INTERNATIONAL ANTI-MONEY LAUNDERING REGIME AND ITS IMPACTS ON THE FINANCIAL SECTOR OF PAKISTAN

Submitted by: SYED AZHAR HUSSAIN SHAH

Supervised By:

Professor Dr Syed Bashir Hussain Shah
Faculty of Contemporary Studies
National Defence University
Islamabad

A thesis submitted to the Government and Public Policy Department, National Defence University Islamabad (Pakistan) in partial fulfillment of the requirement for the award of research degree of Doctorate of Philosophy.

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2012
DEDICATED TO JUST AND KIND
It is certified that I have read the dissertation submitted by Syed Azhar Hussain Shah entitled “International Anti-Money Laundering Regime and Its Impacts on the Financial Sector of Pakistan” as a partial fulfillment for the award of degree of Doctorate of Philosophy in Government and Public Policy. I have evaluated the dissertation and found it up to the requirement in its scope and quality for the award of the degree.

Supervisor: _________________
DECLARATION

I hereby declare that this thesis is the result of my individual research and that it has not been submitted concurrently to any other University for any other degree.

SYED AZHAR HUSSAIN SHAH
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<td>ADI</td>
<td>Authorized deposit taking institution</td>
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<td>Authorized Money Changers</td>
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<td>Anti Money Laundering</td>
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<td>APG</td>
<td>Asia Pacific Group on Money Laundering</td>
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<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
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<td>ARS</td>
<td>Alternative remittance system</td>
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<td>ASEM</td>
<td>Asia Europe Meeting</td>
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<td>ATM</td>
<td>Automated teller machine</td>
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<td>World Bank Group</td>
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<td>BCCI</td>
<td>Bank of Credit and Commerce International</td>
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<tr>
<td>BOP</td>
<td>Balance of Payments</td>
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<td>CAMELS</td>
<td>Capital Adequacy, Asset Quality, Management Soundness, Earnings and Profitability, Liquidity and Sensitivity to Market Risks and Systems and Controls</td>
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<td>CAS</td>
<td>Country Assistance Strategy</td>
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<td>CCFATF</td>
<td>Caribbean Financial Action Task Force</td>
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<td>CFT</td>
<td>Combating the Financing of Terrorism</td>
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<tr>
<td>CHAPS</td>
<td>Clearing House Automated Payment Systems</td>
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<td>CIC</td>
<td>Consular Identification Card</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<td>CDD</td>
<td>Customer due diligence</td>
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<td>DFI</td>
<td>Development financial institution</td>
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<td>EC</td>
<td>Exchange Company</td>
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<td>ESAAMLG</td>
<td>Eastern and Southern Africa Anti-Money Laundering Group</td>
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<td>FATF</td>
<td>Financial Action Task Force on Money laundering Group</td>
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<td>Financial Intelligence Unit</td>
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<td>The forty recommendations on Money Laundering issued by FATF</td>
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<td>FIRST</td>
<td>Financial Sector Reform and Strengthening Initiative</td>
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<td>FMGP</td>
<td>Financial Markets and Governance Program</td>
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<td>FMU</td>
<td>Financial Monitoring Unit</td>
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<td>Financial Sector Assessment</td>
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<td>Financial System Stability Assessment</td>
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<td>FSRB</td>
<td>FATF-Style Regional Bodies</td>
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<td>Formal Funds Transfer</td>
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<td>FIU</td>
<td>Financial Intelligence Unit</td>
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<td>GOP</td>
<td>Government of Pakistan</td>
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<td>GAFISUD</td>
<td>South American Financial Action Task Force Independent AML Expert</td>
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<td>GAFI</td>
<td>Group d’action Financiere sue le blanchiment de capital (FATF)</td>
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<td>GDF</td>
<td>Global Development Finance</td>
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<td><em>Hawala</em></td>
<td>Informal Remittance System</td>
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<td><em>Hundi</em></td>
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<tr>
<td>IAE</td>
<td>Independent AML expert</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IMFC</td>
<td>International Monitory and Financial Committee</td>
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<tr>
<td>IADB</td>
<td>Inter American Development Bank</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction &amp; Development</td>
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<tr>
<td>ICBA</td>
<td>Independent Community Bankers of America</td>
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<tr>
<td>ILO</td>
<td>International Labor Organization</td>
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<td>International Monetary fund</td>
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<td>IMF BOP</td>
<td>IMF balance of Payments</td>
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<td>IOM</td>
<td>International Organization for Migration</td>
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<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
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<td>IFTs</td>
<td>Informal Funds Transfer Systems</td>
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<td>International Organization of Securities Commissions</td>
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<td>KYC</td>
<td>Know-your-customer</td>
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<td>LSMS</td>
<td>Living Standards Measurement Survey</td>
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<td>MIF</td>
<td>Multilateral Investment Fund</td>
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<td>MT</td>
<td>Mail Transfer</td>
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<td>MTO</td>
<td>Money Transfer Operator</td>
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<td>MONEYVAL</td>
<td>Council of Europe the Select Committee of Experts on the Evaluation of Anti Money Laundering Measures</td>
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<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>NCCT</td>
<td>Non-Cooperative Countries and Territories</td>
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<td>NAB</td>
<td>National Accountability Bureau</td>
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<tr>
<td>NAO</td>
<td>National Accountability Ordinance</td>
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<tr>
<td>NBP</td>
<td>National Bank of Pakistan</td>
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<tr>
<td>OFC</td>
<td>Offshore Financial Center</td>
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<td>OAS</td>
<td>Organization of American States</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>PR</td>
<td>Prudential Regulations</td>
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<td>ROSCA</td>
<td>Rotating saving and credit association</td>
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<td>ROSC</td>
<td>Report on standards and codes</td>
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<td>UNSCTC</td>
<td>United National Security Council Counter Terrorism Committee</td>
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<td>UNODC</td>
<td>United Nations Office on Drugs and Crimes</td>
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<td>Wolfsberg Group</td>
<td>Wolfsberg Group of Banks</td>
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ABSTRACT

Money laundering emerged as a global crime. It has the ability to ruin not only the economies, financial institutions but has the power to destabilize political governments and ignite terrorist activities. Decades ago Money laundering was no where on the scene but it doesn’t mean that it wasn’t there. On account of globalization, integration of financial markets and incident of 9/11 the dynamics and implications of money laundering caught the attention of international Regulators. The purpose of this dissertation is to identify various Anti-money laundering regimes, their policies, significance and impact of these regimes for Pakistan and its financial sector.

To counter this global menace, active approach at international level was required besides well-coordinated measures at national level. This dissertation discusses various international regimes like UNO, IMF, WB, Wolfsburg, IOSCO, IAIS and FATF etc. that have come up with techniques to check and control this global crime on one hand and also provide technical and financial assistance to member countries for collaborative efforts to curb money laundering activities that has no national boundaries. Being strategically located Pakistan is also one of the victims of money laundering and terrorist activities therefore; compliance to International standards has not only international but also national significance. Pakistan has taken legislative, legal, administrative and regulatory measures to comply with international standards. The significance of international anti-money laundering regimes for Pakistan cannot be ignored as adhering to their guidelines has enabled financial sector of Pakistan to adopt prudential regulations to manage operational, legal, credit and reputational risks.

Finally the dissertation concludes with recommendations for bringing further improvement in the measures taken by Pakistan to combat money laundering with emphasis upon controlling the sources of dirty money, implementation of Good Governance, respect for writ of judiciary, public awareness programmes to encourage home remittances through legal channels and overall understanding of socio-cultural values of societies for effective international co-ordination and convergence of policies to combat money laundering for strong global economy and lasting peace among nations.
CHAPTER-1

INTRODUCTION

Financial institutions of a country play vital role in the growth of economy. The developing countries lag far behind developed countries in the sphere of financial sector. This is for the logical reasons that the financial institutions of developing countries were not established on strong footings as there were no set standards and mechanisms to monitor monetary and fiscal policies. It may also be noted that most of the developing countries remained dependent upon developed world particularly international financial institutions for enhancement and progress of their economies. The wave of globalization has almost changed the entire scenario and ultimately all developing countries have no way out but to follow the standards and codes set by the international anti-money laundering regimes. This has increased the role of these international actors and gave importance to financial sector of each country. Therefore, central to global integration is financial integration where the flow of funds and capital across international borders are increasing.\(^1\) This mechanism is regulated by international anti-money laundering regimes by developing policy, standards, rules and ethics for the financial system, which are benchmarks of good practices.\(^2\) It is ensured that the world community follows the rules set by these financial actors in order to protect the interest of stakeholders. Given this role, an international anti-money laundering regime can be defined as the regulator, standard setter, protector and reformer of international financial system. Almost all the international anti-money laundering regimes have enormous roles to play. However, there is demarcation of functions of each international anti-money laundering regime. In this regard we find different examples like Financial Action Task Force (FATF), International
Monetary Fund (IMF), World Bank, Bank For International Settlement (BIS), International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) and Wolfsberg Group etc. These all international regimes chalk out policies and plan within given parameters of United Nations Organization as well as at their own. The strength and vitality of international anti-money laundering regimes largely depends upon their membership and availability of resources like financial, technical, political and human resources etc.

International Monetary Fund (IMF) is one of the important member organization of international anti-money laundering regimes which assesses countries’ observance of international financial standards and help them towards the implementation of requisite reforms. The IMF along with the World Bank (WB) aspires to stabilize world economies by bringing about financial stability and enhancing investors’ confidence in international financial systems. It keeps a constant watch over the functioning of international financial regimes and assists to avert crises in the financial market by extending advice to the members and practical help if so needed.

Similarly all international anti-money laundering regimes have set their priorities to achieve their objectives. These global priorities of international regimes have implications on the financial sector of all the member countries. At international level "standards and codes" signifies a body of rules and regulations pertaining to institutional settings and the "rules of the game" according to which international financial and economic policies are formulated for the proper implementation by the members.

As a consequence of globalization, the importance and significance of international regimes has considerably been increased. The IMF holds that previous international
financial crises have revealed the deficiencies and vulnerabilities of the international financial regime. These deficiencies and vulnerabilities are mainly pertaining to enhanced volumes and significance of international flow of capital. Despite weaknesses in international anti-money laundering regimes, most of the member countries benefited from the policies of international actors. One can easily infer that globalization carries risks as well as opportunities for financial institutions of member countries. In order to bring financial stability in the financial institutions, the international financial actors have taken steps to improve the structure and functioning of international financial system. The implications of these regimes on different sectors of economy are of vital importance for different stakeholders. It is because of their significance that international standards are becoming more common at global level. The IMF and the World Bank work on codes and standards is significant effort to reinforce the international financial system after the occurrence of financial crises during the 1990s. International anti-money laundering regimes are becoming important because forces of globalization have seriously emasculated the power of policy making by nation states. International anti-money laundering regimes were established in the backdrop of Second World War to bring about the most needed financial stability and trigger the hampered growth. On account of Cold War between two blocks, the world was truly de-internationalized by the early 1950s. International anti-money laundering regimes consistently emphasized upon the developed as well as developing economies to take concrete steps to make financial sector reliably stable and less crises prone. This purpose could only be attained by adopting prudent economic policies, transparent mechanisms, regulatory checks and effective compliance with international financial standards. Post
cold war era has recurrently increased the importance of international financial standards, as the cold war era conflict between two blocks hampered the way for the implementation of the financial standards laid by international institutions for the economic stability of the world. However, with the disintegration of the Soviet Union, the role of international regime has accelerated its global agenda. The international anti-money laundering regimes have regained its strength and will to bring about greater financial uniformity and stability by adopting universally accepted financial standards. These standards play vital role in the standardization of financial practices. There is transformation of the financial sector through liberalization, innovation and globalization of markets. This process of globalization has increased the concern for the health of the global banking and financial markets. There seemed unanimity and consensus that the integrity and stability of financial system can be improved with the development of international standards and codes. In order to achieve this objective, in addition to other institutions, Basel Committee on Banking Supervision also played significant role.

IMF also provides technical assistance to help countries meet internationally recognized standards for the financial sector. The international financial system attaches a great significance to the observance of global standards and codes because it also prevents international crises. This mechanism provides benchmarking of good practice and encourage their implementation. Evaluation of the progress vis a vis international standards helps to enhance the standard of policymaking and strategic decision of investment by the international investors. The IMF and the World Bank are playing significant role by laying standard and codes for international financial system. They also measure and evaluate the observance of standards and codes, and also assist them to
introduce reforms in the financial sector.\textsuperscript{18} The International Financial Institutions (IFIs) also ensure that their standardization policies should be followed by member countries. In case a member country does not follow strictly the standards and criteria of international financial institutions, the repute and credibility of borrowing country is eroded in the financial market and financial flow reduced.\textsuperscript{19} Because of globalization, the world has become a bigger market for trade and financial transaction which has given more importance to the international financial sector. This linkage of trade and finance can be strengthened subject to strong collaboration so that convergence of policies can be ensured. The IMF and World Bank are making all efforts to strengthen such linkages between trade, business and financial institutions.

It may be noted that the World Bank and IMF are the institutions of prime importance as they aid countries, help fight financing of terrorism, introduce financial sector reforms and guide countries for adopting anti-money laundering policies. The IMF and World Bank are in close cooperation and collaboration since their inception at the Bretton Woods Conference of 1944.\textsuperscript{20} These institutions also coordinate on the Millennium Development Goals (MDGs), utilization of Aid, evaluation and provision of international loans, and relief assistance, oversee and regulate international trade, financial system reforms, and putting in place anti money laundering and anti terrorist financing strategies.\textsuperscript{21} Thus increasing interdependence coupled with financial and political globalization of the world has increased the significance of international anti-money laundering regimes. Ever increasing complexity of international financial and political circumstances is also increasing its significance manifold. The importance of understanding the multidimensional impacts of international anti-money laundering
regimes/institutions on the financial sector of any economy especially the developing economies has a lot of significance. The IMF and World Bank encourage developing countries like Pakistan to follow their norms and standards in order to strengthen the financial institutions in the country. In order to achieve the desired objectives for strengthening financial institutions and the economy, World Bank and IMF provide technical support to strengthen financial sectors of member states.

The flow of capital can easily take place when the financial institutions of both the sides are standing at firm footings having set standards and values outlined by the international anti-money laundering regimes. The uniformity of financial stability at national and international levels keeps the flow of capital smooth. For this purpose every effort is made that each financial institution removes its weakness and enhances strengths. The international financial institutions along with experts from national agencies and standard-setting bodies identify the strengths and weaknesses of a member state’s financial system in order to identify the mechanisms and indicators of risk management.

Because of this close monitoring, weaknesses in financial system are considerably removed. Once the financial institutions of a member country are brought to a good standing, the international financial institutions also ascertain the sectoral development and technical assistance needs of the member country. These organizations are significant because monitoring and evaluation of compliance with relevant financial sector standards and codes also results in Reports on Observance of Standards and Codes (ROSCs) which are quite significant in deciding the level of compliance and provision of assistance by the international agencies. It is clear that following of guidelines given by
the international anti-money laundering institutions is mandatory for every member country for the progress and stability of its financial institutions. Given the dependence of Pakistan’s financial sector on international financial institutions, it is more pertinent to study the implications of the policies of these institutions on the changes, stability and growth of the financial sector of Pakistan. The financial sector of Pakistan comprises of: the State bank of Pakistan, National commercial Banks, partially privatized domestic Banks, provincial commercial Banks, Securities & Exchange Commission of Pakistan, development finance institutions, leasing companies, Modarabas (mutual fund), stock exchange, and insurance companies. The State Bank of Pakistan and Securities & Exchange Commission of Pakistan play the role of regulators for respective financial institutions. Financial sector and its institutions play a vital role in the growth, stability, vitality and development of economy. Like other developing countries, Pakistan has also to rely upon international financial institutions because of its dependent economy, indebtedness and also as a member of all these institutions. The Economy of Pakistan has been plagued by severe current account and fiscal deficit over a long period. The prevalence of this deficit has rendered Pakistan an immensely debt burdened country. As a result, the debt servicing has become a cumbersome expense for the economy. Because of ill-planned policies, the foreign loans and international exchange liabilities increased manifold and as such percentage of both reached an unsustainable level. In view of the domestic financial situation, it was urged that Pakistan was required to participate in regional and international forums to ensure the evolution of regulatory and legislative framework in the changing and challenging circumstances. It is evident that Pakistan needed to cooperate at international level in
order to strengthen its financial institutions which clearly demonstrates the significance for international cooperation.

No doubt that State Bank of Pakistan is the regulator of financial institutions yet these institutions did carry some weaknesses as stated by Dr. Muhammad Yaqub the former Governor, State Bank of Pakistan that “the banking system problems are multi-dimensional in their complexity and character, with their roots having gone deeper in the social, cultural and political soil of the country.” If this statement is analyzed, it signifies that the main reason for weakness of financial institutions of Pakistan was mainly because of weak political institutions as there was no continuity in democracy and there were ups and downs in the country i.e. parliamentary democracy followed by military rule and vice versa. Secondly, the social and cultural values of the country did not embrace international financial norms neither cared to follow them. One can cite a very simple example of ruination of Pakistan financial institutions i.e. writing off Rs.256 billion of loans by various political and military governments causing irreparable loss to the financial sector. Similarly, there were no proper checks and balances to combat money laundering. Had international standards and discipline been followed, this could have saved the financial institutions from crises. There is a strong co-relationship between sustained economic growth and relative financial discipline on the one hand and the country’s success in achieving financial discipline and standard behavior at international level. Pakistan remained weak on both the ends mainly because of turmoil in her political system and frequent paradigm shift. Since Pakistan became member of the international financial community, it also needed international standards and rules desired by the international financial actors. There is strong possibility that if the set standards of
international financial institutions are complied with in true spirit, it can have positive impact on the economy and financial institutions of Pakistan. As a consequence of policies set by international financial regimes, the following implications are visible on the financial sector of Pakistan.

- Liberalization Measures
- Privatization measures
- Regulatory changes and
- Anti money laundering and anti terrorism financing measures in the financial sector of Pakistan

1.1 Statement of the Problem

The present study is an attempt to see as how the policies of international anti-money laundering regimes affect Pakistan and what is their significance for the financial sector of Pakistan. The study will also focus upon those measures adopted by Pakistan to comply with the guidelines set by international anti-money laundering regimes. The four major implications as pointed out above although have great significance but all of them cannot be examined and studied in one go. The present study is focused upon anti-money laundering and anti-terrorist financing measures taken by Pakistan in the light of guidelines given by the international anti-money laundering regimes. The study will see as to how the standards and guidelines of international anti-money laundering regimes help Pakistan to attain the desired objectives to strengthen the financial sector of Pakistan. The reasons for choosing anti-money laundering and anti-terrorist financing measures are the following:-
1. Money Laundering and Terrorist Financing is a major threat to the financial sector. This is such an important issue that by using financial institutions, money launderers can put at stake a country's financial viability its health and reputation of its financial institutions.31

2. Money Laundering and Terrorist Financing is such a financial crime which gives birth to other serious and inhuman crimes like terrorism, smuggling, drug trafficking, tax evasion, corruption, and financial frauds etc.

