

Country briefing: Pakistan

A Basel AML Index briefing following the decision of the Financial Action Task Force (FATF) to delist Pakistan from its list of jurisdictions under increased monitoring (“grey list”) in October 2022

In a nutshell

Jurisdiction: Pakistan

On FATF grey list: June 2018 to October 2022

Principal reasons: Low performance in effectiveness; terrorist financing issues

Latest FATF reports: October 2019 (Mutual Evaluation Report) and August 2022 (4th Follow-Up Report) by the Asia/Pacific Group on Money Laundering

Significance: Being delisted is essential for Pakistan to regain access to foreign financial assistance and investments

More info on Pakistan’s money laundering risks (Expert Edition subscribers):
index.baselgovernance.org/country/PK

1 Key gaps and action plans

Pakistan was first on the FATF’s grey list from 2012–2015. Pakistan was included on the grey list again in June 2018 as the deficiencies in its AML/CFT framework were considered a serious threat to the global financial system. Deficiencies covered many areas: legal, financial, regulatory, investigations, prosecutions, judicial and the non-governmental sector.

The decision to add Pakistan to the grey list was taken before the results of its Mutual Evaluation Report (MER) were published. The MER was published in October 2019 and revealed poor performance in both effectiveness (3%) and in technical compliance (39%).

During the last four years, Pakistan has had two Action Plans to address these deficiencies, comprising in total 34 points. 27 points were included in the 2018 Action Plan and 7 points were added in 2021. The Action Plans were sweeping and included requirements to improve almost all areas of money laundering and terrorist financing (ML/TF) compliance and effectiveness, including a specific focus on TF risks. Pakistan also had to maintain a database of terrorists and terror groups operating on its territory and the actions taken against them.

2 Actions taken and progress made

Since June 2018, the country has been working with the FATF and its affiliates to strengthen its legal and financial systems against ML/TF in order to meet international standards in line with the FATF's 40 Recommendations. Pakistan has amended more than 10 laws to ensure technical compliance with the FATF Recommendations.

From September 2020 to August 2022, the country went through four follow-up reports and improved its performance in technical compliance from 41% to 72%. Currently, Pakistan is evaluated as being "largely compliant" with most of the 40 Recommendations. Only in R15 (new technologies) and R38 (mutual legal assistance: freezing and confiscation) is Pakistan only "partially compliant". There is no single recommendation left where the country is evaluated as "non-compliant".

Performance under the FATF's effectiveness criteria ("immediate outcomes") was not reassessed.

As a result of these actions and follow-up reports, Pakistan's overall FATF score improved from 8.49 to 7.38 during this period.

One of the critical issues in the Action Plan 2021 was the requirements to deal with TF risks.¹ During 2021–2022, Pakistani courts handed out various TF-related sentences, including sentencing the leadership of the JuD terror group on terrorist financing charges and freezing various terrorist-held assets.² Pakistan also imposed additional bans on a list of terrorists issued by the United Nations Security Council.

The developments were seen as positive. In March 2022, FATF confirmed that:³

"Pakistan has taken swift steps towards improving its AML/CFT regime and completed 6 of the 7 action items ahead of any relevant deadlines expiring, including by demonstrating that it is enhancing the impact of sanctions by nominating individuals and entities for UN designation and restraining and confiscating proceeds of crime in line with Pakistan's risk profile."

¹ Specifically the Afghan Taliban, Jamaat-ud-Dawa (JuD), Haqqani Network, Jaish-e-Mohammed (JeM), Lashkar-e-Taiba (LeT), Falah-e-Insaniyat Foundation, al-Qaeda and Islamic State.

² <https://tribune.com.pk/story/2363310/pakistans-escape-from-fatfs-grey-list>

³ <https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-march-2022.html#pakistan>

In late August 2022, an FATF delegation and the regional Asia/Pacific Group on Money Laundering conducted an on-site visit to verify Pakistan's compliance with the 34-point Action Plan.⁴ Following the visit, the FATF decided by consensus that Pakistan had completed all substantial, technical and procedural requirements of both the 2018 and 2021 Action Plans. As a result, Pakistan was taken off the grey list with immediate effect.

