

Pakistan Urged to Expand FATF Safeguards

The Financial Action Task Force (FATF), based in Paris, is an international body responsible for developing policy to combat money laundering and terrorism financing. It placed Pakistan on the grey list in June 2018 due to its ineffective policies in curbing finance channels of banned organizations, a matter of grave concern for the country entrapped in heavy terrorist activity.

As of August 5, the United States is pushing Pakistan to expand efforts to meet its 27-point Financial Action Plan issued by the FATF. The US delegation received a progress report by Pakistan's Federal Minister on the country's implementation status and improvement regarding the Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) conditions. Both countries' representatives pointed to the shortcomings of the domestic financial system and its failure to account for one-quarter of transactions in the economy as the source of deficiencies in meeting the two conditions.

While Pakistan's officials recognize the progress it has achieved, the US shows concern over the slow pace of this progress that could result in failure to meet the agenda by September. This would sustain Pakistan's place in the FATF's grey list. The assessments come two weeks before Pakistan is to submit a report to the Asia Pacific Group (APG) yet it is hopeful to meet its goals if given more time by its international partners.

Pakistani departments have been showcasing serious coordination problems resulting in failure to address systemic deficiencies in meeting its agenda. Furthermore, currency smuggling is found to be the main cause deterring the progress to meet prevention of money laundering and terrorism financing. This harms the banking sector and reduces tax revenues. If Pakistan's current status persists, the completion of the FATF time period in October will determine Pakistan's fate of either remaining on the grey list or potentially being blacklisted. In the latter case, the domestic banking sector would suffer immeasurably and hinder the implementation progress of the IMF deal. It will lead to the cut of capital inflows into the economy, isolating the country and sabotaging its economic growth as otherwise assured by the IMF conditions, increasing loan dependency further.

Amid the IMF bailout, it is crucial for Pakistan to leave the FATF grey list if it wants to stabilise its economy and private sector credit. Failure to do so will risk the continued promise of the \$6 billion bailout as the international organization requires Pakistan to fulfil the 27 action-plan.

Further tension for Pakistan persists in the form of India's membership in the FATF which will push the blacklisting of its arch-rival, especially amid the ongoing Kashmir security crisis. In the case it fails to comply by September, it seeks China's assistance in opposing India's stance and blocking potential economic sanctions. China's support is assured as it is a major stakeholder in Pakistan's infrastructure investments. Domestically, the government is to set up joint teams for Intelligence and Investigation, Customs and Federal Investigation Agency and Frontier Corps to hinder illegal transactions in attempting to improve its pace in meeting the 27-point plan.

Pakistan will have to improve its diplomatic relations with the FATF member countries if it seeks an extension to meet the 27-action plan. The federal government should also focus to incentivise governmental and investigative bodies at the provincial level to improve its performance in meeting the AML and CFT conditions. Provinces like Balochistan, which suffer from high terrorist activity, are actively working towards these goals to improve their law and order situation. Finally, the country's financial system will have to investigate informal channels and encourage the use of formal institutions like banks through policies of increasing interest and savings rates. A move in this direction will help to isolate transactions in the informal sector that are related to corruption and terrorist activities, helping Pakistan redeem itself and evade a blacklist status.