3. Anti Money Laundering and Anti Terrorist Financing is a significant agenda for all the international organization e.g. United Nations Organizations(UN),International Monetary Fund (IMF), World bank , Financial action task Force (FATF),International Organization of Securities Commissions(IOSCO), International Association Of Insurance Supervisors (IAIS), Bank for International Settlement(BIS) ,Financial Action Task Force Style Regional Bodies (FSRBs), International Police Organization( INTERPOL) and Wolfsberg Group etc. These international Organizations coordinate with each other so that effective measures can be taken. Even the World Bank and International Monetary Fund have endorsed and supported these international standards to curb money laundering and the financing of terrorism32.

4. It is very significant issue for the financial sector of Pakistan. The process of Money laundering cannot be completed without involvement of the financial sector. Therefore, Anti Money Laundering measures can deprive criminals of criminal proceeds being laundered and processed.

5. In the light of international regimes’ standards, Pakistan has taken requisite measures. It is evident from Anti money laundering prudential regulations by the State Bank of
Pakistan for the banking sector. Likewise, Securities and Exchange Commission of Pakistan has taken Anti Money Laundering measures for the non-banking financial sector including insurance, stock exchanges, investment companies and Non-Banking Financial Companies etc.

7. The importance of Anti Money Laundering measures has also been reinforced by the Government of Pakistan by promulgating Anti Money Laundering ordinance 2007. These measures are inline with the priority of international regimes.

The study will explore as how Pakistan has managed to cope with the menace of money laundering and terrorist financing. Have the measures taken by Pakistan succeeded and brought positive results. Similarly, other questions of this nature will be addressed for policy formation.

1.2 Review of Literature

Research work on different dimensions of money laundering is available in the literature. Similarly, there is enormous work on international anti-money laundering regimes but there is scarcity of work as far as impacts of the policies of international anti-money laundering regimes on the financial sector of Pakistan is concerned. Anti-money laundering and anti terrorist financing have also been tackled on international level but no such research work has so far been carried out in the context of Pakistan.

The United Nations Organization (UN), International Monetary Fund(IMF), World Bank, International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS), Wolfs Berg Group, (WBG) International Police Organization (Interpol), Egmont group and Basel committee on banking supervision have carried out different research studies in addition to their implementation
activities to combat money laundering. Typologies reports and annual reports on money laundering by Financial Action Task Force (FATF) and Financial Action Task Force Style Regional Bodies (FATFSRBS) include material on Money Laundering, its trends, techniques and methods.

Different documents of United Nations Organization provide basic and relevant material for money laundering. These documents provide necessary understanding of global anti-money laundering regime and its policies. These sources are helpful in comprehending legal and institutional anti-money laundering frameworks. The work undertaken by UN to facilitate the understanding of regulatory framework and to ensure the implementation of anti-money laundering mechanisms, is an important addition to the body of anti money laundering literature. It contributes to the development of specific national and regional institutions. It also fosters the awareness in understanding and implementation of best practices for regional and global cooperation through different means including banking and finance sector collaboration.

The UN drafted basic documents like United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention) of 1988. This document reflects narcotics, drugs and psychotropic substances, which is a significant factor of money laundering and poses an imminent risk to the health and wellbeing of humanity and negatively affects the politico-economic and socio-cultural foundation of human society. This document also highlights the obnoxious nexus between drug trafficking and other organized crimes, which endanger the lawful economies and a menace for the stable, independent and sovereign states of the World. This work emphasizes the fact that this global criminal act calls for an immediate international
response to put an end to such a menace for the international peace and security. It also calls for international cooperation because such criminal gangs have the potential of penetration, contamination and corruption of government functionalities and structures as well as the legal and genuine businesses and commercial enterprises at different levels. In June 1998, the UN adopted the Political Declaration and Action Plan against Money Laundering seeking acceleration of international efforts for anti money laundering (AML). Another important documentation was made in December 2000, when, the United Nations Convention against Transnational Organized Crime was adopted in Palermo, Italy. This convention is commonly known as Palermo Convention. This document contains articles that call on states to outlaw the most common offenses of money laundering. This document also contains provisions demanding closer international cooperation in extradition, mutual legal assistance, transfer of proceedings, and joint investigations. Palermo convention makes it obligatory for the ratifying state to establish regulatory regimes to deter and detect all forms of money laundering. In this regard the document also highlights guidelines to urge global support to combat money laundering. This document enshrines a mechanism for establishing an all-inclusive national regulatory and overseeing regime for the financial sector of the member states vulnerable to money-laundering activities. In quest to deter and detect various forms of money-laundering, each regime is required to fulfill the criterion of proper customer identity, maintenance of record and reporting of suspicious transactions. 37

The United Nations Office on Drugs and Crime’s Global Program Against Money Laundering has developed compendium of model laws and other technical guidelines for member states in the implementation of the UN conventions relevant to anti money
laundering and combating the financing of terrorism. The UN has also been in the forefront of efforts over many years to combat Predicate offence of Money Laundering, terrorism and Financing of Terrorism. Another important document is the United Nations Organization International Convention for the Suppression of the Financing of Terrorism, 1999. 38 This primary document demands from the states to take steps to criminalize the financing of terrorists and terrorist acts. In addition, the UN Security Council documents are also relevant. The papers pertaining to Security Council’s Resolution 1373, adopted in 2001 reaffirm its call to all states to sign, ratify, and implement the relevant international conventions criminalizing terrorism and financing of terrorism. 39

International Monetary Funds has contributed different studies on money laundering. A few of the documents of International Monetary Funds include (a) Fact sheets on the IMF and the Fight Against Money Laundering and Financing of Terrorism, (b) Standards and Codes: The Role of the IMF, and (c) Fact sheet on Financial System Soundness. Similarly Fact Sheet on Progress in Strengthening the Architecture of the International Financial System, Annual Reports and IMF Working papers highlight the significance of money laundering and need for international efforts to maintain financial stability. IMF Working Paper, 2007 ‘A Theory of “Crying Wolf”: The Economics of Money Laundering Enforcement by Elod Takats 40 signifies the problem of money laundering along with complication of suspicious transactions reporting. Likewise IMF Working Paper ‘The Impact of Terrorism on Financial Markets by R. Barry Johnston and Oana M. Nedeleascu highlights economic consequences of terrorism and regulatory challenges. The writers propound that financial institutions could be involved in financial crimes as victim, as perpetrators, or as instrument of frauds or abuse.
Similarly different studies of the World Bank reflect its strategy to combat money laundering. Informal Funds Transfer Systems in the APEC Region: Initial Findings and a Framework for Further Analysis in 2006 is a useful document by the World Bank which provides sufficient insights to the financial institutions of the member states. Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism by the World Bank provides information about money laundering and mechanism to counter this threat. This manual also presents international anti-money laundering measures. Another document ‘The World Bank in the Global Fight against Money Laundering and Terrorist Financing’ by the World Bank reflects different dimensions of anti-money laundering and need for global efforts. Joint research efforts carried out by the International Monetary Fund and World Bank include Financial Sector Assessment Reports. These reports give an insight about the role of international financial institutions in ensuring financial reforms. Likewise Joint Report on the Twelve –Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessments provides different strategies and mechanism to combat money laundering.

Keeping in view global threat of Money Laundering and its implications on the financial sector, the Bank for International Settlement has published important documents dealing with the measures pertaining to anti-money laundering and anti-terrorist financing. In this regard, Principle on Prevention of Criminal Use of the Banking System for the Purpose of Money-Laundering 1988, Core Principles for Effective Banking Supervision in 1997 and Customer Due Diligence for Banks in 2001 are significant. These documents
provide comprehensive understanding of anti money laundering measures for the financial sector.

*Globalization and Finance*\(^{47}\) by Tony Porter discusses financial globalization. One can easily understand the implications of international anti-money laundering regimes for financial institutions of developing countries if they do not comply with the set standards of these regimes. Peter Reuter and Edwin M. Truman \(^{48}\) in their book entitled *Chasing Dirty Money: The Fight Against Money Laundering* explain the relationship of drug trafficking, financing of terrorism and other connected crimes with money-laundering. It also assesses the effectiveness of global anti-money laundering regime with regard to combating money laundering, reducing crimes, protecting the integrity of the financial system and controlling global ‘public bads’ such as terrorism, corruption and international crimes etc. It also recommends strengthening of global anti-money laundering regime, provision of technical and financial assistance to the developing countries to establish anti-money laundering regime and research oriented agenda for anti-money laundering regime. *Economic Globalization in Asia* by Gangopadhyay and Chatterji \(^{49}\) focuses on the process of economic globalization with special reference to Asia. *Globalization and its Discontents* by Joseph Stiglitz\(^{50}\) throws light on different dimensions of globalization and role of international institutions. *Crime and Money Laundering* by Jyoti Trehan\(^{51}\) deliberates on money laundering and its causes. The work also explains the process of anti-money laundering with special reference to India. *History of State Bank of Pakistan* by Ashraf Janjua\(^{52}\) mainly discusses the financial sector of Pakistan. This book provides a detailed description of reform process in the financial sector of Pakistan. *Current Issues in Pakistan’s Economy, Finance, Growth, Poverty,*
Globalization is a compiled version of speeches and statements by Dr. Ishrat Hussain, former Governor, State Bank of Pakistan. This book provides the importance of different financial issues. Money Laundering Law: Forfeiture, Confiscation, Civil Recovery, Criminal Laundering and Taxation of the Proceeds of Crime by Peter Alldridge explains money-laundering and its socio-legal dimensions.

Major Macro-Economic Policy Issues in Pakistan by State Bank of Pakistan highlights the economic state of affairs of the country and need for socio-economic development. Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism by the World Bank deals with money laundering and international efforts to combat it. Leading Issues Facing Pakistan Economy by State Bank of Pakistan is the collection of speeches of Dr. Muhammad Yaqoob, the then Governor State Bank of Pakistan on different issues of economic and institutional importance. Money Laundering: A Guide for Criminal Investigators by John Madinger highlights the importance of money laundering and different legal dimensions.

It has been observed that no serious academics efforts have been made in Pakistan to study the crime of money laundering in national and global perspectives. However, scholars outside Pakistan have devoted themselves to study various aspects of money laundering and terrorist financing. In order to have a comprehensive understanding of the issues pertaining to money laundering, the works by M. Beare, N. Kochan, D. Masciandaro, R. T. Naylor, P.C. Van Dynne and B. Zagris were also consulted.

Official deliberations and anti-money laundering measures by the State Bank of Pakistan is the relevant material with regard to anti money laundering policy for the Banking sector of Pakistan. Circulars, Prudential Regulations and anti money laundering manuals
have also been consulted for analysis. Likewise regulatory measures of Securities and Exchange Commission of Pakistan have also been analyzed to see the implications on the securities market of Pakistan. With regard to legislative measures Anti-Money Laundering Ordinance 2007, The Electronic Transactions Ordinance’s 2002, National Accountability Ordinance, 1999, Control of Narcotics Substance Act 1997 and Anti-Terrorism Act 1997 have been consulted to understand legal and legislative dynamics.

1.3. Significance of Study

The financial sector reforms introduced by international financial institutions are of immense importance and significant for financial institutions of Pakistan. It is therefore necessary to have an in-depth study of these reforms to identify their strengths and implications for overall economic and financial system of Pakistan. So far no systematic study in this regard has been carried out. According to critics, the developed nations generally reap the profit of international financial system and not the developing ones. This seems true to some extent but cannot be accepted in totality. Reforms do bring positive results but are not free of negative outcomes. As Joseph Stieglitz points out “small developing countries are like small boats. Rapid capital market liberalization, in the manner pushed by the IMF, amounted to setting them off on a voyage on a rough sea, before the holes in their hulls have been repaired, before the captain has received training, before life vests have been put on board. Even in the best of circumstances, there was a high likelihood that they were hit broadside by a big wave.”63 This critique can be taken other way round that small developing countries should be well prepared for launching the standards and guidelines given by the international financial actors. In case, these
rules are not complied with, the developing countries are destined for nowhere as far as their financial institutions and financial stability are concerned.

The emergence of international economic players (multinational corporations) have necessitated developing countries like Pakistan to adjust their institutional and regulatory frameworks corresponding to international standards. Stable, internationally compatible and responsive system is in the interest of domestic as well as international investors. As a result of the implications of the international anti-money laundering regimes’ policies, cooperation between states and institutions is increasing. Even international integration requires a close collaboration between Central Banks and regulators to achieve the goal of global financial stability. So the significance of the present study has its importance as far as Pakistan is concerned.

Anti Money laundering and Anti terrorism financing is one of the most important area of international financial institutions as the issue has global significance. As a matter of fact international fight against money laundering also signifies an evolution of the norm-making process at international level. Urgent action is also needed to address the weaknesses in anti money laundering and consolidated international supervision because of financial globalization. Money laundering is the cause and effect of national and international crimes. It causes tremendous loss to national as well as international financial sector.

Money laundering causes economic, social, political and administrative loss to the comity of nations. The significance of anti money laundering can be analyzed from the fact that following international organizations are striving to combat this threat.
Financial Action Task Force gave forty recommendations to combat money laundering. It also gave 9 special recommendations on financing of terrorism. Financial Action Task Force is considered international standard setter by UN, IMF and World Bank. These recommendations have to be implemented in the financial sector of all the countries of the world. IMF and World Bank made it binding for the financial sector to ensure compliance to Anti-Money Laundering and Anti-Terrorist Financing measures. UN also made it mandatory for the member countries to implement Anti-Money Laundering and Anti-Terrorist Financing measures in the financial sector. International Monetary Fund and World Bank are striving against money laundering and terrorist financing by technical and financial assistance. Both IMF and World Bank monitor and assess anti-money laundering measures adopted by the member countries.

United Nations Organization has also adopted Vienna, Palermo and international convention for the suppression of the financing of terrorism to combat money laundering and financing of terrorism. UN has made it binding for the member countries to take all necessary measures to combat this threat. UN has also endeavored to ensure international cooperation amongst its member countries. Financial sector specific international organization like International organization of Securities Commissions has adopted anti-money laundering measures to be implemented by the member countries. These measures are very significant because of the financial globalization of equity markets and cross border movement of funds. International Association of Insurance Supervisors has also specified anti-money laundering measures to be implemented by the members of this international organization. Basel Committee of Bank for International Settlement is considered a global standard setter for the banking sector. As banking sector is very
important segment of financial sector so anti money laundering measures in this sector carry international significance. Basel committee has also given Anti-Money Laundering and Anti Terrorist Financing measures to be implemented in the financial sector of the member countries. These measures are meant to control financial, operational, concentration and reputation risk of banking sector.

FATF has significantly mentioned the role of financial sector in money laundering which can be countered by taking appropriate counter measures. Given the global significance of these reforms supported by international anti-money laundering regimes and lack of credible and significant research also demands research endeavor to give a theoretical as well as practical explanation of these implications.

This study assumes greater significance in the present era of rapid globalization where cross border and cross-national effects are converging into cross cutting themes attaching greater international relevance to such studies. Moreover, this study would also help the researchers and students to draw useful conclusions in the backdrop of the increasing role of international anti-money laundering regimes in shaping the economy of the world.

1.4 SOURCES AND METHODOLOGY

Research Methodology

Keeping in view the complex nature of the study, both primary and secondary sources have been consulted. A deductive – interpretive method has been used to substantiate the arguments.

1.4.1. Primary Sources

Owing to scope and diversity of studies, personal observations were also availed by visits to informal money exchange markets of Europe, Middle East and different parts of
Pakistan. Informal money markets of tribal areas were also visited and observed for better socio-economic understanding. Personal observations were undertaken because criminals do not respond to questionnaires. This also provided me an opportunity to interact with those money remitters and beneficiaries who are indifferent to formal or informal channel. They are more concerned with less cost, more convenience, prompt delivery and easy accessibility. These first hand and diverse information enabled me to understand socio-cultural aspect of money laundering. It also equipped me with heterogeneous perceptions with reference to myths and realities of money laundering. These observations have helped to reach substantial conclusions regarding the implications of international anti money laundering regime on the financial sector of Pakistan.

Interviews of different personalities from government sector, FIA, Police, Excise and Taxation Department, Banking sector, defunct money changers and individuals engaged in the business of exchange companies helped in streamlining the studies and understanding the issues involved in money laundering pertaining to Pakistan. These interviews were also useful in the sense that they provided first hand knowledge of working of Pakistani financial sector and restraints and challenges posed to it. Exchange of views with Dr. Ishrat Hussain, former Governor, State Bank of Pakistan and Mr. Ashraf Janjua, Deputy Governor, Kazi Taslim of State Bank of Pakistan also helped in streamlining the studies and understanding the issues involved in money laundering pertaining to Pakistan. Deliberations of Syed Ali Raza, President, National Bank of Pakistan, Karachi was useful input in shaping the studies in right perspective. The operational outlook on anti money laundering and thought provoking ideas by
Dr. Asif A. Brohi, Group Chief Operations, National Bank Of Pakistan helped me a lot in completing my work. Interviews of Syed Nazar Hussain Shah, Director General Excise and Taxation, was useful and his input contributed tremendously in shaping the studies in correct perspective. Interactive sessions with Police Officers, Mr. Raja Naseer (AIG), Mr. Akbar Nasir SSP, Mr. S. Kamal SSP and Syed S. N Bukhari (ASP) were useful in observing criminal links between money launderers and different mafias. Mr. Muhammad Hanif, Divisional Head Organization Development & Training, National Bank of Pakistan, Karachi was also interviewed in order to understand various pros and cons of international regimes and their impact on Pakistan. Mr. Rakesh Mohan, Deputy Governor, Reserve Bank of India was also interviewed during his visit to Pakistan in December 2005. His grasp over the subject and insight for international regimes was really intriguing and provided me lot of understanding of the subject. Dr. Nadeemul Haq, the former Director, Pakistan Institute of Development Economics, Islamabad was also interviewed, who being an economist not only made me understand the role of international anti-money laundering regimes particularly for the developing countries like Pakistan but also pointed out numerous advantages of following the guidelines set by international standards setters. Besides others, the exchange of views with Dr. Rashid Aziz of World Bank and Dr. Khurshid DG privatization have also contributed positively in shaping the present study.

1.4.2 Secondary Sources

Moreover, the documents of the government of Pakistan and reports by the World Bank, IMF, Financial Action Task Force, Bank for International Settlement, International Organization of Securities Commissions, Interpol, Wolfsberg Group etc, were also
reviewed to have a deep understanding of the subject under study. These studies helped me to reach reliable conclusions about the designated role of the international anti-money laundering regimes for the economic stability and growth of the economies of the world in general and Pakistan in particular. Economic Surveys of Pakistan, newspapers reports and articles, financial assessments reports of IMF, World Bank and opinion of other independent analysts and observers have also been taken into consideration during the course of study. In addition, the memoranda of understanding of the government of Pakistan on accepting the technical assistance and financial support of the international financial institutions were also consulted. These documents are the basic sources for the determination of the objectives of the restructuring efforts of the financial sector of Pakistan and the course of action adopted by Government of Pakistan and its various institutions. Moreover, the annual reports of various financial institutions in Pakistan have been consulted and reviewed to reach a rational and logical analysis. Availability of above mentioned resources urged me to adopt descriptive-analytical and comparative approach in this research.