3 Expected results

Pakistan's Prime Minister Shehbaz Sharif said on Twitter⁵ that:

“exiting the FATF grey list is a vindication of our determined and sustained efforts over the years. I would like to congratulate our civil and military leadership and all institutions whose hard work led to today's success.”

Being delisted from the grey list often results in further positive developments in economic and social areas. In general, it increases a country's attractiveness to foreign investors.

For Pakistan it may have the following consequences:

- **Increase access to financial resources.** Exiting the grey list means Pakistan can now have more access to foreign aid and loans as well as more foreign direct investment, which has shown a downward trend recently. The Pakistani economy has been facing severe difficulties and is in dire need of that investment. On 21 October 2022, just ahead of the FATF announcement, the credit ratings agency Fitch Ratings cut the country's sovereign rating to CCC+ from B-. This followed the downgrading by Moody's – another credit ratings agency – of Pakistan's ranking to negative.⁶
- **Assistance to deal with the consequences of recent floods.** Being on the FATF grey list made it difficult for Pakistan to get assistance from the IMF, World Bank, Asian Development Bank and EU. For instance, the IMF had included exiting the grey list as part of its conditions for receiving a USD 6 billion bailout. In November 2022, Pakistan and the IMF have begun talks online regarding a USD 7 billion loan programme.⁷ Based on earlier reviews of the programme, the IMF had already approved USD 1.1 billion earlier in August 2022.⁸

⁴ <https://currentaffairs.adda247.com/pakistan-removed-from-fatf-grey-list-on-terror-financing/>

⁵ <https://twitter.com/CMShehbaz/status/1583477417750204416>

⁶ <https://profit.pakistantoday.com.pk/2022/10/21/fitch-cuts-pakistans-sovereign-credit-rating-to-ccc-from-b/>

⁷ <https://thefinancialexpress.com.bd/economy/pakistan-imf-begin-talks-on-7bn-loan-review-1669693563>

⁸ <https://www.ft.com/content/d3d57c66-35a8-4815-82e7-20057638129d>

4 Pakistan in the Basel AML Index

Pakistan's overall ML/TF risk score in the Basel AML Index⁹ (Public Edition) is 6.16. This places it in the medium-risk category compared to other global jurisdictions. In the latest update of the Expert Edition,¹⁰ which is updated quarterly with the latest data, the risk score is slightly lower at 6.11.

Pakistan achieved the following scores in the latest FATF assessments:

- 3% for effectiveness
- 72% for technical compliance

Based on the Basel AML Index methodology and calculations, Pakistan's score on the FATF indicator alone is 7.38 – a high risk compared to the global average.¹¹

A note for Basel AML Index users: The Basel AML Index uses FATF data from both MERs and follow-up reports to score a jurisdiction's ML/TF risks. Information on a jurisdiction's categorisation as being "under increased monitoring" ("grey list") or a "high-risk jurisdiction" ("black" list) is included in the Basel AML Index Expert Edition for information or decision-making purposes. This information is included in a separate column to the jurisdiction's risk scores. Being on these lists does not have an impact on the overall score of the jurisdiction in the Basel AML Index. This is because the jurisdiction's performance is already taken into account based on the latest MER and follow-up report data.

⁹ The Basel AML Index is an independent country ranking and risk assessment tool for money laundering and terrorist financing (ML/TF), produced by the Basel AML Index since 2012. See: <https://index.baselgovernance.org>.

¹⁰ Designed for busy professionals, the Basel AML Index Expert and Expert Plus editions offer deep, detailed and up-to-date insights into a jurisdiction's ML/TF risk score and the reasons behind it. Both editions are free for public-sector, international, non-profit and academic organisations. See: <https://index.baselgovernance.org/expert-edition>.

¹¹ The Basel AML Index uses a double weight for effectiveness criteria in its methodology. See: <https://index.baselgovernance.org/methodology>.