. This includes limitations on technology, expertise, and funding for law enforcement and regulatory agencies. Political uncertainty and changes in political leadership could threaten efforts to combat financial crime. A lack of policy continuity and strategies can diminish the impact of AML and CTF activities. Pakistan's inclusion on the FATF gray list or other global watch lists puts pressure on strengthening its AML and CTF regulations. Non-compliance with international standards can lead to economic sanctions and reputational damage. Overcoming these challenges needs a comprehensive strategy involving legal reforms, capacity building, international cooperation, and long-term political will to combat money laundering and terrorist financing effectively.

### Suggestions and Conclusion

In order to ensure Pakistan is able to eliminate ML, they need to enhance their AML regime. One way is to enhance the functioning of the AML and CFT Authority. In order to allow the government to eliminate money laundering once and for all, the Authority must collaborate closely with the Government and with international organizations for intelligence exchange and coordinated operations. The Authority must attempt to fortify its legal framework so that loopholes in the legal framework can be sealed. Public awareness campaigns must be initiated to educate businesses and citizens about their responsibilities and to report suspicious activity. Severe penalties must be imposed for non-adherence to the law and they must facilitate the prosecution of criminals for future deterrence. In Pakistan, the Financial Monitoring Units (FMUs) are established under the "State Bank of Pakistan" (SBP) and the "Federal Investigation Agency" (FIA). It also operates in collaboration with other government organizations and authorities like "The Securities and Exchange Commission of Pakistan" (SECP), "The Federal Board of Revenue" (FBR), and "The National Accountability Bureau" (NAB) to make the financial system of the country strong and transparent. These FMUs collect, analyze, and share financial intelligence for investigating money laundering and terrorist financing. Pakistan needs to enhance the capacity of these FMUs in order to try and ensure more intelligence is collected and action is taken timely. Banks and other regulated institutions practice a process called customer due diligence (CDD), to verify the customer's identity and assess any risk of illegal activity such as ML, fraud, or terrorism financing. Pakistani authorities must implement stringent CDDs particularly for high-risk individuals, businesses, and politicians to ensure there is a decline in financial crimes. It must be made mandatory for all legal entities to disclose their owners to ensure there is no abuse of shell companies and other entities for illicit financial flows. To guarantee smooth information sharing and coordinated action against transnational money laundering networks, Pakistan has to strengthen collaboration with nations and international organizations like the FATF. The



authorities have to provide expedited procedures for the freezing of assets linked to the funding of terrorism, guaranteeing that money is banned without needless delays. The government should build stronger cooperation with financial institutions and regulatory bodies. The financial institutions can share important information with the government which can enhance the detection of suspicious activity. To ensure complete prevention of ML and its related crimes, there have to be tighter monitoring and regulation frameworks for all sectors, especially the Non-Government Organizations because these are on the main hit list of terrorist financing activities. In order to cope with new ways of crimes committed by people related to money laundering, the relevant authorities and government institutions should make sure that the AML & CFT regime is up-to-date with the regime in the West. With the introduction of digital currencies such as bitcoin and NFTs, there is a dire need for the upgradation of our AML & CFT legislations. The Judicial system of Pakistan can play a very important role in making sure the criminals don't go unpunished even in the face of pressure from any sector. The government can legislate to create specialized Anti-Money Laundering and CFT courts to make sure fast trials are held and there are timely convictions.

Although Pakistan possesses a robust system to counter ML and TF, improvement is necessary to eradicate these crimes fully. Pakistan has taken tangible steps towards keeping up with the FATF, United Nations, IMF, World Bank, Asia-Pacific Group (APG), and other regional and international organizations' standards. The efforts of the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) have been exemplary and appreciable. Combating ML and TF needs cooperative effort at national, regional, and global levels. Although crimes of a financial nature are prevalent all over the globe, ML and TF have emerged as a chief concern of global efforts aimed at curbing criminality.

In order to effectively monitor activities associated with money laundering, law enforcement agencies will need to develop strong strategies and procedures to promote coordination at every level. Effective and constant security practices at airports and borders are critical to forestall smugglers and launderers from transferring illicit funds. Financial institutions may serve a vital function by closely monitoring wire transfers and other channels of currency flow so that the sources of ill-gotten gains may be tracked. Financial institutions can assist more effectively in combating ML and TF crimes by reporting instantly suspicious transactions to security authorities. During the last few years, the global community has offered useful support that assisted Pakistan in building regulatory, legislative, and institutional infrastructures. As regards the development or adoption of core mechanisms or standards, Pakistan is looking for means to safeguard its financial institutions against the danger of money laundering.

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