Besides above, different documents, policy papers, research studies and annual reports of International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS), Financial Action Task Force (FATF), Financial Action Task Force Style Regional Bodies (FATFSRBS), Wolfs Berg Group, International police organization (Interpol), Egmont group and Basel committee on banking supervision have been consulted to understand their global role and their significance in the global financial system. Vice versa, an effort has been made to analyze the role of international anti-money laundering regimes as instruments of the international financial system to
integrate and control the national economies into broader framework of international anti-money laundering regimes. There is also pessimistic view about these international anti-money laundering regimes which are considered to be the agents of developed countries to have stronger grip on overall financial system of the world. If an optimistic view is adopted, it seems that international financial institutions are not the sole agent of developed world but they are trying to stabilize the financial system of the world.

1.5 Organization of Study
The study comprises of six chapters including conclusions and recommendations. The scheme of study is as follows:-

1. **Introduction:** The study starts with an introduction which traces a brief history of international anti-money laundering regimes and their role in strengthening the financial sector of members. Review of literature, significance and organization of the study are also part of this chapter.

2. **Dynamics of Money Laundering and its Threat to Financial Sector:** The second chapter discusses dynamics of money laundering and its implications with an explanation of the concept of money laundering. It also highlights the significance of money laundering with different angles. Money laundering process along with stages and methods is also discussed in this chapter.

3. **International Anti-Money Laundering Regimes and its effects on Money Laundering:** The third chapter focuses upon international anti-money laundering regimes by highlighting the efforts of different international organizations to counter the threat of money laundering.
4. **Pakistan’s Measures in Response to Global Efforts:** The fourth chapter deals with anti-money laundering measures taken by Pakistan. This chapter thoroughly discusses anti-money laundering measures in response to international standards. Relevant legislative measures taken by Pakistan have also been discussed in detail. This chapter also contains regulatory anti money laundering measures for the financial sector including banking and capital markets.

5. **Significance of International Anti Money Laundering Regime for Pakistan:** The theme of the fifth chapter is the significance of International Anti Money Laundering Regime for Pakistan. This chapter analyses the strength and significance of international anti money laundering organizations. The impact of international financial institutions on the economy of Pakistan has also been highlighted. The significance of different anti money laundering organizations for Pakistan has also been discussed in this chapter.

6. **Conclusions and Recommendations:** On the basis of study carried out, certain conclusions have been drawn. The chapter also gives some recommendations and policy suggestions in order to combat money laundering and terrorist financing.

7. **Bibliography:** The sources consulted for the purpose of entire study are given in the Bibliography.

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35. Ibid.,


63. Joseph E. Stiglitz, op.cit.,


Money laundering is considered a global crime and collective efforts are being made to combat this menace because it is dangerous for the financial institutions as well as societies as a whole. Scholars like L. Malkin and Y. Elizur\textsuperscript{1}, M. Naim\textsuperscript{2}, B. Zagris\textsuperscript{3}, and N. Kochan,\textsuperscript{4} all tend to fuse together the concept of money laundering and terrorist financing. Both the concepts cannot be considered as the same because of differences. Ian Roberge,\textsuperscript{5} argues that difference between the two is quite deep-seated, signifying the substantial differences in the very nature of organized crime and terrorist financing. He further points out that money laundering pertains to the maneuvering of the financial institutions by the criminal syndicate to clean their ill gotten money, whereas the financing of terrorism is related to the assistance provided, knowingly or unknowingly, to support the violence and militancy and further political interests of terrorist organizations. The money launderers mostly rely upon financial institutions for their vicious activities to be fulfilled while terrorists do not rely upon the financial systems as criminals do. However, some techniques used by money launderers and terrorism financiers are common. The money laundering is an organized crime which is driven by profit whereas terrorist organizations are driven by other motives. The above mentioned scholars attempt to address both the topics of money laundering and terrorist financing. This approach highlights that financing of terrorism is actually reverse money laundering and requires similar approach to restrict the dangers and negative impacts of both the
menaces. The chapter will discuss the definitions of money laundering and terrorist financing, their similarities and differences as well as phenomenon of money laundering, its description, characteristics, methods and negative externalities.

2.1 Money Laundering and Terrorist Financing

The World Book Dictionary defines money laundering as ‘using banking or other financial maneuvers to obscure the source of illicit income’. Money laundering is a complicated phenomenon through which criminal proceed is concealed and maneuvered for its subsequent uses and abuses. Money laundering has also been defined as a “process by which the proceeds of crime are converted into assets which appear to have a legitimate origin, so that they can be retained permanently or recycled into further criminal enterprises”.

The financing of terrorism relates to the provision of funding to organized and militant terror organizations having certain political aims. The financing of terrorism is the monetary assistance in any form of terrorism or those who incite organize or perpetrate in terrorism. According to the World Bank, “the two activities are linked because the techniques used to launder money are essentially the same as those employed to conceal the sources and uses of terrorist financing.”

It is difficult to differentiate between groups having ulterior motives or groups who support and work for certain political ideologies. Both these criminal and terrorist groups and organizations can generate funds through similar means. Robert W. Baker argues that a large number of lawful financial transactions take place through a number of illegal procedures. The money raised through crimes is mostly reinvested in lawful business enterprises. However, the sources of terrorism financing are diverse. Organizations that
continue to exist offer an ideological foundation and philosophy, and also can get sustainable funding for their operations over an extended period of time argues Ian Robege. 

“Money laundering and terrorist financing also differ in their use of international financial system. It is argued that money laundering threatens the integrity of financial system” while financing of terrorism also undermines financial stability to large extent.

2.2 Money Laundering

Owing to global political and financial changes the mechanism of money laundering has become international with ever increasing sophistication and organization. Due to its global existence and huge financial gains criminals equate and compare money laundering with other business activities. This crime can be called crime of crimes due to its multifaceted and pernicious nature. The magnitude of the problem is traumatic and International Monetary Fund’s (IMF) estimate of the money laundering transactions are almost beyond imagination -2 to5% - of the global GDP. According to United Nations Office on Drugs and Crimes (UNDC) 1998 estimate, the amount of money laundering globally in one year has ranged between $500 billions to $1 trillion. Likewise according to the FBI assessment, the size of money laundered globally is between $600 Billion to $1.5 trillion during the year 2000.

Money laundering is a global crime and the globalization is a multifunctional term having the concept that the financial sector has become globalized industry and national and regional financial markets are being integrated into a globally integrated network of markets. Because of financial globalization, money launderers get numerous advantages and extend their crimes. Globalization has many characteristics; borrowers
seeking to raise funds are no longer limited to their national markets and they can raise funds on the financial market of other countries. Similarly, investors that have surplus funds are no longer restricted to investment opportunities in their national markets but can increasingly take advantage of investment opportunities in the markets of other nations. Financial institutions also increase their net work and ensure multinational presence for retention and expansion of customer base coupled with international trade and foreign investment. The globalization initiatives have been taken by the World Bank (WB), International Monetary Fund (IMF), Financial Action Task Force (FATF), United Nations Organization (UN), Bank for International Settlement (BIS) and other regional and global organizations to address the problem with matching strength. This collaborative campaign signify the severity of this crime at global level. As a consequence of international effort soft and hard laws are being applied against non conformist states and institutions by international anti money laundering regimes. Resultantly, most of the states have taken legislative, legal, financial, and administrative measures to deal with this well-structured crime. Today, money laundering has become a critical issue throughout the world.

Money laundering is a complex modus operandi wherein unfair and illegal funds are tactfully converted into legally accepted money. In other words, money launderers may use legal enterprises for the purpose of converting their black money into white/legal money. Claessens states that the money launderers basically change the morphology of illegally acquired wealth. This transformation is based on both uses and sources of money. Lilley suggests that “traditionally, money laundering is (among other things)
the cleaning of dirty money derived from illegal activities, in the collective awareness most often related to drug trafficking”.

In the light of above definitions, the money laundering is an intelligently devised modus-operandi of converting black money into white / legally accepted money. It can also be described as a process which is aimed at legitimizing the proceeds of crime. In Pakistan a person is considered to be guilty of this crime if there is acquisition, conversion, possession or a transfer of property, intentionally or having reason to believe that the questioned property is proceeds of such a crime. The offence of money laundering also applies to a person if he/she provides support or assists the other person in order to acquire, convert, possess or transfer of, or for concealing or disguising the true nature, shape, source, location, outlook, movement or ownership of such a property, knowingly or having reason to believe that such property is proceeds of a given crime. It is interesting to note that money laundering has a lot of similarity with washing of tainted or oily clothes. In this process the element of cycling and recycling is very important. Hence the focal point in this process is tactfully changing earned money or such ill-gotten assets that apparently look legal. In this regard, definitions given by the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and Palermo Convention are accorded universal recognition. These conventions also got added significance for the objective of money laundering as Financial Action Task Force (FATF) stipulates the scope of the offence of money laundering, that states should criminalize the crime of money laundering on the parameters given in the Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of the United Nations.
In order to make the financial systems transparent and stable, it has been emphasized upon states to apply the crime of money laundering to all serious offences, so that maximum predicate offences are incorporated in it. The United Nations criminalizes money laundering and such other illicit activities and makes it mandatory for the signatories to take appropriate measures. In this regard the Vienna Convention of 1988 stated as follow:-

(i) The conversion or transfer of property from any offence or offences or from an act of participation in such offence or offences, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such an offence or offences to evade the legal consequences of his actions; (ii) The concealment or disguise of the true nature, source, location, disposition and movement of ownership of property, knowing that such property is derived from an offence or offences or from an act of participation in such an offence or offences; and (iii) Participation in or association or conspiracy and facilitating any of the offences established in accordance with this convention. This was an important step towards the criminalization of this offence.

Since the drugs were one of the major international issues during that period, the Vienna Convention, 1988 obliged member states to take appropriate measures in this regard. This also carried significance for Pakistan because it was a member of “Golden Crescent”. In this term, Pakistan, Afghanistan and Iran are included as opium producers. Consequently, there has been an effort to expand the scope of the definition of money laundering by encompassing into it the criminal activities of smuggling, fraudulent practices, proceeds from financial crimes, and proceeds of theft. In this regard, a survey
conducted by the Financial Action Task Force (FATF) in 1996-1997 found that most of the channels of criminal or illegitimate money included drug money, fraudulent banking, investment scams, credit card thefts and frauds, government money embezzlements, frauds related to bankruptcies, and kickbacks proceeds. This is such a crucial issue that read any newspaper anywhere “in the world any day, and you will find news about illegal migrants, drug busts, smuggled weapons, laundered money, or counterfeit goods”. Most of the states in the world are in the process of extending the list of predicate offences as the crimes related to money laundering as well as the sources of dirty money are multiplying. Financial Action Task Force in 1990 emphasized that the states should ensure the application of the offence of money laundering to all serious crimes by incorporating into it maximum number of predicate offences. The significance and urgency with which the international community has taken up the issue of money laundering is based on the rising volume of laundered funds and its capacity to destabilize inefficient economies of the world.

In 2000, UN took another important step and convention against Transnational Organized Crime was enforced to counter the threat of money laundering. It stated regarding money laundering and criminal proceedings that every country has to ensure and implement legislative and administrative initiatives corresponding to their domestic laws or as may be necessary, to apprehend the money launderers when the offence is committed. It also relates to any person or entity who is involved in the transformation or transfer of a property coming from the proceeds of criminal activity. It also emphasizes that the states should discourage and treat it as a crime even if someone is associated or is participating or conspiring in the commission or facilitation or counseling of any of the predicate
offences falling within the purview of this crime.\textsuperscript{35} Palermo Convention, 2000 also included the association and concealment of the origin and source of such a property in the purview of this crime. These definitions are a benchmark for rest of the states and international agencies. Its significance is also global because 192 countries were member of UN by year 2006. Money laundering has become such a complex and complicated issue that states and various international agencies are trying to adopt different methods and techniques to control this phenomenon which is a great threat for the financial system of every state.\textsuperscript{36}

The infiltration of crime money takes place in three stages in order to make it part of legitimate money in the financial markets. These stages are discussed below:-

\textbf{2.3 Stages of Money Laundering}

Money laundering is a complicated phenomenon. This process is very complex and devilish maneuvering is applied to wash the dirty money. Money launderers make use of different financial and non-financial entities for their objective. According to Jonathan McNally,\textsuperscript{37} the process of money laundering involves three stages: the placement; the layering; and integration.

\textbf{(1) Placement}

Placement takes place when criminal cash first enters the non-cash economy. This may involve single or multiple transactions using one or more bank deposits or the purchase of easily negotiable investments (for example bonds or, shares). This can be a risky process for a money launderer since this is when cash may have to be presented in person to a financial institution. Once in the non-cash economy, the physical form of criminal cash is replaced by a paper, electronic, or digital record that can be conveyed, transported or
negotiated for the ulterior motive. During this stage, the launderers continue to conceal the link of criminal proceeds with the criminal. However, for financial institutions, it is very important stage because if they fail to identify the criminal at this stage, then they may loose the track of the criminal proceeds.\textsuperscript{38}

(2) \textbf{Layering}

Layering relies on the negotiation of paper, electronic, or digital records via a series of transactions, many of them lacking transparency and without any obvious underlying business rationale. Such transactions may appear unrelated or will be structured in a manner to frustrate the provenance (of the audit trail) to the original criminal cash. Transactions may, for example, be made within accounts of the same branch of a bank, or between accounts at different branches of the same bank, or even involve transfer to and from other banks in the same country or abroad. Lilley\textsuperscript{39} terms this stage sublimation or swamping or mixing, where “launderers start to cover traces of the real source of money by a multitude of transactions”. Criminals always look for the vulnerabilities in the system and get maximum benefits from the weak points. Money is transferred from local to international accounts of different organizations by making use of legal financial instruments in order to make it harder to follow its flow. In layering offshore companies are also used as a vehicle for fund transfer.

(3) \textbf{Integration}

Integration follows successful layering. When a transaction can no longer be linked to criminal cash and anonymity of the source of funding is guaranteed, criminal cash in the legitimate economy appears to suggest that it originated from legitimate transactions or business activities. Moreover, this crucial stage reintegrates proceeds of crime into legal
financial system and integrates the funds into legal use.\textsuperscript{40} It may bring the laundered money into the mainstream economy through the financial institutions so that such money seems like the proceeds from a conventional business activity. In this regard real estate business, shell companies and bogus international trade transactions are also availed.\textsuperscript{41} It is believed that about 2 to 5 percent of World GDP is laundered per annum. Most of the criminal argue that money laundering is like a normal business activity of multi-nationals as their sole objective is to maximize their proceeds.\textsuperscript{42} Since money launderers are well knit and organized, they bring the laundered money in the world economy by using financial institutions. When this money comes to the world economy, all signs of its illicit origin are almost washed. So it should be kept in mind that this is a big industry which cannot be eliminated by simply making standards and codes but need proper implementation and monitoring collectively at national and global level. According to Lilley\textsuperscript{43}, the ultimate objective of such money transactions is maximum transfers of money to lay it into so many paper channels to confound any on going or potential tracking and to attain the goal of making their criminal proceeds as legitimate one.

The following diagram shows that the process of money laundering can not be completed without the involvement of financial institutions. The whole process of money laundering is apparently a complex phenomenon. This can be seen from the following diagram.
[Source: UN office on Drugs and Crimes www.UNdc.org]
2.4 Characteristics of Money Laundering (ML)

Characteristics and feature of money laundering vary from region to region. Variations in money laundering techniques taint this multifaceted crime with different features. Keeping in view its pernicious but diverse nature different actors play their role at different stages. The operation of money laundering through different agents is conducted through complicated techniques. Owing to diverse and multi-faceted activity we can elaborate these characteristics in the following manner:

- Money laundering in its essence, involves group/ gangs instead of single handed activity.\(^\text{44}\) It is not a single man’s act rather it involves a group of criminals.
- Money laundering is a vicious cycle of unending criminal activities.\(^\text{45}\) It leads to illegal acts that multiplies day after day.
- Money laundering recognizes no boundaries. It has been internationalized. Financial globalization has rendered this activity a truly global activity. It is compelling international organizations to take remedial measures.\(^\text{46}\)
- Money laundering is a large scale activity, consisting of multiple financial / non-financial transactions.\(^\text{47}\)
- Method and techniques adopted in money laundering are quite difficult and often confusing due to their sophistication.\(^\text{48}\) It is an evil activity operating like a web.

Money laundering involves inter-dependence of different agents and clients to hoodwink the regulators. As such, the handling of this issue needs proper understanding of socio-cultural dynamics. The international regime reiterates for global cooperation. The states at international level are required to extend maximum mutual cooperation to other states
in order to curb such crimes. This could be achieved by exchanging information related to money laundering crimes and doing away with unnecessary restrictions by the financial institutions and other state parties. 49

2.5 Negative Externalities of Money Laundering

Money laundering adversely affects all the legitimate stakeholders of national and international system. It results in economic volatility, social conflicts, political instability and administrative chaos. With increased globalization of the financial system, money laundering has transformed into a lethal operation affecting every society and financial system throughout the world. 50 Different researchers and organizational studies pointed out that following problems are caused by money laundering and terrorist financing.

(a) Economic Effects

Following are some of the major effects of money laundering:

(i) It undermines the genuine private entrepreneurs. 51 The criminal are prone to use their front men or front entities to confuse their criminal proceeds with legitimate funds. It is pertinent that the front men or criminal gangs have the capacity to crowd out and undermine the genuine business entrepreneurs;

(ii) There is a likelihood of the economic, monetary or financial policies of a country being undermined by such criminal activities 52.

(iii) It brings about economic crisis coupled with political and economic instability 53 by channeling criminal funds to sterile investment;
(iv) this also results in the loss of revenue generation compelling the governments to over burden the legitimate businesses and marginalized individuals by overtaxing them;  

From the above, it can be easily inferred that money laundering destabilizes economy of the country, causes financial crises and encourages criminals. It increases corruption both at national and international levels and becomes a potential damage to the reputation of financial institutions and markets. It not only increases the flight of capital and international financial market instability but also discourages foreign investments, destabilizes financial markets, weakens financial institutions, creates volatility in the equity market, encourages tax evasion culture, and undermines the process of democratization in developing countries.  

From these causes, it can be easily inferred that money laundering destabilizes the entire fabric of society and gives birth to numerous crimes.

Money laundering badly affects the financial institutions which are considered engine of economic growth. The sudden capital flight gives birth to liquidity problems. When the withdrawal becomes larger than the funds invested in the safe asset the financial institution would be driven towards liquidation. The penetration of money launderers into financial institutions undermines their credibility and capacity. The interests of all stakeholders are damaged because of vulnerable financial institutions. In this regard Basel Committee on Banking Supervision, has particularly mentioned about reputational, operational, legal and concentration risks.
(i) **Reputational Risk**  
Reputational risk signifies the potential that damages a bank's reputation with regard to its business practices and associations. It is the integrity of a bank which attracts the customers with confidence. This confronts the financial institution with a potential threat as the confidence of depositors and creditors is shattered and the bank also earns a bad name in the marketplace. Money launderers pose a significant threat to a bank's reputation as they become easy victims of their malicious activities, which demand an extra vigilance of the banks to thwart such criminal activities.  
So the reputation of a financial institution plays a vital role for its growth and progress. This is why, the management experts have always attached great significance to the reputation of a financial institution which makes or mars its viability and soundness. A bad reputation erodes trust and confidence of all the stakeholders.  

(ii) **Operational Risk**  
A direct or indirect loss that may occur owing to insufficient and poor internal processes and controls is termed as Operational Risk. Therefore, operational risk is multiplied if the financial institution does not properly identifies customers and ignore requisite diligence. So it is necessary for financial institutions to make their operations under strict control and vigilance in order to avoid any mishap on part of money launderers. The operational risks can be overcome through an effective internal control devising various mechanisms and tools.  

(iii) **Legal Risk**  
According to the Bank for International Settlement (BIS) Legal risk indicates to the likelihood of any litigation or resultant unfavorable judgments carrying adverse
consequences for the different stakeholders of the bank. It may cause a huge loss of assets or viability of a bank. This often results owing to the poor application of KYC standards offering a room for penetration into banking operations to the money launderers and other criminals. “Indeed, a court case involving a bank may have far greater cost implications for its business than just the legal costs. Banks are unable to protect themselves effectively from such legal risks if they do not engage in due diligence in identifying their customers and understanding their business”. The increasing litigations and losses of the banks call for due vigilance and diligence by the banks managements to avoid access of criminal elements to use banks as vehicles to achieve nefarious designs. Given the present scenario of banking sector international and the national regulators are increasingly trying to ensure compliance with the KYC guidelines given by BIS. In case of Pakistan, the legal issues are on the rise because of the introduction of freedom of information, judicial activism, and rising awareness among the banking customers.

(iv) Concentration Risk

It is a situation wherein few clients of a financial institution have access to most of the assets or contribute significantly to the liability side of the balance sheet. In the present scenario of internationally prevalent money laundering syndicates, the potential risk of sudden huge withdrawals and flight of capital can play havoc with the soundness and viability of a financial institution. According to BIS, Concentration risk often relates to the assets as well as the liability sides of the balance sheet of a financial institution. The bank supervisors and regulators have prudential regulation so that banks should be restricted in terms of exposure to a single major borrower or a company. Banks only
measure its concentration risk by exactly knowing its customers and their relationship with the institution. The liability side of the balance sheet of a financial institution is equally important. The Management plans for investments and development of assets on the basis of its deposits i.e. liability of the bank. The management of concentration risk on the liabilities side requires that financial institutions should ensure proper identification of their clients, so that criminals may not have access to these institutions for their ulterior motives. It is relevant here to note that smaller financial institutions with weak balance sheets are particularly vulnerable to the whims and machinations of criminals who can cripple them by sudden huge withdrawals of funds or defaulting on huge borrowings. So it is necessary for banks to have good understanding of their depositors’ strengths and weaknesses. Thus it necessitates for the liabilities managers in small financial institutions to have an in-depth knowledge of their clientele and a fostering of relationship on the guidelines of KYC. The concentration risk can be avoided by following prudent polices by the banks. The stability of financial institutions largely depends on these mechanisms because they over come and avert risks. A wise anti money laundering strategy and compatible anti money laundering measures prevent a state and its institutions from basket of crises. Money laundering causes institutional failure and subsequently damages customer trust. This situation further creates problem of credibility and its legitimacy. Customer trust is sin-qua-non for the growth and stability of financial institutions and financial institutions are engine of economic growth. Keeping in view the dynamics of this issue it can be inferred that customer trust is social capital for the financial institution which is intelligently transformed into real asset for long term development.
2.6 Other Negative Externalities

Economic development is adversely affected by the crime of money laundering and terrorist financing. Criminal culture is patronized by money launderers for their vested interests. Criminals also gather strength and utilize financial and non-financial resources according to their sweet will. The mafia creates monopolies in local enterprises, controls entry and maximizes revenue by extracting monopoly profits protection payments; discouraging new investment and old investment is driven out. \(^6^3\) The provision of unlawful goods and services is normally undertaken by organized criminal activities e.g. gambling, loan sharking, narcotics, etc. \(^6^4\) Criminal transfer resources from public priority sectors to non-productive sectors. It has also been highlighted by Bartlett who viewed non-financial institutions involvement in the process of money laundering and considered this investment sterile and non-productive i.e. investment in properties, antiques, art, unique paintings, precious stones, fashioned ornaments, and luxury goods because of its lower marginal economic productivity. \(^6^5\)

In the present era of globalization every state wants to promote its geo-strategic and politico-economic stakes. This state of affairs also lead towards increasing international interaction. In this regard Truman and Reuter have succinctly stated that “with the increased globalization of the financial system, money laundering has evolved into an activity affecting societies and financial systems everywhere in the world.” \(^6^6\) The existence or support of money laundering activities leads towards global annoyance by the comity of nations and regulators of international economy. In this regard if any country enters into the list of non-cooperative countries or name and shame list then it has to suffer economic, political, social and institutional loss. This also leads towards loss of
reputation and erodes customer confidence. Reaction of international community can isolate any state and may damage a country economy by flight of capital, hesitant foreign investment and trust deficit environment. All the countries are in pursuit of increasing and protecting their national interests therefore lack of proper implementation of anti money laundering policies can result in severe reaction from international actors with global interests.

2.7 Sources of Dirty Money

The study of money laundering and its relationship with dirty money reveals that there is a symbiotic relationship. The prevalence of dirty money varies from region to region. This also has a strong link with legal system and its legitimacy in the eyes of public. Social system and social institutions also play their role in the existence or non existence of dirty money. Fraudulent practices are an important source of dirty money. In some regions banking robbery is rampant and considered significant source. Gambling also generate huge amount of dirty money. Like wise smuggling is important source of dirty money in those regions where there are loopholes in the legal and administrative system. Various type of criminal activities including cyber crimes, embezzlement and drug trafficking are sources of dirty money in those society where writ of government is doubted. In the developing world human smuggling, terrorism and gun running are considered a huge source of dirty money. Financial crimes and white collar crimes are committed by people in the technological transforming societies to generate criminal funds. Bogus trade transactions related to import and export or its under or over invoicing is also cause and effect of dirty money. Although all the source of dirty money are dangerous for the society and human welfare yet some are more lethal with global impact.
while the other are considered less poisonous. The criminals involved in such heinous crimes try to conceal their identity and assets from legal authorities. Lack of standard system to identify criminals and weak application of KYC guidelines at the time of account opening may provide an opportunity to the money launderers to exploit the banks weaknesses to achieve their obnoxious designs. In order to have control over money laundering, it is necessary that these sources may either be eliminated or some mechanisms adopted to decrease the amount of their larger activities. Some of them are discussed as under:

(a) Narco/Drug Trafficking:

The world is confronted with a very serious drug abuse dilemma. Drug trafficking and its abuse along with its related problems continue to haunt the world at large. This problem is inextricably linked with other criminal syndicates which put at peril the stable environment of human society and existence of sovereign states, because drugs producers and sellers flourish on the principle of pareto-optimal allocation of resources. According to the UN estimates in1987, the drug trafficking proceeds were in excess of US$ 300 billion.

The drugs traffickers believe in inhuman philosophy and inflict inhuman miseries to innocent human life. This criminal business has a large domestic and international drug market, accruing significantly large profits to the drug peddlers and drug barons. The proceeds of drugs vary from region to region. “Drug Trafficking is frequently linked to other serious crimes such as people smuggling, organized prostitution and travel document counterfeiting. It is often cited as a means to finance the more violent and destructive activities of criminal and terrorist organizations”. United Nations Office on
Drugs and Crimes (UNDC) is actively engaged in getting rid of this menace. Illicit drugs trafficking brings about huge monetary proceeds which enables criminal gangs which results in the penetration into, contamination of and corruption of different state institutions at various levels. This is a major source of illicit money for money launderers. Because of unimaginable gain, the business has become so strong that despite strict measures and policies by various states, it is uncontrollable and making its way through. This vicious activity needs to be curbed at all levels and it is only possible when masses at large are taken into confidence to cooperate with the states for elimination of this global evil.

(b) Smuggling of Contraband

Despite global efforts to root out the evil of smuggling, considerable smuggling of contraband still takes place. Smuggling varies from society to society but usually includes luxury goods, electronic appliances, gun running, gold, weapons and currency. The proceeds from smuggling are one of the major sources of black money and has negative effect on the socio-economic life of people.

(c) Criminal Activities:

World is witnessing sophisticated manipulation of criminals. Organized crime is a major source of black economy. Bootlegging, gambling, loan-sharking, prostitution, drug trafficking, arms trafficking, smuggling, extortions/racketeering activities of all types, kidnapping for ransom, contract killing, trafficking in human beings (women, children, immigrants/labor) and counterfeiting of goods and currency are the types of crimes in which organized-crime gangs generally indulge. This creates a vicious cycle of crimes. At international level, organized criminal groups play a vital role in promoting and
strengthening this vicious activity. According to United Nations such organized criminal group means “a structured group of three or more persons, acting in concert with the aim of committing one or more serious crimes or offences to obtain, directly or indirectly, a financial or other material benefit.”  

(d) Corruption

Proceeds from corrupt practices, fraud or criminal misappropriation in the government/public, commercial, banking and corporate sectors also contribute to black economy. The United Nations Manual on Anti-Corruption, the Transparency International and the multilateral financial institutions like the World Bank and Asian Development Bank define corruption as to “abuse public office for private gains”. Developing as well as developed world is victim of this malaise. A study by World Bank in 2004 estimated that US$ 1 trillion is spent annually on bribes in developing and developed countries, not including embezzlement or other costs incurred. Corruption is not only a national problem but an international one. Corruption causes breach in the social order and emerges as a potential threat to the prosperity, peace and stability of human civilization across the globe.

The Global Corruption Report 2007 draws the conclusion that a dishonest and corrupt judicial system undermines the capacity and will of the global community to take effective action against criminals and fail to provide protection to individuals. Corruption in the state institutions erodes the legitimacy of administrative, legal, financial and legislative institutions of the state. Thus money laundering adversely affects all these institutions.
(e) Terrorism

Terrorism has become the biggest threat to the international political and economic systems. “Terrorism poses a grave threat to individuals’ lives and national security around the world”. \(^{82}\) It also disrupts normal life, industries cease to function, trade and commerce shows a sharp decline, and the transportation of goods becomes minimal. \(^{83}\) Funding of terrorist organizations takes place in numerous ways. The most common form of funding to which terrorists resort are extortions, kidnappings for ransom and various types of the crimes which would result in large profits. \(^{84}\) Terrorism generates a lot of black money in the world. It has become the most destabilizing factor for societies. New and innovative means have been adopted by terrorists to threaten the states’ sovereignty and integrity. The links between money laundering and related crimes are illustrated by the following diagram.

Diagram 2.2

[Source: Collected through various sources and thus developed on my own]
The above diagram clearly brings out different methods of money laundering and its impact on financial institutions like banks and other such institutions. It also shows how funds generated through criminal activities are manipulated by different interest groups.

2.8 Principal Methods of Money Laundering (Modus Operandi of Launderers)

One of the greatest concerns of criminals today is to legitimize the proceeds of their crime—the process also called money laundering. The principal methods of money laundering detected or suspected include:-

(a) Misuse of banking and financial Institutions, (b) Off shore Companies, (c) Bearer Investment Schemes, (d) Hawala/Hundi (users are both genuinely cost saver poor expatriates and criminals e.g. smugglers/terrorists etc because of undocumented transactions, (e) Concentration of assets in properties, (f) Purchase of luxurious Items, (g) Foreign Trade manipulations, (h) Bogus imports and exports, (i) Fictitious loaning Techniques, (j) Manipulation of Prize bonds. In Pakistan, prize bonds with face value of Pak Rs.200, Rs.750, Rs.1,500, Rs.7,500, Rs.15,000 and Rs.40,000 are also being used for many purposes. The scheme offers prizes drawn on quarterly basis. (k) illegal currency transfer, (l) utilization of hotel, casinos and other businesses etc (m) Smuggling of gold and other precious stone, (n) Use of Shell Companies, (o) Gambling and betting (p) Underground banking services/alternative remittance systems, and (q) Trade-based money laundering (false invoicing). These methods are so deep rooted and complex that it is not easy to locate the money launderers’ notorious activities. All of these methods perform the business of money laundering in disguise.
2.9 Abuse of Non-Profit Organizations (NPOs)

There is also a strong chain of non profit organizations in different parts of the world. Various charitable, commercial and political organizations are exploited to muster financial and non financial support. The resources collected by these entities can be used for financing terrorism. These organizations also use different financial instruments to conceal the source and consequent use of generated funds. Similarly, other methods of using companies, trusts, nominees, third parties in name only are also used to conceal the illicit money. At times, false identification is also used in cases of money laundering and terrorist financing. Some works suggest that professionals like legal expert, financial and accounting experts and professional brokers etc., can be used by the money launderers. They not only act as a conduit but also provide tools to set up more sophisticated schemes for money laundering. The internet also facilitates money launderers. It has been suggested by various studies that for the purpose of money laundering a mixture of methods is applied to make it more difficult to detect cases. Despite technological revolution Telegraphic Transfer mechanism for the movement and disguise of funds is frequently used by dubious organizations. Wire or Telegraphic Transfer is considered safe and quickest mode of funds movement. An evaluation of money laundering cases reveals that telegraphic transfers has frequently been used by the groups having stakes in crimes like drug trafficking, fraudulent activities with banks, tax evasion, human trafficking, criminal gangs, terrorist and smugglers. The Financial Action Task Force has shown great concern with regard to the linkages between Not for profit organizations and their role in financing of terrorism. likewise, it has also highlighted risks attached with the gate keepers like lawyers and accountants.
2.10 Financial Institutions And Money Laundering

The process of cleansing involves financial institutions. The strong financial institutions by having adopted strict methods and mechanism to control money laundering can ensure stable and sound financial system. “A review of money laundering typologies consistently indicate that banks, equity markets, and non-bank financial institutions (NBFIs), such as insurance companies, are a favored means of laundering illicit funds both internationally and within developing countries”. ⁹⁷ The major techniques and tactics used by the money launderers have been well documented and recorded after the initiatives of Financial Action Task Force on Money Laundering (FATF). Money launderers are using sophisticated and complex methods to evade anti-money laundering measures introduced by the world community.

2.10.1 Banking System

The banking system is the most important engine of economic growth of a country. However, these banks can be used as a significant channel by the launderers. Financial institutions and particularly banks are used as the means for laundering money.⁹⁸ Money laundering erodes credibility of financial institutions, undermines their financial soundness and weakens their developmental role.⁹⁹ In different stages of money laundering, money keeps on moving. Banks are particularly misused by launderers in layering stage. ¹⁰⁰ It is done through the use of banking financial instruments like, demand draft, travelers cheques, mail transfers, wire transfers and pay orders etc. In the present age of electronic banking, launderers can also use SWIFT, CHIPS, CHAP, ATM, Debit and Credit cards to transmit funds domestically and internationally. The banks are
also used by money launderers through establishment of loan back tricks. Different types of bank accounts e.g. fictitious, numbered, walking etc are utilized by the criminals.

As a consequence of FATF efforts, banking institutions have adopted anti money laundering measures due to which it has become difficult for launderers to abuse it. The implementation of countermeasures like know your customer (KYC) and reporting of suspicious transactions are the mandatory precautions for banks. Despite all these measures “financial institutions could be involved in financial crime as victim, as perpetrator, or as instrumentality”. 102

2.10.2. Non-Banking Financial Institutions (NBFIs)

Banking system in most of the countries has become well regulated due to international efforts, the money launderers take advantage of other loopholes by using non-banking financial sector. The launderers have shifted trend to use non-banking financial institutions, which are relatively less regulated and do not have that much requirements like that of financial institutions. In order to have safe sailing money launderers divert their resources to unregulated or poorly regulated institutions and bodies. They can avail the services of stock markets, insurance companies and fund management organizations. As noted by the FATF, launderers can use security trading for cleaning the dirty money. “Banks, insurance companies, non banking financial institutions, investment companies, money transmitters and real estate agents are all targets for money launderers”. 105

2.10.3. Alternative Remittances Systems/Hawala

It is a type of informal transactional system. According to Financial Action Task Force Alternative remittances system (ARS) is financial mechanism that transfers value of
money from one geographic place to another which is generally done through unregulated and informal channels.\textsuperscript{106} It has multiple uses and complex dimension. Internationally \textit{Hawala} or \textit{Hundi} is considered vulnerable for the money laundering purposes. It is used for legitimate as well as illegitimate purposes. Legitimate purposes having genuine and need based requirements are lesser as compared to illegitimate uses of \textit{Hawala} or \textit{Hundi} for the purpose of terrorist financing and allied financial crimes. The operators of the system have strengthened it to the extent that it is preferred over public sector financial institutions and other modes of payments. The main reason is the trust on \textit{Hawala}, making the system extremely efficient.\textsuperscript{107}

Keeping in view the probability of ARS in money laundering, FATF took strict measures. It emphasized that every state must take measure and ensure “that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions”.\textsuperscript{108} Like alternative remittances, wire transfers are susceptible and vulnerable to money laundering and terrorist financing. FATF requires of the member states to make their financial institutions adopt \textit{comprehensive procedures and mechanisms} so that money remitters and beneficiaries names, address and account number should be properly documented. It would enable them to monitor suspicious transactions and ensure close watch on the money transfers.\textsuperscript{109}
The adoption of FATF measures can enable regulators to trace money launderers. Besides above mentioned methods, the money launderers have put to use the modern banking system and tools like international electronic funds transfers; by circumventing the countermeasures for money laundering. As discussed, shell and front companies can also be misused to conceal the ownership of funds and identity of the originators and money launderers.  

Money laundering is a complex problem. It is a product of serious crimes. Money generated through all the criminal activities including fraudulent practice, smuggling, corruption, cyber crimes, narco trade and trade manipulations is laundered in order to give it a shape of clean money. Money laundering is an international problem and causes a whole plethora of socio-political problems. It affects the geo strategic interests and economic policies and priorities of all the national, regional and international stakeholders. It has a lot of financial implications. Keeping in view the global nature of the problem, global efforts have been initiated to counter this threat and the role of international financial institutions is very pivotal. The next chapter is focused upon discussing the mechanisms and standards set by the international anti-money laundering regimes to combat money laundering.
END NOTES

8. Ian Roberge, op.cit., p.198.
19. Ibid, p-4
25. Ibid., Section 3(b)
31. Ibid.
33. Ibid, Recommendation No.1
38. Ibid.,
43. P. Lilley, op.cit., p.53.
44. Peter Reuter and Edwin Truman, op.cit., p.74.
47. Financial Action Task Force (FATF) and United Nations Organization (UN) are specially engaged in this process.
49. Ibid.,
50. Peter Reuter and Edwin Truman, op.cit., p.171.
51. For detail see Kenroy Dowers and Sabine Palmreuther, op.cit., p.
52. Ibid.,
53. Ibid.,
54. Ibid.,
59. Basel Committee on Banking Supervision, Customer due Diligence for Banks, op.cit.
60. Ibid.,
61. Ibid.,
64. Ibid.,
66. Reuter and Truman, *op.cit.*, p.171
67. Ibid.,
69. Ibid.,
73. Rick Mc Donell, *op.cit.*
74. Interpol Drug and Trafficking Fact Sheet, op.cit.,
82. *Interpol Terrorism Fact Sheet, op.cit.*
84. Ibid, p.30.
89. Ibid.,
90. Ibid.
91. Ibid, p-12
92. Ibid.
93. Ibid.,p14
94. Ibid, p15


103. Ibid.

104. Ibid.

105. Ibid.


108. Ibid.

109. Rick Mc Donell, op.cit., p-7

CHAPTER-3
INTERNATIONAL ANTI-MONEY LAUNDERING REGIME
AND
ITS EFFECTS ON MONEY LAUNDERING

As discussed in the previous chapters the enormity of the problem of money laundering poses a grave risk to the international financial system. Given the urgency and scope of this issue, international financial institutions and financial experts have come up with certain regimes and strategies to counter the problem of money laundering. As we proceed with the theoretical perspective of anti money laundering regime, Kenroy Dowers and Sabine Palmreuther, \(^1\) have referred to two schools of thought having somewhat opposing approaches but unified objective of countering money laundering due to the destructive impact of money laundering on international financial systems and economic stability of various states. The money launderers accumulate and divert resources from healthy, productive and development friendly sectors to sterile investments, socially destructive and economically disruptive sectors, having national and international negative implications, through their evil machinations and corrupt practices.\(^2\)

According to the other school of thought with regards to the issue of money laundering, certain economies or offshore centers provide safe heavens for money launderers by putting in place certain strict regimes and regulations to protect the secrecy and for the security of the money launderers. However, the money laundered is an offshoot rather than a deliberate attempt of the regulatory mechanisms of the offshore economies.\(^3\) Both schools of thought have some different point of views regarding money laundering.
According to Petrus C. van Duyne,⁴ ‘one of the central questions in the whole laundering issue is the alleged infiltration of crime money into the healthy fabric of our trade and industry, corrupting and eroding the supposed integrity of our bankers, builders and jurists or whoever touches it.’

The process of money laundering is so complex that without adopting a fool proof mechanism on global basis, it is quite impossible to eradicate or reduce this menace. It has become a global problem by intensity, volume, impacts and geographical expansions.⁵ Because of the increased globalization of the financial setup the crime of money laundering is adversely affecting all the states and societies of the international community.⁶ Since money laundering and terrorist financing have surfaced as a critical issue for the international community, it is quite difficult for a single country to cope with them on individual basis. The money launderers and terrorist financiers move on cooperative basis being well knit, therefore international cooperation is a necessary component not only to decrease the vicious activities of both the money launderers and terrorist financiers but also to eliminate them from the roots. In order to combat these crimes, numerous efforts have been made on international front to set standards and codes. It is necessary for all member countries of the world community to comply with these standards to meet the challenges posed by money launderers and terrorist financiers. The success and effectiveness of anti-money laundering scheme on part of any country solely depends upon its compliance with the international standards to combat these activities.⁷ So cooperation on international front becomes essential, if we want to root out the problem of money laundering. The question arises as why terrorist financing and money laundering have become so destructive? The simple answer is the fact that
both are capable of ruining the economies on global basis. Once the financial institutions have been destabilized, so many other crimes take place in such societies which not only weaken them but also break the entire fabric of these societies. The heavy volume of international flow of capital and its significance for the economies and its resultant implications in the international money market has also highlighted the weakness of crisis ridden international financial system. No doubt that globalization brings so many advantages for all the member states but at the same time it has disadvantages as well. In order to overcome this problem, there emerged a dire need to strengthen the architecture of financial system by the active participation of the societies of global village. This is why; the international regulators have decided to introduce mechanisms to secure the international financial system.

The term ‘international regime or regimes’ indicate to those international organizations meant to control and eliminate the problem of terrorist financing and money laundering. At places, international actor/actors denote the same meaning. There are other international organizations too, which in addition to their original agenda and objectives have decided to include anti-money laundering and anti-terrorist financing as the points of priority. So these regimes by one way or the other govern financial system by multiple techniques and methods. These regimes ensure standard practices, uniform rules and global code of conduct to control the problem of money laundering and terrorist financing. These regimes comprise two groups of international organizations. Type one was basically founded with multitude of functions and subsequently included anti money laundering e.g International Bank For Reconstruction and Development, United Nations Organization, International monetary fund, Interpol etc, while the second group of
organizations and bodies have been established to attain the targeted function of controlling money laundering and terrorist financing e.g financial action task force, FATF style regional bodies, wolfsberg group of banks and Egmont group etc.

In order to comply with the laid down standards and norms on the part of international actors, governments have entered into agreements with the international community which aim to make financial transactions more transparent and outlaw certain kinds of financial activities.9 Because of the intensity of the menace, the United Nation (UN) directed each member state “to develop and promote global, regional, sub regional and bilateral cooperation among judicial, law enforcement and financial regulatory authorities in order to combat money-laundering”.10 The directive of the UN is clear indicator to the fact that vicious activities of money laundering and terrorist financing can be controlled, reduced and even eliminated provided there is cooperation and efforts on individual as well as collective basis. In this age of globalization, the economies are so closely woven together and dependent upon each other that there is need of coordination and cooperation to pursue key policy objectives at some supranational level.11 The international regimes cannot achieve the desired objectives without having cooperation from other states and financial institutions. These state and non-state actors perform the functions of anti-money laundering and anti-terrorist financing at international level.

3.1. Strategies to Combat Money Laundering

International anti-money laundering regimes have adopted multi-pronged strategies to combat money laundering. The international regimes are making efforts to make the financial transactions that transparent and safer that they serve the interest of stakeholders as well as the country concerned. To achieve these objectives, FATF, with the active
support of IMF and other international organizations developed mechanisms to stop and deter the crime of money laundering. In 1998 FATF persuaded all the countries to participate in anti money laundering drive otherwise money laundering would be flowing “quickly to the weakest point in the international system”.12 The emphasis of FATF since 1989 is that there should be cooperation and coordination from international community if the vicious circle of money laundering is to be eliminated. The compliance with FATF recommendations can only be met with provided there is uniformity of laws in each country to combat money laundering. In case, there is weakness on the part of one state, its weak financial regulations can also be harmful for policies adopted by foreign banks and their role in money laundering.13 This is two way traffic and mutual cooperation, coordination and monitoring for all states becomes essential and mandatory if money laundering is to be rooted out. The strategy of international regimes to curb money laundering and financing of terrorism is designed to: (a) target and weaken the economic strength of criminals or terrorist organizations and individuals to make them weak enough so that they can not benefit or abuse the illicit proceeds, and (b) prevent the obnoxious impacts of their illegitimate wealth on the legal economy.14 It means that the bases of criminal and terrorist organizations are to be destroyed completely with a view to prevent them from benefiting the illegal money besides legal economy is saved from criminals proceeds. For this purpose, intensive cross border “cooperation and coordination are needed to thwart the efforts of criminals and terrorists”.15

The international regimes wish to have two types of cooperation from the states i.e. direct and indirect.16 The direct cooperation is attained by ensuring real time assistance from states and financial institution to detect and comprehend the criminal related to money
laundering. Indirect cooperation relates to awareness, mutual interaction of financial and regulatory institutions in pursuit to global consensus on the issue of anti money laundering and anti terrorism financing. The aim of international regimes is to detect, deter and destroy the criminals involved in money laundering and terrorist financing. One can easily understand the letter and spirit of strategies adopted by international regimes through Global Program against Money Laundering (GPML) which assists the “governments in confronting criminals who launder the proceeds of crime through the international financial system. The GPML provides assistance to governments, law enforcement and financial intelligence units with anti-money-laundering schemes; advises on improved banking and financial policies and assists national financial investigation services. Strategies include granting technical assistance to developing countries, organizing training workshops, providing training materials and transferring expertise between jurisdictions”.17 These strategies enable developing countries in particular to prepare them for fighting against money laundering activities. Anti-money laundering strategy also includes issuance of standards, publication of Non-Cooperative Countries and Territories (NCCT) list, and conducting research and analysis.18 The compliance with standards set by international regimes, awareness of those states which are not cooperating to confront the challenge and research and analysis are those tools which help member states to overcome the problem of money laundering and terrorist financing. It is the fast changing world and without research and analysis, it is difficult to eliminate those ills which are destined to ruin the economies of states. Gresham Law very rightly states that ‘bad money drives out good money’19 and demands comprehensive measures. This clearly indicates the devastating economic consequences of money
laundering and terrorist financing. To counter this with full vigour have to be the topmost agenda of the international community as it can also facilitate the process of the liberalization policy.\textsuperscript{20} International regimes with the support of developed and developing countries are active for anti-money laundering measures. It may be noted that political actors of each country and particularly of developed economies are deeply interested in minimizing the crime of money laundering so that the criminal impact can be reduced inside their jurisdictions.\textsuperscript{21} So cooperation and understanding between various political actors is an essential element for successful implementation of the strategies and measures adopted by international regimes for combating money laundering.

### 3.2. Counter Measures

The strength of any financial system and institution heavily depends upon the mechanism and measures it adopts for transparent transactions and transfer of money within and outside the country. In case of weak mechanisms and measures, the criminals can have advantage of prevailing and attaining their objectives. Money laundering has become a reckonable threat to all the stakeholders of international system. This high level of threat lead towards collaborative efforts of all the national and international actors to meet this challenge of combating money laundering. International regime is enhancing its role by focusing on anti money laundering measures. Various entities and organizational bodies playing their role in counterering money laundering and terrorist financing are financial action task force (FATF), International Monetary Fund (IMF), International Police Organization (Interpol), international organization of securities commissions (IOSCO), the United Nations International Drug Control Program (UNDCP), the World Bank, International Association of Insurance Supervisors (IAIS), the Egmont Group, and
Wolfsberg Group. The joint efforts by all these giant organizations in fact indicate to a grave danger of money laundering. It means it is a complex problem and needs comprehensive measures to combat money laundering and its causative agents. The truth of the matter is that implementation of these mechanisms and measures along with strict vigilance and monitoring is necessary. All these organizations become meaningless, if coordinated efforts are not there to oversee the activities of criminals along with executing mechanism to curb and destroy their bases, activities as well as their movement from one corner to the other. In this regard, international regimes musters formal and informal cooperation of states and institutions through different convention, agreements and code of international practices to curb this menace. These contracts, conventions and codes cover financial aspect, regulatory mechanism, legal issues and monitoring and enforcement of anti-money laundering measures. On the basis of exchange of information and adoption of mutually agreed codes, member states ensure full cooperation and assistance with regard to legal assistance and its prosecution. All such activities create a strong network which facilitates and protects interests of all the stakeholders. The important international organizations involved in anti-money laundering and anti-terrorist financing are discussed below.

3.3. Financial Action Task Force on Money Laundering (FATF)

The creation of the Financial Action Task Force (FATF) in 1989 by the G-7 states was the first strategic institutional step of the international community to combat the problem of money laundering. FATF is responsible for the formulation of policies and strategies by engaging expert on legal sector, financial sector and regulatory sector to ensure the convergence of international anti-money laundering and combating the finance of
terrorism strategies. It is considered as international safeguard for anti-money laundering and anti-terrorist financing. FATF performs its functions along with other members of international bodies and organizations. FATF performs following three fundamental functions:-

1. Monitors and evaluates the progress of the member countries in the implementation of anti-money laundering initiatives;

2. Undertakes appraisal of laundering tendencies, methods and anti-money laundering measures; and reporting to the relevant authorities and

3. Ensuring the promotion, projection and enforcement of FATF anti-money laundering principles internationally.

In this regard FATF has introduced Forty Recommendations which comprise an elaborate mechanism for implementation by all the countries. The key recommendations of FATF aim at criminalization of Money Laundering, confiscation and seizure of laundered funds, reporting of suspicious transaction, record keeping requirements, customer identification, due diligence, internal controls, international cooperation, establishment of FIUS, Ratification and implementation of UN conventions and criminalization of terrorist financing. These recommendations comprise agreed global standards against money laundering and terrorist financing. The recommendations were revisited in 1996 in view of the global changes and change in the trends, methodologies and techniques of money laundering. After 9/11, FATF expanded its mandate by issuing nine special recommendations to deal with issues relating to terrorist financing. The updated version of these recommendations was published in October 2004. The FATF standards “have been endorsed directly by more than 150 jurisdictions around the world,
as well as by the Boards of the International Monetary Fund (IMF) and the World Bank (WB) and their importance has been noted by many international bodies”.29

3.3.1 FATF Objectives and Task

Major objectives of FATF are focused on the establishment of international standards to combat money laundering and terrorist financing; to encourage and monitor the implementation process; to pinpoint and track the threat of money laundering and terrorist financing; and to ensure information sharing with all the international stakeholders.30 One of its “functions is to review and report on money laundering trends, techniques and methods (also referred to as typologies)”.31 To combat money laundering, the FATF works in close cooperation with other international, regional and national organizations.32 It enables FATF to have consensus and global support to enforce its Anti-money laundering and anti terrorist financing policies. The FATF is having close cooperation, deep understanding and sustained partnership with these organizations so that global approach can be adopted to eradicate this menace. With the objective to have global coverage in 2006, FATF has 8 FATF styles regional bodies to perform a leading role in relevant regions.33 FATF is having a holistic approach towards fighting the threat of money laundering and terrorist financing. This approach includes developing recommendations, ensuring global networking, cooperation and association with all the important global actors, evaluation of anti money laundering and anti terrorist financing measures and publishing of non conformist list.34 In the light of recommendations, FATF is considered to be standards setter for anti-money laundering and anti-terrorist financing. These recommendations are considered global standards by IMF, World Bank, UN, regional organizations, Egmont groups, Wolfsberg group and other countries.35 The
FATF policies and principles enjoy the support and approval of 150 jurisdictions, the International Monetary Fund (IMF), the World Bank (WB) along with other international actors.\textsuperscript{36} The recommendations of FATF clearly indicate that the organization is committed to eliminate money laundering and terrorist financing. The objective can only be achieved through mutual cooperation and support of all the countries as well as financial institutions. It may, however, be added that cooperation of other international organizations is essential to attain the desired result.

Since money laundering and terrorist financing are global issues, both need to be tackled with international cooperation. FATF has backing of UN as the UN Security Council Resolution 1617 (2005) has emphatically urged all member countries “to implement the comprehensive, international standards embodied in the FATF Forty Recommendations on money laundering and the Nine Special Recommendations on terrorist financing”.\textsuperscript{37} This approval of Security Council has increased the global significance of the FATF standards besides assurance of global cooperation.\textsuperscript{38} Vienna Convention 1988 and Palermo convention of UN 2000 also substantiate the global anti money laundering efforts of FATF.\textsuperscript{39} The FATF and the international financial institutions are continuously making efforts to co-ordinate their activities closely so that anti-money laundering measures can be implemented and its evaluations and assessments can be ensured in true letter and spirit.\textsuperscript{40} While looking at the serious efforts on part of all international organizations and financial institutions, it seems that money laundering and terrorist financing are much forceful forces having the capacity to destroy societies and communities. Without cooperation and coordination at all fronts, it seems quite impossible to reduce or eliminate these threatening problems. It is therefore necessary
that efforts of FATF and such other organizations are not only provided cooperation but strengthened as well to combat these problems. For this purpose, FATF since 1990s has initiated joint efforts to achieve the desired objectives. Although the world has become a global village by virtue of advancement of technology yet it is divided into different regions. The mechanisms and techniques adopted by money launderers are unique and vary from region to region. One region may not have full knowledge of the techniques and tools adopted by money launderers of the other region. In order to solve this problem, different FATF-style regional bodies after 1990 have been established to complement the efforts of FATF and to develop mutual understanding among various regions.\textsuperscript{41} The benefit of these regional bodies is that they not only comply with set standards of FATF but also conduct mutual evaluation of their member countries for implementation of measures and standards to curb money laundering.\textsuperscript{42}

Money laundering is a multifaceted problem and can be handled only if the techniques and methods adopted by money launderers and financiers of terrorism are properly identified and understood. This will enable the FATF and other FATF style regional bodies to come up with counter techniques and methods to cope with the activities of this organized crime. Annual Typologies Reports of FATF and FATF-style regional bodies are important step in this direction. These typologies reports, in fact, present together the methods and techniques to counter money laundering and terrorist financing.\textsuperscript{43} Since the typology reports are prepared on the basis of research, analysis and mutual collaboration, it is easy to understand that what techniques should be adopted by a particular region to eliminate the problems of money laundering and terrorist financing. With the view to have a global approach for properly taking preventive measures, the FATF established a
Working Group on Typologies (WGTYP) in 2004. This has proved to be useful for all countries as typologies describe and explain the nature of the money laundering and terrorist financing threats for which appropriate methods and techniques can be prepared to maximize the global resistance to these activities and there by increasing the likelihood of their detection through these techniques.

In order to ensure that recommendations of FATF are complied with strictly by the member states. FATF, FATF-style regional bodies and World Bank not only monitor but also assess the effectiveness of the standards being followed. The Evaluation is based on a set of standardized questions and assessment made on the basis of answers given. To ascertain the realization of the intended results regarding money laundering by every member state, it has to undergo an impartial evaluation and assessment by other member countries. This monitoring and assessment process enables international regimes to know any loophole or deficiency in the enforcement of Anti Money Laundering (AML) measures. This is a useful exercise in the sense that deficiencies are removed and standards are revised where it is required.

3.3.2 FATF Strategy for Non Compliant States

Global compliance is necessary for ensuring complete compliance of anti money laundering measures. The FATF adopted a mechanism by publishing the list of non-compliant countries since 2000 and the first list included names of significant jurisdictions. This technique has worked well and identified non-compliant jurisdictions are being stigmatized “all 23 jurisdictions that were identified in 2000 and 2001 are no longer on the NCCT list” of 2006. This is an indicator of the keen interest on part of all jurisdictions that they have followed FATF suit to adopt anti-money laundering
measures. Another indication to the fact is that money laundering is considered the most dangerous element to ruin financial institutions of states and as such every jurisdiction is extending its cooperation to FATF and other international regimes working on this agenda.

In addition to NCCT list, the FATF also followed a strategy of stressing upon financial institutions of non-compliant countries to pay special heed to their commercial and financial relationship with individual as well as companies. This, in fact was a two pronged strategy that if some jurisdictions did not comply with the measures of FATF, at least financial institutions of those countries could be made alternative partners in combating the money laundering. This method worked to the satisfaction of FATF and other international regimes as every country is now cooperating with FATF and its measures to counter the menace of money laundering. There is no way out for any state to stay in isolation because the financial institutions of global village are dependent upon each other for which cooperation, coordination and collaboration are necessary elements.

3.4. UNO As Anti Money Laundering Regime

The United Nations with its international recognition adopted a leading role in combating ML on global basis. The move was initiated because of increasing trend of drug trafficking and direct and indirect involvement of banking system in the process of laundering. It was estimated that during the last decade, banking losses rose to $ 1 trillion which in fact is substantial loss to the world community. The United Nations in 1988 through Vienna convention called for criminalization of money laundering. The political declaration and action plan against money laundering was adopted by united nations in 1998 to accelerate global anti money laundering efforts and subsequently
united nations approved Palermo convention against transnational organized crime in 2000. These conventions emphasized upon states to take effective measures against money laundering and muster global cooperation for the execution of collective investigations, assistance in prosecution and possible help in the extradition of criminals. It was also made obligatory for the ratifying state to “establish regulatory regimes to deter and detect all forms of money laundering, including customer identification, record-keeping and reporting of suspicious transactions”. In order to get global support, UN directed all states to “institute a comprehensive domestic regulatory and supervisory regime for banks and non-bank financial institutions”. The initiatives taken by the UN mustered support from the member countries for strengthening the role of international organizations for combating money laundering. In the light of UN decision to enforce anti-money laundering regime, it became mandatory for member countries to institute and forge international, Local and regional as well as mutual coordination and cooperation among their legal, prosecution, administrative and fiscal regulators.

Similarly model laws are developed and technical assistance is also provided by united nations office on drugs and crime’s global program against money laundering. It also assists them in the compliance of the UN conventions relevant to Anti-Money Laundering and Combating the Financing of Terrorism.

The UN has also played a leading role in the efforts over many years to combat predicate offence of financing of terrorism along with money laundering. In this regard International Convention for the Suppression of the Financing of Terrorism, 1999 is the milestone. The Convention necessitates upon member countries to initiate measures against money laundering and terrorist financing that “it is an offense if any person, by
any means, directly or indirectly, unlawfully and willfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used to carry out acts of terrorism”. On 28 September 2001, the United Nations Security Council passed Resolution 1373, which reaffirmed its call to all states to become signatories and ratify the Resolution and ensure the compliance with the applicable international conventions by criminalizing terrorism and its financing. This resolution also made it mandatory for the security Council to institute a Counter Terrorism Committee for close monitoring and compliance by member states with the resolution. These measures are meant to ensure compliance with the standards laid down by the FATF.

3.4.1 UNO and Technical Assistance

In order to make successful fight against money laundering and terrorist financing, UN has launched a ‘Global Program against Money Laundering’ (GPML). This program ensures technical assistance for member states to adopt measures and implement policies related to anti-money laundering. Under this program, a variety of activities are undertaken. Members are provided technical and financial assistance for their anti-money laundering programmes. It also envisages a support for the drafting or reviewing of the institutional and legislative frameworks to combat money laundering. The program also ensures a mutual assistance, global consensus and convergence of policies for the attainment of optimal results. It also strives for institutional development at national, regional and international levels. This program substantiates “the development of financial intelligence units (FIUs); fostering the awareness, understanding and implementation of best practices in the regulation of financial services”.
UN works towards the attainment of the set goals of this program by extending technical and financial help by conducting trainings and running awareness campaigns. The UN also engages the civil society and law enforcing agencies as well as the judicial institutions to combat this menace. UN being the custodian of international peace and cooperation also engages different institutions including financial and multinationals, provides training and allied support to ensure compliance with FATF standards. Keeping in view the role of other organizations “GPML is working in close cooperation with rest of the international bodies like the FATF, Interpol, OAS/CICAD, the Caribbean Financial Action Task Force, the Asia/Pacific Group, the Council of Europe, the World Bank and IMF etc. for anti money laundering.”.  

3.5. Role of Bank for International Settlement

The Bank for International Settlements (BIS), promotes “cooperation among central banks and other agencies in pursuit of monetary and financial stability”. Promoting monetary and financial stability is a significant objective of the BIS. Initially, BIS has the mandate of the European organization, however, it has become a global organization with global backing and agenda. BIS considers anti money laundering measures vital and important for developing and developed countries because vulnerabilities of a banking system of any single state has the potential to jeopardize regional and international financial stability. As already pointed out that financial institutions world over are dependent upon each other for purpose of transactions and other financial matters and as such an increase in the banks at risk boosts failures of international banking system, which as a matter of fact created growing concern internationally.
The Basle Committee on Banking Supervision is meant to strengthen the international financial system through direct and indirect contacts with most of the banking supervisors and financial institutions in every part of the world. The standing committees located at the BIS are of three types namely: (a) the Basel Committee on Banking Supervision, (b) the Committee on the Global Financial System and (c) the Markets Committee. It is the BIS Committee on Banking Supervision which deals with the global threat of money laundering and its implications on the financial sector of the world. For this purpose Basel Committee on Banking Supervision directly deals with the measures pertaining to anti-money laundering and anti-terrorist financing. It has devised (a) principles on ‘Prevention of Criminal Use of the Banking System’, (b) core principles for Money Laundering, 1988, (c) core principles for effective banking Supervision, 1997, and (d) customer due diligence for Banks in 2001. The core principles for banking supervision were revised in 2006. “The Core Principles for Effective Banking Supervision have become the most important global standards for prudential regulations” at international level. The standard practices of Anti-money Laundering are considered helpful for banking soundness as it minimizes different risks for local and global financial institutions.

The core principles elaborate the significance of the customer identification standards, prudential regulations and risk management for prudent banking policies. These rules are considered to be an “integral element of bank’s ‘internal control’ mechanism for risk management”. Absence of anti-money laundering measures results in faulty KYC policy which causes potential for reputational damage and fraud. The Basel Committee’s standards are meant for market integrity in order to avoid losses suffered by
financial institutions owing to non compliance and insufficient diligence. Had the banks followed KYC programs effectively, “these losses could have been avoided and damage to banks’ reputation significantly diminished”. In pursuit of comprehensive strategy on Anti Money Laundering, BCBS, IOSCO and IAIS presented anomalies and divergences in the application of standard AML measures pertaining to different sectors of economy. The Basel Committee’s supervisory standards and guidelines concerning money laundering are discussed as under:-

3.6 Principles for the Prevention of Criminal Use of the Banking System

In order to save the banks and financial institution to be trapped in the vicious circle of money laundering, Basel Committee issued a directive in 1988 that banks’ managements should ensure that their institutions provide assistance in suppressing money laundering both domestically and internationally. There is a possibility that the banking and non banking institutions could be misused by the launderers and criminals to clean their ill gotten wealth. The financial sector is the important channel through which process of money laundering is completed for which Basel Committee attaches a great importance to the role of a vigilant and honest management to avoid their institutions from the malicious practices of the money launderers. Integrity, vigilance and proper internal control system are the best safeguards against the money launderers.

So the Committee successfully diagnosed the basic weakness in financial sector and tried to strengthen the same through certain mechanisms. There is emphasis on customer’s identification at all costs, in order to avoid the banking system becoming an instrument in the hands of money launderers to clean their illegitimate wealth. It may be noted that improper customer’s identification may become cause of fraud or criminal activity in the
banking sector for which financial institutions have to ensure compliance with the standards and regulations. Essentially it ensures that the funds deposited with them are being generated by legitimate businesses and lawful activities. This not only ensures credibility of financial institution but their stability as well. If standards are followed in true spirit, it minimizes the chances of criminal transactions affiliated with money launderer. Obviously this compliance would minimize the chances of cleaning dirty money through the banking channels. The principle of cooperation between law enforcement authorities emphasizes to prevent and comprehend ML. The banks and financial institutions can take appropriate measures as suggested when there is suspicion of criminal activities in transactions. Measures may include denial of assistance and severance of relationship with the customer and closure or freezing of accounts. In fact all these measures suggested by the Basel Committee are meant to regulate financial activities in clean and transparent manners to strengthen the financial system and discourage the activities of criminals for money laundering. So adhering to the principles of customer’s identification and maintaining record of transactions is essential for banks.

3.6.1 Core Principles

In order to discourage and eliminate money laundering and such other financial criminal activities, effective banking supervision is the core principle. The core principles devised by Basel Committee in 1997 provide an all inclusive plan to evolve an efficient banking administrative and overseeing structure to combat money laundering. It also emphasizes and mandates financial institutions to have sufficient banking policies and procedural
mechanism to counter ML. Through these policies, code of conduct and standardized professional practices it is insured that banks are not being knowingly or unknowingly used by criminal groups. The core principles were revised in 2006 for comprehensive application and are also being followed for the purpose of Financial Sector Assessment by the World Bank and the IMF. This indicates the importance of these principles which are meant to stabilize and strengthen the financial sector of each country. By following these principles, anti-money laundering measures can prove effective as well as fruitful.

3.6.2 Customer’s Due Diligence

The financial institutions can be strengthened only if proper standards and set procedures are being followed by them. The banks are prone to numerous losses whenever there is breach of compliance with the set standards and procedures. The losses are possibly avoidable if proper measures are adopted by the banks. This not only saves banks from losses but also enhances their integrity in the market. The Basel Committee’s interest in customer’s due diligence also enhances strength, trust and integrity of the financial system. Bank for International Settlement reinforces the efforts of FATF because KYC is a protective shield against money-laundering and other financial crimes, and also a priority for FATF. The Basel Committee emphasizes for adoption of FATF recommendations for safety, soundness and dependability of the financial system. It is because of this phenomenon that the Basel Committee and the Offshore Group of Banking Supervisors extend all help for the application and compliance of FATF standards and emphasizes the convergence with that of FATF. This is because of the
importance of the KYC that the FATF and other Global Institutions have worked on KYC parameters, which indicate that KYC standards can save banks and financial institutions from numerous risks, if applied in totality. The inappropriate application of KYC parameters by financial institutions may bring multiple risks like reputational, operational, legal and concentrational. The monitoring of accounts and transaction also help in minimizing ML activities. The recommendations of Basel Committee support the stance of FATF to combat money laundering.

3.7. International Association of Insurance Supervisors (IAIS)

It was founded in 1994 and like other international organizations also became active in the global problem of money laundering and terrorist financing. It is a representative body of regulators of insurance and has the representation of above 130 countries in addition to more than 100 observers. Its strength and effectiveness is epitomized by the volume of its annual premiums that ranges between US$ 2.4 to 2.6 trillions. The IAIS is responsible to regulate and supervise the international insurance sector. It also ensures the efficiency, stability and reliability of the insurance market to provide reliable and secured environment for different stakeholders. It further adds to international financial stability. The organization also plays a very important role by creating awareness about the dangers of money laundering through different means at international level. It furthers the interests of global insurance sector by imparting necessary education and trainings through workshops and seminars on variety of issues. IAIS is playing very important role in combating money laundering at global level, that is why; it enjoys the observer status in FATF. IAIS has also issued comprehensive guidance on anti money laundering
and anti terrorist financing for implementation by the member countries with the following principles.

- To ensure compliance with FATF Standards regarding anti-money laundering,
- To implement customer identification standards,
- To ensure cooperation with prosecution and legal authorities, and
- Also ensure application of standard procedures through trainings.\textsuperscript{99}

These principles are in conformity to FATF recommendations regarding anti money laundering and anti terrorist financing. The IAIS has recognized the importance of KYC in order to protect insurance sector from being misused by the criminals. The significance of insurance sector in the fight against money laundering is very important because this sector “provides risk transfer, savings and investment products to a variety of consumers, from individuals to multi-national corporations and governments”.\textsuperscript{100} The insurance industry covers three important but diverse areas including general, life and re-insurance. Like banking sector, insurance sector can also be exploited and abused by the money launderers and other criminal syndicates.\textsuperscript{101}

3.8. International Organization of Securities Commissioners (IOSCO)

The IOSCO is an International standard setter body for the securities regulators. It also works for combating money laundering in the securities markets. It is the world’s important platform for global collaboration for the relevant regulatory agencies with the recognition of global standard setter.\textsuperscript{102} The objective of IOSCO is to promote and ensure fair, efficient and transparent markets, protection of investor’s interest, minimizing risks and prevention of market crises.\textsuperscript{103} IOSCO works closely with other international organizations including the Financial Stability Forum, World Bank and the IMF in order to wage a fight against money laundering.\textsuperscript{104} The FSF, IMF and the World Bank are also
interested in implementation of standards set by IOSCO. Presently, 105 regulators from as many countries are the members of this forum. With regard to anti money laundering IOSCO’s resolution stresses upon its members for gathering information with regard to identification of customer, maintenance of record and supervision by financial institutions as it works to augment the capacity of regulators to detect the cases of money laundering related transactions. The appropriate procedures also prevent criminals to have the control of securities and future businesses at different levels through deterrence and detection of money laundering. The information is shared by IOSCO with members so that a collective strategy could be adopted. IOSCO has designed training materials on “Internal Control”, “Anti-Money Laundering Reviews”, and “Sales Practice Reviews” to have a close watch on the global financial markets. It emphasizes that regulators should adopt proper policies and procedures for securities market intermediaries in order to “minimize the risk of the use of an intermediary’s business as a vehicle for money laundering”. All these measures of IOSCO indicate a comprehensive strategy fully in line with FATF recommendations.

3.9. The Egmont Group of Financial Intelligence Units (FIUs)
Realizing the international nature of money laundering and terrorist financing along with establishment of FIUs necessitated the need to have some organization for global cooperation amongst FIUs. Consequently Egmont Group was created to ensure cooperation amongst FIUs so that the money laundering and related issues can be tackled skillfully at global level. The membership of Egmont Group has exceeded over 100 countries and close collaboration amongst FIUs at international level has increased utility and efficacy of this organization in respect of money laundering and terrorism
financing. The mechanism “includes expanding and systematizing the exchange of financial intelligence information, improving expertise, fostering better communication among FIUs through technology, and helping to develop FIUs worldwide to make anti money laundering effective”. The role and importance of Egmont Group is also increasing because of its global cooperation. It also assists and advises FIUs of member countries and helps to enhance collaboration among the members for better results.

3.10. Wolfsberg Group (WG)

Money laundering directly affects financial and reputational aspects of banking industries. Concerned by the dangerous implications of money laundering, the leading banks assembled at Château Wolfsberg in Switzerland and formed Wolfsberg Group of Banks comprising of twelve important global banks. The WG adopted anti money laundering and anti terrorist financing strategy in line with the guidelines of FATF. This move by WG to fight money laundering and terrorist financing got momentum in the aftermath of 9/11 terrorists attacks. Consequently, the global financial markets had to face immense operational failures and losses due to communication disruptions, credibility problems and volatile environment. The WG issued four sets of principles: (a) AML Principles for Private Banking; (b) Monitoring Screening and Searching; (c) declaration to suppress the financing of terrorism; and (d) AML standards for Correspondent Banking
3.10.1 Anti-Money Laundering Principles for the Private Banking

The Wolfsberg Group’s AML principles for banking were issued in 2000.116 These principles pertain to anti money laundering activities and were revisited in 2002 owing to the changing circumstances after 9/11. On the lines of other international organizations, the principles include:(i) general guideline for client acceptance; (ii) additional diligence for the acceptance of client in special circumstances; (iii) maintenance of up to date files; (iv) prudence required for identification of suspicious and unusual transactions; (v) monitoring of various activities; (vi) responsibilities with regard to checks and control; (vii) reporting mechanism; (viii) information sharing and training; (ix) conditions for retention of record; (x) exceptions and deviations.117 These principles are inline with the recommendations of FATF for proper countering the threat of money laundering and terrorist financing. The implementation, execution and monitoring are the responsibilities of concerned managements to ensure that no deviation is made from the set standards in order to avoid any risk or danger.

3.10.2 Monitoring, Screening and Searching

Monitoring, screening and searching play vital role in detecting incidents of money laundering and terrorist financing. WG published a statement on these principles in September 2003 118 for attainment of the strategic objective pertaining to AML/CFT. Consequently high risk transactions, fast screening and other identification measures have become necessary part of this strategy.119

3.10.3 Suppression of the Financing of Terrorism

This element became part of WG’s strategy as some of its members had become victim of 9/11. This document saw the day light in January 2002.120 According to it, WG is
mandated to work towards an effective fight against terrorism and persuade the financial institutions to prevent terrorism related transactions in global financial system.\textsuperscript{121} The responsibilities of the banking institutions are very sensitive in the war against terrorism, rights of the individuals and adherence to KYC.\textsuperscript{122} It highlights high risks sectors and activities, monitoring and reporting of suspicious transactions and need for enhanced global cooperation.\textsuperscript{123} The WG endorses the FATF special recommendation to counter terrorist financing as well as the UN Convention for the suppression of financing of terrorism.\textsuperscript{124}

\textbf{3.10.4 Principles for Correspondent Banking}

Correspondent Banking plays very important role in the fight against money laundering. Realizing the dynamics of correspondent banking and their role in money laundering, the WG published principles for correspondent banking in 2002.\textsuperscript{125} In the present era of the financial globalization, correspondent banking customer is a customer of that institution who avails services of other institution by virtue of correspondent relationship. Correspondent banking relationship is existing in different shapes and form in various parts of the world.\textsuperscript{126} So correspondent banking can play a vital and important role in combating money laundering, if WG’s principles are followed in letter and spirit. The WG complied with the recommendation No. 7 of FATF which directs the financial institutions to take requisite measures with regard to international correspondent banking relations.

It emphasized to (a) have reasonable information with regard to the status, repute, rating and regulatory compliance status of correspondent bank. Respectability of the institution and integrity of the management of the correspondent banking is also significant at the
time of establishment of this relationship.\textsuperscript{127} Identical to this recommendation, WG outlined several other principles for correspondent banking.\textsuperscript{128} The compliance with these principles will aim at developing correspondent relationship only with those financial institutions who are fully compliant to global anti money laundering standards.

\textbf{3.11 International Police Organization (INTERPOL)}

Interpol is the oldest organization which started campaign against all crimes and has contributed tremendously in the war against money laundering and terrorist financing. It is an effective organization having the membership of 186 states.\textsuperscript{129} It has developed the Interpol Money Laundering Automated Search Service (IMLASS) to facilitate international anti-money laundering measures.\textsuperscript{130} This mechanism automatically compares suspected money laundering and terrorism financing-related queries from FIUs and anti-money laundering investigators against database records submitted by Interpol’s member countries.\textsuperscript{131} This strategy of Interpol can be helpful particularly for developing countries like Pakistan to check predicate offenses of money laundering. Interpol also “facilitates cross-border police co-operation, and supports and assists all organizations, authorities and services whose mission is to prevent or combat international crime”.\textsuperscript{132} For long term use and as a permanent preventive measure, the stored data base of IMLASS can help future enquiries on the basis of existing entries.\textsuperscript{133} This system enables detection of criminals and their activities through matching of identification of documents like names, addresses, passport and telephone numbers etc. In case of identification of a particular person(s), information is sent to all National Centre Bureaus (NCBs) of Interpol for necessary action. The Interpol has a communication system known as ‘I-24/7’ which connects the Interpol General Secretariat and other offices for
creating a secured network for information sharing.\textsuperscript{134} This system facilitates the exchange of police information and provides member countries with mechanism to access to Interpol’s databases and other services.\textsuperscript{135} Interpol has also established the Fusion Task Force which is meant to assist countries in their terrorism related investigations.\textsuperscript{136} The measures on part of Interpol have helped the states to attain global cooperation against money laundering.

3.12 The Bretton Woods Institutions

The IMF and the World Bank have played a significant role in supporting the efforts of FATF and the UN to fight money laundering and terrorist financing.\textsuperscript{137} After the destructions of the second world war, the IMF and the World Bank were established in 1944. The IMF and World Bank resolved to enhance their role to global anti money laundering and anti terrorist financing in 2001. \textsuperscript{138} These institutions work for the promotion of economic and financial cooperation among member countries. IMF and World Bank perform different functions at International level. The IMF is mainly dealing with macroeconomic issues, balance of payments and reduction of poverty.\textsuperscript{139} while the World bank deals with developmental programmes, structural reforms, good governance, financial sector and privatization etc.\textsuperscript{140}

3.12.1 IMF

Money laundering and terrorist Financing is a very important issue for IMF. The IMF increased its contributions to global anti-money laundering efforts in 2001.\textsuperscript{141} IMF has taken theoretical and practical steps to consolidate international financial system in order to safeguard the viability of international financial institutions.\textsuperscript{142} The activities of money launderers and terrorist financiers can be curtailed only by cutting off their resources and
supply channels and making difficult for criminals to make huge profit from their criminal activities. The money laundering is such a vicious menace that it results into many other crimes. The societies of global village are to be protected from negative impacts of ML and the IMF is making all efforts to save the member countries. Money laundering is dangerous and risky for the financial soundness and stability of these institutions because it increases the volatile flow of capital at global level.

The IMF has identified three main areas namely assessment, technical assistance and policy development to counter money laundering and terrorist financing. The assessment is a tool for feedback as strengths and weaknesses of financial sector are evaluated under Financial Sector Assessment Program and jurisdictions are indicated which are considered weak in combating the money laundering and terrorist financing. Such assessments conducted by the IMF are in compliance with 40+9 recommendations of FATF according to the agreed common methodology.

The IMF and the World Bank support through technical assistance for strengthening legal, financial and regulatory mechanism of the member countries. For this purpose the member countries are given more funds in order to face the challenges posed by ML and terrorist financing. In 2001, the IMF and the World Bank resolved to enhance the funds’ contributions to strengthen the global efforts to confront the challenge of money laundering. It was after 9/11 that both the organizations added fight against financing terrorism in their agenda. The economies are assessed by the Legal Department and the Special Financial Supervisory Issues Division of the Monetary and Financial Systems Department on the basis of which Technical Assistance to various states is provided to fight money laundering and terrorist financing.
Through policy development process, anti money laundering policy is developed on the basis of comprehensive research. The IMF and the World Bank are playing active role in research and analysis of international best practices for better results.\(^\text{148}\) Moreover, policy advice and technical assistance is also based on compliance to the policy parameters. This is also used to provide policy advice and Technical Assistance to its member states. It may be noted that IMF and World Bank have coordinated their all activities with FATF and FSRBs to fight against money laundering and terrorist financing.\(^\text{149}\)

The IMF and the World Bank unanimously decided that menace of money laundering and terrorist financing can only be fought by member countries subject to international support in order to achieve the desired objective. With this objective, the IMF has established a closer relationship with the major AML organizations and groups. The IMF has contributed tremendously for the promotion of financial soundness of member states through surveillance, its supported Program and technical assistance.

The IMF is making all these efforts keeping in view the consequences and dangerous results of money laundering and terrorist financing. The purpose is to save the societies’ financial institutions and eliminate the money laundering and terrorist financing which ruin the humanity at large.

### 3.12.2 World Bank

The anti-money laundering program has become a priority point for the World Bank because of its significant economic and social consequences. The strategy of the World Bank to counter money laundering and terrorist financing is based on multiple steps. It has devised its own methods of conducting assessment of AML/CFT of various member countries, surveillance, and complying with FATF 40 + 9 special recommendations.\(^\text{150}\)
Like IMF, the World Bank also initiated Pilot Program for providing technical assistance to member countries for combating money laundering and terrorist financing.\textsuperscript{151} Owing to its dynamic role in the international system new programs are being undertaken to control corruption, improve governance, improve financial management so that legal, supervisory and regulatory environment can be improved. The World Bank is involved in the reforms process so that effective steps can be taken against money laundering. Similarly institutional restructuring, reforms in justice system, introduction of corporate governance and transparency in accounting and management is being introduced by the World Bank which contribute towards anti-money laundering regime.\textsuperscript{152} In order to control misutilization of resources it also takes steps for purposeful utilization of its lending. This is done through public awareness, training workshops and other methods of communication. The World Bank also works in collaboration with Basel Committee on banking Supervision, IAIS, IOSCO, the Egmont Group, FATF-style regional bodies and Wolfberg Group for the implementation of policy pertaining to anti Money Laundering and anti Terrorist Financing.\textsuperscript{153} The cooperation on part of all these financial organizations indicates that menace of money laundering and terrorist financing have strong footings and strength of both can be weakened and broken through cooperation and collaboration of the world Community. This task can not be achieved by an individual organization or a single country.

\subsection*{3.12.3 Joint Initiatives by the IMF and the World Bank}

In addition to individual efforts, the IMF and the World Bank have also initiated joint programs to curb money laundering. Both the organizations work on international standards and codes to ensure the stability of international financial institutions and
manage the factors which resulted in the market crises of the 1990s. Both these organizations have introduced Financial Sector Assessment Program (FASP) which is meant to have joint efforts to assess the financial sector of the member states. The program has been established on sound basis so that the soundness of the financial system can be improved by overcoming weaknesses and improving strengths. Financial sector assessment program also monitor the observance of international standards and best practices by the members so that stability and soundness of the system can be ensured. The level of these international activities is increasing because of the increasing importance of international standards for banking and non banking financial institutions.

3.13 Asian Development Bank (ADB)

Like other international anti-money laundering regimes, the ADB assists in the fight against money laundering by helping member states to reduce poverty, improve governance, fight corruption and consolidate financial institutions. Provision of requisite assistance has enabled member countries to adopt anti money laundering and anti terrorist measures. In this regard ADB has taken initiatives: (a) to upgrade the legal and regulatory framework as it protects financial institutions from money laundering and financial crimes; (b) It extends developmental support to NBFDIs and securities markets and their restructuring; (c) it builds the capacity of the Securities and Exchange Commissions in order to improve the regulatory and supervisory aspects of capital market, non-banking financial Institutions and insurance sector; and (d) it establishes sustainable mechanisms for skills development and training. Asian Development Bank also happens to be an observer of APG and helps in implementation of anti money laundering and anti terrorist financing measures.
3.14 The Asia Pacific Group (APG)

The APG was established in 1997 to provide a regional forum for mutual collaboration amongst member countries against money laundering and terrorist financing.\textsuperscript{161} It helps in implementation of international standards in the legal, regulatory and financial sector.\textsuperscript{162} APG’s purpose and strategy to counter money laundering and terrorist financing is based on multi pronged efforts. It works closely with regional as well as global actors to implement anti money laundering standards developed by FATF.\textsuperscript{163} It contributes to the upgradation of international standards against money laundering and terrorist financing by considering different legal, law enforcement environment and financial system of the member countries.\textsuperscript{164} Moreover, it provides a platform for collaborative anti money laundering and anti terrorist financing measures in the region.\textsuperscript{165} It also provides a regional forum for problem diagnosis and solution suggestion; develops mechanism to counter money laundering and terrorist financing by studying different typological reports and methods adopted for money laundering and removes loopholes exiting in the financial and non financial sectors.\textsuperscript{166} The illegal methods of criminals proceeds and issues pertaining to Hawala/Hundi in different countries are studied and effective money laundering counter measures are identified. In order to have an overall mechanism in place, the adoption of anti-money laundering standards are encouraged through education, research and analysis activities. The regional factors are also taken into account and jurisdictions are encouraged to implement anti-money laundering initiatives with autonomy. It extends support to the member countries through cooperation and coordination and also assesses members’ compliance with global
standards set by the international actors to combat money laundering and terrorist financing.\textsuperscript{167}

After having deliberated on the role of various international organizations and their strategies to fight money laundering and terrorist financing, it reveals the fact that these problems are the most dangerous and play havoc with financial institutions of the world in particular and economies in general. If these threats remain unchecked, there is likelihood of ruination of financial stability as well as integrity of the financial sector which includes banks and other institutions. The criminal activities create chaos and anarchy in the societies as a result of which the fruit of globalization cannot be reaped. The peace of the societies is endangered by these criminal activities and economic growth with rapid speed cannot take place. Global trade is also severely affected by money laundering and terrorist financing. Therefore global financial regulators are right in considering the money laundering and terrorist financing a great threat. In the recent times, terrorist activities have almost endangered every society whether it exists in the developed or developing world. Both the money laundering and terrorist financing give birth to illegitimate businesses and activities like smuggling of various types, drug trafficking etc. at local and global level. Industrial growth, economic development and social order at regional and global level is also affected by this problem. Money laundering has also become a great challenge for international financial actors who are trying to fight this menace just to maintain their credibility as well as the protection of the interests of the international community. The failure of markets also erodes the credibility and legitimacy of international regimes for which various international financial actors have adopted global strategy not only to control money laundering but eliminate it from
the scene. The success of international regimes solely depends upon cooperation and coordination at all levels. As already elaborated that this task cannot be achieved by any single organization as the forces of money laundering and terrorist financing are very forceful, sophisticated and resourceful, thus they need to be coped with greater force, vigor and commitment.

After having discussed the strategies of various international regimes with regard to combating money laundering and terrorist financing, it is pertinent to elaborate the measures taken by Pakistan to combat money laundering in response to global efforts.
END NOTES

2. Ibid
3. Ibid
18. International organizations are collaborating in AML strategies.


24. The international bodies are FATF-style regional bodies (FSRBs) that have similar form and functions to those of FATF. Some FATF members also participate in the FSRBs. These bodies are Asia/Pacific Group on Money Laundering (APG), Caribbean Financial Action Task Force (CFATF), Council of Europe MONEYA Committee, Eastern and Southern Africa Money Laundering Group (ESAAMLG) and Financial Action Task Force on Money Laundering in South America.

25. Each of international organizations, which have, among other functions, a specific anti-money laundering mission or function, are: African Development Bank, Asia Development Bank, The Commonwealth Secretariat, European Bank for Reconstruction and Development, European Central Bank (ECB), Europol, Inter-American Development Bank (IDB), Intergovernmental Group Against Money Laundering in Africa (GIABA), International Association of Insurance Supervisors (IAIS), International Monetary Fund (IMF), Interpol, International Organization of Securities Commission (IOSCO), Organization of American States/Inter-American Committee Against Terrorism (OAS/CICTF), Organization of American States/Inter-American Drug Abuse Control Commission (OAS/CACAD), Organization for Economic Cooperation and Development (OECD), Offshore Group of Banking Supervisors (OGBS), United Nations Office on Drugs and Crime (UNDC), World Bank and World Customs Organization(WCO).


28. Ibid.


30. FATF 40 Recommendations, 2004, op.cit.,


34. Ibid., p.2.
37. Ibid.,
38. Ibid., p.9.
41. The primary FATF partners are the 8 FSRBs, which play important leadership roles in their respective regions. The FSRBs group, on a regional basis, jurisdictions that have committed to implementing the 40+9 Recommendations and have agreed to undergo mutual evaluations of their AML/CFT systems. Four of these FSRBs are associate members of the FATF: the Asia/Pacific Group on money laundering (APG), the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval), the Grupo de Acción Financiera de Sudamérica (GAFISUD) and the Middle East and North Africa Financial Action Task Force (MENAFATF).
43. See *FATF Annual Typology Reports, 2004-2007*, France Paris:
44. *United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances*, op.cit.,
46. Ibid.,
47. Detail of non-compliance jurisdictions is available in NCCT list.
48. Ibid.,
50. See *United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances*, op.cit.,
52. *United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances*, op.cit.,
54. Ibid.,
55. Ibid., Article 7(1)
56. Ibid., Article 7(4)
60. Ibid., Article 2.
62. Ibid.,
71. Ibid.
73. Ibid.
75. Ibid.
77. Bank for International Settlements, Initiatives by the BCBS, IAIS and IOSCO to combat money laundering and the financing of terrorism,[http://www.bis.org/publ/joint11.htm accessed on 6/5/07](http://www.bis.org/publ/joint11.htm)
79. Ibid, Preamble, Paragraph.6.
80. Ibid, Customer Identification Principle II
81. Ibid, Compliance with Laws Principle III
82. Ibid,
83. Ibid., compliance with laws Principle IV
84. Ibid.,
85. Ibid., Adherence to the statement principle V
86. Basel Committee on, Banking Supervision, *Core Principles for Effective Banking Supervision, 1997*, op.cit., Principle No.15
87. Ibid., Principle No.15
90. Ibid., Introduction para-3.
91. Ibid.,
92. Ibid., Introduction Para-10
94. Ibid.,
96. International Association of Insurance Supervisors, op.cit.,
101. Ibid., pp. 15-17.
107.Ibid,
The Wolfsberg Group consists of the following leading international financial institutions: ABN AMRO Bank N.V., Banco Santander Central Hispano S.A., Bank of Tokyo-Mitsubishi Ltd., Barclays Bank, Citigroup, Credit Suisse Group, Deutsche Bank AG, Goldman Sachs, HSBC, J. P. Morgan Chase, Société Générale, UBS AG.

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Wolfsberg, Anti-Money Laundering Principles for Correspondent Banking, op.cit.


The World Bank in the Global Fight against Money Laundering and Terrorist Financing, op.cit.,


143. Ibid.
144. Ibid.
145. Ibid.
146. Ibid.
148. The IMF and the fight against Money Laundering and financing of terrorism, Fact Sheet, op.cit.,
149. Ibid.
151. The IMF and the Fight Against Money Laundering and Financing of Terrorism, Fact Sheet, op.cit.,
155. The IMF and the fight against Money Laundering and financing of terrorism, Fact Sheet, op.cit.,
158. Ibid.
159. Ibid.
160. Ibid.
162. Ibid.
163. The IMF and the Fight Against Money Laundering and Financing of Terrorism, Fact Sheet, op.cit.
CHAPTER - 4

PAKISTAN'S MEASURES IN RESPONSE TO GLOBAL EFFORTS

Money laundering has emerged such a crucial issue that affects international financial systems, personal welfare, revenue system, geostrategic environment and banking system. The important issue is the implementation of an internationally accepted standard which could curtail money laundering and stabilize financial system. There is a consensus among the developed as well as the under developed World on the need to implement international anti money laundering standards. The international strategy focused more on internationally accepted preventive measures which are also mindful and sensitive to the issues of poverty of the developing world and work towards a policy to strengthen their financial structures. These policies should adopt a dynamic approach which should not only identify the criminals who are involved in money laundering but also to devise an incentive based approach towards the financial institutions of the developing countries. Only those approaches and strategies can succeed in the context of global war against the crime of money laundering, which encompass developmental measures and incentives for the financial soundness and institutional stability of the developing countries. Such measures would help to eliminate and root out the real causes of such crimes and activities. In view of the importance and significance of combating
money laundering, all developing countries have adopted various methodologies and mechanisms to fight against this menace.

As already pointed out that world has become a global village. Dr. Mehboob-ul-Haq has stated that “Globalization is no longer an option; it is a fact. Developing countries have either to learn to manage it far more skillfully or simply drown on the global currents”. The rising wave of globalization and heavy interdependence of states on each other and international support, renders it as an imperative to play by the rules of business set by global regime. This clearly speaks of the importance of standards set by international anti-money laundering regimes for combating money laundering in order to strengthen the financial institutions to avoid financial crises. The countries which do not follow standards set by international anti-money laundering regimes are left alone and it becomes difficult for them to survive lonely in this age of globalization and competition.

There is no denying the fact that globally imposed directives do have both advantages and disadvantages. If one looks at both rationally, advantages seem numerous as compared to that of disadvantages by following set standards as laid down by international anti-money laundering regimes. It may be noted that anti-money laundering measures proposed by international anti-money laundering regimes have lot of implications particularly for developing countries and Pakistan is no exception to it. The financial institutions of Pakistan are more prone to financial crises because of money laundering and drug trafficking mafia activities for which strict regulatory measures are the only choice to overcome financial crises and stabilize financial institutions. In order to cooperate with the international community, Pakistan has accordingly taken legislative, legal and regulatory measures in response to international recommendations.
measures have not simply been taken just to follow the dictates of international anti-money laundering regimes but in fact they all are necessary for a country like Pakistan for strengthening its financial sector as well as seeking cooperation from international community for various developmental programs.\textsuperscript{5}

It may be noted that the World Bank, IMF and other monetary organizations which are the source of funding and aiding developing countries ensure that standards set by international anti-money laundering regimes are totally complied with by the member states. In case of non-compliance, the tottering economies can face difficulties and problems to cope with the emerging challenges ahead. So Pakistan has adopted certain measures in the light of recommendations of international anti-money laundering regimes, which are discussed in this chapter.

The strategy of Pakistan to counter money laundering is based on international cooperation and conformity so that actual and perceived threats can be managed. This cooperative strategy should also be followed in letter and spirit so that international best practices can be adopted to control the menace of money laundering. Money Laundering activities are dangerous as they undermine the governance of banks as well as weaken the financial sector.\textsuperscript{6} In this context it is important to mention that financial institutions “could be involved in financial crime as victim, as perpetrator, or as instrumentality”.\textsuperscript{7} In order to counter money laundering, Mr. Ishrat Hussain the then governor SBP stated that Pakistan is having a multi track strategy which contains a vibrant approach to counter the threat of money laundering and terrorist financing. He further opined that keeping inview the role of different financial and non financial institutions legislative and regulatory mechanism needs to be strengthened . This can be reinforced through education ,capacity
building programs, responsive system, incorporation of global standards and compliance culture in order to comply and cooperate with UN resolutions. Strategic significance and global importance of Pakistan is increasing because of the war on terrorism and its link with the terrorist financing in the region. Pakistan in particular and South Asian Region in general has become a priority region for the activities of different terrorist organizations. This is why; South Asia and particularly Pakistan is identified as the hotspot of terrorist activities around the World. Hence the international financial regime has highlighted and targeted Pakistan as a focus area for its counter money laundering and terrorist financing activities. This is also because the financial transactions of these regions were somewhat considered dependent on parallel economy, like Hundi and Hawala etc. This is why; the informal instrument of Hawala and Hundi forms the basis of much of the cross border or international transactions. International anti money laundering regime wants implementation of international standards by establishing new institutions including Financial Intelligence Unit which needs financial assistance and political will too, to attain the desired results. It is true that Pakistan has become strategically an important actor and policy makers need to behave with responsibility and wisdom. Strict measures for combating money laundering is the need of hour as this very menace takes the shape of reverse money laundering for supporting terrorist activities in the region.

4.1 Implementation of Anti Money laundering Measures by Pakistan

The adoption of anti money laundering measures are motivated both by national as well as international commitments. At national level Pakistan is also victim of this lethal problem, while it has to cooperate with international community to fight against the
vicious game of money laundering and dangerous attack of terrorism. Given the nature
and magnitude of the problem of money laundering and black money which according to
some experts is about Pak Rs. 2.5 Trillion which is equal to 70% of the total economy.\textsuperscript{10}
It is necessary for Pakistan not only to adopt strict anti-money laundering measures but
also ensure their implementation in true spirit as well. As already discussed in the
Chapter-2, the offences like corruption, tax evasion, smuggling, terrorism, etc., can only
be countered by introducing anti-money laundering measures as Pakistan is confronted
with different shades of corruption which include illegal gratification, bribery, extortion,
abuse of offices by officers, fraud, cheating and criminal breach of trust.\textsuperscript{11} It is expected
that anti-money laundering measures can help preventing massive amounts of funds from
working as a tool in the hands of mafia, who not only control the economy but also the
Government.\textsuperscript{12} The simple reason is that money is a powerful tool that can purchase a lot
and destabilize the systems and controls of any state.

It is pertinent to mention that money laundering not only victimizes the financial
institutions of the country but also citizens at large particularly white collars employees,
derprivileged, women, children and above all national prestige and dignity. The
money laundering creates a vicious circle and acts as a multiplier of negative
externalities. According to an article published in the \textit{News}, it is estimated that black
money including narcotics trade in Pakistan is Rs. 1300 billion per annum.\textsuperscript{13} The
existence of such a magnitude demands stringent steps to fight money laundering. The
money laundering not only extracts large portion of wealth through various means and
weakens the economy of a country but also causes social harm in facilitating crime as
well as criminals to enjoy with criminal revenues.\textsuperscript{14} With the view to comply with the
advice of international financial institutions and as a vigorous member of Asia Pacific Group on anti-money laundering, Pakistan adopted a comprehensive and cooperative strategy towards Financial Action task Force and initiated legislative, administrative, institutional and regulatory measures to counter the threat of money laundering. The Government of Pakistan and its financial institutions have established a proper legal framework to combat money laundering and achieve desired objectives. In this regard significant measures delineating Pakistan approach include control of narcotics substance act 1997, anti terrorism act 1997, National Accountability Ordinance, 1999, Electronic Transaction Ordinance 2002 and Anti- Money Laundering Ordinance, 2007. The State Bank of Pakistan and Securities and Exchange Commission of Pakistan have also introduced numerous regulations to combat money laundering. A brief discussion of each measure will give us an idea as how they have contributed in helping Pakistan to fight against the menace of money laundering and terrorist financing.

4.1.1. Control of Narcotics Substance Act, 1997 (CNSA)

Pakistan introduced this act in compliance with Vienna Convention, 1988. Since narcotics substances have become a large source of generating money, destabilizing economies and ruining the youths of societies, it was necessary to come up with stringent measures to cope with this dangerous act. It has been observed that throughout the world, there are large and very strong groups of narcotics smugglers who are spreading in different parts of world.

Before a critical analysis of the Act, it is necessary to have a look at its prominent features as laid down. The Act prohibits ‘to acquire and possess assets purchased or gained from the narcotic crimes. It further states that “no one should knowingly (a)
possess, acquire, use, convert, assign or transfer any assets which have been derived, directly or indirectly, through an act or omission relating to narcotic substances; (b) hold or possess on behalf of any other person any assets referred to in clause (a) above; (c) conceal or disguise the true nature, source, location, disposition, movement, title or ownership of such assets by making false declaration in relation thereto”.\textsuperscript{15} The Vienna Convention, 1988 was an important step for criminalizing illicit traffic and narcotic drugs. The introduction of the above act (CNSA) covered the anti-money laundering role and enshrined that the acquisition of assets through drug money would be considered an offence and the suspected properties/assets would be frozen and subsequently forfeited through the court.\textsuperscript{16} This step has contributed significantly in anti money laundering strategy. Likewise, the Act made it mandatory for financial institutions to report unusual transaction suspected to be associated with drug business. \textsuperscript{17} The introduction of this Act is also in compliance with the directives of international anti-money laundering regimes. It may be noted that illicit business of narcotic substances gives birth to numerous crimes in a society. It also ignites temptation phenomenon as there can be competition in the society to become filthy rich by seeing the smugglers enjoying with money and other luxuries of life. This results is trapping even the innocent people into this web. The narcotic smuggling has become a perceived profitable business and people from backward areas in particular can easily become the victim of this menace. So this vicious act not only creates unhealthy activities in a society but also gives birth to criminals which result in numerous crimes. In Pakistan, it was considered necessary to adopt strict measures to discourage and control the activities relating to narcotic substances. The
question arises as to what extent this act succeeded in controlling the smuggling of narcotic substances from 1997 onward?

Definitive action against the drug problem as a whole is unthinkable without foreign assistance as the onerous task requires continuous flow of resources for breakthrough. However, the Ministry of Narcotics Control, ANF, and the Frontier Corps of NWFP and Baluchistan, together with the provincial authorities, have made tremendous efforts to curb existing trends of drug trafficking in the country. If we look at the efforts of Pakistan, they seem encouraging in curtailing the drug production. It would be more pertinent to discuss the measures and initiatives introduced by the government for curtailing the activities of drug mafia. Efforts made can be analyzed by the following activities on the part of concerned agencies. In a report “Illicit Drug Trends in Pakistan” published by United Nations Office on Drugs and Crime, Country Office Pakistan in April 2008 reported cultivation, eradication & potential harvest of opium 2003-2007 in Pakistan. Table 4.1 shows the statistics for the period of 2003–2007. It also portrays the Government’s resolve to eradicate narcotics:

Table 4.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Cultivation</th>
<th>Eradication</th>
<th>Harvest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>6,702</td>
<td>4,181</td>
<td>2,521</td>
</tr>
<tr>
<td>2004</td>
<td>6,694</td>
<td>5,199</td>
<td>1,495</td>
</tr>
<tr>
<td>2005</td>
<td>3,145</td>
<td>706</td>
<td>2,439</td>
</tr>
<tr>
<td>2006</td>
<td>1,909</td>
<td>356</td>
<td>1,553</td>
</tr>
<tr>
<td>2007</td>
<td>2,306</td>
<td>608</td>
<td>1,698</td>
</tr>
</tbody>
</table>

[Source: UNODC, 2008]
The number of seizures made in Pakistan during 2000-2006 indicates the significance of narcotics and seriousness of government of Pakistan towards illicit drugs.\textsuperscript{18}

Table 4.2

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opium</td>
<td>7840</td>
<td>5140</td>
<td>2686</td>
<td>5786</td>
<td>2495</td>
<td>6437</td>
<td>8997</td>
</tr>
<tr>
<td>Heroin</td>
<td>7410</td>
<td>8755</td>
<td>8818</td>
<td>6364</td>
<td>3488</td>
<td>2144</td>
<td>2819</td>
</tr>
<tr>
<td>Morphine</td>
<td>27777</td>
<td>21256</td>
<td>22197</td>
<td>32657</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Source: UNODC, 2008]

The following table particularly shows trend of Heroin seizures in Pakistan during 2000 to 2006.

Table-4.3

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heroin</td>
<td>7410</td>
<td>8755</td>
<td>8818</td>
<td>6364</td>
<td>3488</td>
<td>2144</td>
<td>2819</td>
</tr>
</tbody>
</table>

[Source: UNODC, 2008]
4.1.2. Narcotics Interdiction at Provincial Level

The deployment of law enforcement agencies is determined by factors such as the nature of threat, level of sensitivity and topography of a particular area. The following paragraphs throw light on the manner in which the law enforcement agencies functioning in different provinces of Pakistan tackled the issue of narcotics control in their respective jurisdictions.

(a) North West Frontier Province

In NWFP, 25,316 defendants were arrested in 25,327 cases in which 980.265 kilograms of opium, 303.034 kilograms of heroin and 39,892.566 kilograms of hashish were confiscated in the province. The following table presents agency-wise statistics for NWFP.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Cases</th>
<th>Defendants</th>
<th>Opium</th>
<th>Heroin</th>
<th>Hashish</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.N.F</td>
<td>91</td>
<td>140</td>
<td>224.450</td>
<td>72.283</td>
<td>3037.159</td>
</tr>
<tr>
<td>A.S.F</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.000</td>
<td>0.006</td>
</tr>
<tr>
<td>Customs</td>
<td>18</td>
<td>24</td>
<td>98.000</td>
<td>104.050</td>
<td>14196.400</td>
</tr>
<tr>
<td>Frontier Corps</td>
<td>5</td>
<td>3</td>
<td>0.000</td>
<td>0.000</td>
<td>1178.505</td>
</tr>
<tr>
<td>Police</td>
<td>25212</td>
<td>25148</td>
<td>657.815</td>
<td>126.701</td>
<td>21460.490</td>
</tr>
<tr>
<td>Total</td>
<td>25327</td>
<td>25316</td>
<td>980.265</td>
<td>303.034</td>
<td>38892.566</td>
</tr>
</tbody>
</table>


(b) Punjab

In Punjab, 26,468 persons were arrested in 26,238 cases in which 805.020 kilograms of opium, 975.890 kilograms of heroin and 32,877.921 kilograms of hashish were recovered.
The following table presents agency-wise statistics for Punjab.

### Table 4.5

<table>
<thead>
<tr>
<th>Agency</th>
<th>Cases</th>
<th>Defendants</th>
<th>Opium</th>
<th>Heroin</th>
<th>Hashish</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.N.F</td>
<td>366</td>
<td>718</td>
<td>377.885</td>
<td>432.192</td>
<td>16498.805</td>
</tr>
<tr>
<td>A.S.F</td>
<td>2</td>
<td>2</td>
<td>0.00</td>
<td>0.813</td>
<td>0.00</td>
</tr>
<tr>
<td>Customs</td>
<td>66</td>
<td>36</td>
<td>5.00</td>
<td>88.917</td>
<td>2255.800</td>
</tr>
<tr>
<td>Excise</td>
<td>573</td>
<td>572</td>
<td>9.510</td>
<td>16.080</td>
<td>216.236</td>
</tr>
<tr>
<td>Police</td>
<td>26231</td>
<td>25140</td>
<td>412.625</td>
<td>437.888</td>
<td>13907.080</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26238</strong></td>
<td><strong>26468</strong></td>
<td><strong>805.020</strong></td>
<td><strong>975.890</strong></td>
<td><strong>32877.921</strong></td>
</tr>
</tbody>
</table>


(c) Sindh

In Sindh, 2,404 defendants were arrested in 2,314 cases in which 141.481 kilograms of opium, 767.315 kilograms of heroin and 11389.610 kilograms of hashish were recovered.

The following table presents agency-wise statistics for Sindh.

### Table 4.6

<table>
<thead>
<tr>
<th>Agency</th>
<th>Cases</th>
<th>Defendants</th>
<th>Opium</th>
<th>Heroin</th>
<th>Hashish</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.N.F</td>
<td>133</td>
<td>122</td>
<td>46.800</td>
<td>386.310</td>
<td>2770.473</td>
</tr>
<tr>
<td>A.S.F</td>
<td>12</td>
<td>12</td>
<td>9.850</td>
<td>33.713</td>
<td>0.120</td>
</tr>
<tr>
<td>Coast Guards</td>
<td>2</td>
<td>4</td>
<td>0.00</td>
<td>0.00</td>
<td>370.000</td>
</tr>
<tr>
<td>Customs</td>
<td>134</td>
<td>55</td>
<td>0.00</td>
<td>127.457</td>
<td>299.000</td>
</tr>
<tr>
<td>Excise</td>
<td>177</td>
<td>207</td>
<td>13.450</td>
<td>22.185</td>
<td>4000.330</td>
</tr>
<tr>
<td>Police</td>
<td>1842</td>
<td>1989</td>
<td>62.381</td>
<td>111.535</td>
<td>3943.395</td>
</tr>
<tr>
<td>Railway Police</td>
<td>10</td>
<td>10</td>
<td>0.00</td>
<td>1.105</td>
<td>1.292</td>
</tr>
<tr>
<td>Rangers</td>
<td>4</td>
<td>5</td>
<td>9.00</td>
<td>85.010</td>
<td>5.000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2314</strong></td>
<td><strong>2404</strong></td>
<td><strong>141.481</strong></td>
<td><strong>767.315</strong></td>
<td><strong>11389.610</strong></td>
</tr>
</tbody>
</table>
(d) Baluchistan

In Baluchistan, 310 defendants were arrested in 363 cases in which 7027.854 kilograms of opium, 32,657.600 kilograms of morphine base, 730.873 kilograms of heroin and 31,018.114 kilograms of hashish were confiscated. The following table presents agency-wise statistics for Baluchistan.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Cases</th>
<th>Defendants</th>
<th>Quantity Seized in Kgs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Opium</td>
</tr>
<tr>
<td>A.N.F.</td>
<td>51</td>
<td>51</td>
<td>5670.295</td>
</tr>
<tr>
<td>Coast Guards</td>
<td>22</td>
<td>26</td>
<td>12,000</td>
</tr>
<tr>
<td>Customs</td>
<td>5</td>
<td>1</td>
<td>0.000</td>
</tr>
<tr>
<td>Excise</td>
<td>14</td>
<td>10</td>
<td>0.000</td>
</tr>
<tr>
<td>Frontier Corps</td>
<td>85</td>
<td>34</td>
<td>745.930</td>
</tr>
<tr>
<td>Police</td>
<td>186</td>
<td>189</td>
<td>599,629</td>
</tr>
<tr>
<td>Total</td>
<td>363</td>
<td>310</td>
<td>7027.854</td>
</tr>
</tbody>
</table>


It appears that Government of Pakistan is determined to eradicate the drug trafficking activities as the data of various provinces indicate. It may be noted that in drug trafficking, foreign nationals are also involved.

4.1.2. Trafficking by Foreign Nationals

Drug traffickers from Nigeria, South Africa, Tanzania and other African countries actively pursued heroin trafficking during 2006. They have created two networks: a supply network from Pakistan to Africa and a redistribution network from Africa to Europe and North America and elsewhere. 19 Most of the air drug carriers are shifted to
Nigeria and other West African countries. Evidence indicates that people from developing countries were used as carriers for heroin transportation in human bodies. Changing circumstances show their ingenuity as smugglers are exploiting and utilizing Pakistani nationals as well as Chinese, Fillipino and Indonesian females from East and South East Asian countries. During 2006, a total of 215 foreigners from 31 countries were arrested with drugs at different locations. Nigerians were the most conspicuous even this year on the list of heroin traffickers. As many as 77 Nigerians (35.81% of the total foreigners) were arrested with 5,480 kilograms of opium, 316,189 kilograms of heroin and 64,400 kilograms of hashish. The following table presents continent-wise breakdown of drugs seized during 2006.

Table 4.8.

<table>
<thead>
<tr>
<th>Continent</th>
<th>Cases</th>
<th>Defendants</th>
<th>Opium</th>
<th>Heroin</th>
<th>Hashish</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>12</td>
<td>13</td>
<td>0.000</td>
<td>18.170</td>
<td>0.000</td>
</tr>
<tr>
<td>West Asia</td>
<td>25</td>
<td>25</td>
<td>5.480</td>
<td>39.030</td>
<td>41.400</td>
</tr>
<tr>
<td>South Asia</td>
<td>8</td>
<td>8</td>
<td>0.000</td>
<td>8.043</td>
<td>0.000</td>
</tr>
<tr>
<td>Africa</td>
<td>128</td>
<td>163</td>
<td>0.000</td>
<td>191.926</td>
<td>13.000</td>
</tr>
<tr>
<td>North America</td>
<td>0</td>
<td>0</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Europe</td>
<td>5</td>
<td>6</td>
<td>0.000</td>
<td>59.020</td>
<td>10.000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>178</td>
<td>215</td>
<td>5.480</td>
<td>316.189</td>
<td>64.400</td>
</tr>
</tbody>
</table>

The following table presents nationality-wise breakdown of drugs seized during 2006:

**Table 4.9.**

[Nationality-wise Statistics (Drugs seized in Kilograms)]

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Nationality</th>
<th>No.of Cases</th>
<th>Defendants</th>
<th>Opium</th>
<th>Heroin</th>
<th>Hashish</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Afghan</td>
<td>16</td>
<td>16</td>
<td>5.480</td>
<td>7.980</td>
<td>41.400</td>
</tr>
<tr>
<td>2</td>
<td>British</td>
<td>3</td>
<td>4</td>
<td>0.000</td>
<td>47.020</td>
<td>10.000</td>
</tr>
<tr>
<td>3</td>
<td>Bangladeshi</td>
<td>6</td>
<td>6</td>
<td>0.000</td>
<td>22.300</td>
<td>0.000</td>
</tr>
<tr>
<td>4</td>
<td>Chinese</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.800</td>
<td>0.000</td>
</tr>
<tr>
<td>5</td>
<td>Dutch</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>6</td>
<td>Filipino</td>
<td>2</td>
<td>3</td>
<td>0.000</td>
<td>2.700</td>
<td>0.000</td>
</tr>
<tr>
<td>7</td>
<td>Gambian</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.548</td>
<td>0.000</td>
</tr>
<tr>
<td>8</td>
<td>Ghanaian</td>
<td>3</td>
<td>3</td>
<td>0.000</td>
<td>5.470</td>
<td>0.000</td>
</tr>
<tr>
<td>9</td>
<td>Guinean</td>
<td>2</td>
<td>2</td>
<td>0.000</td>
<td>0.275</td>
<td>0.000</td>
</tr>
<tr>
<td>10</td>
<td>Ivorian</td>
<td>7</td>
<td>7</td>
<td>0.000</td>
<td>4.180</td>
<td>0.000</td>
</tr>
<tr>
<td>11</td>
<td>Indonesian</td>
<td>2</td>
<td>2</td>
<td>0.000</td>
<td>4.170</td>
<td>0.000</td>
</tr>
<tr>
<td>12</td>
<td>Kazakh</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>8.400</td>
<td>0.000</td>
</tr>
<tr>
<td>13</td>
<td>Lao People’s Democratic</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.150</td>
<td>0.000</td>
</tr>
<tr>
<td>14</td>
<td>Lebanese</td>
<td>2</td>
<td>2</td>
<td>0.000</td>
<td>0.350</td>
<td>0.000</td>
</tr>
<tr>
<td>15</td>
<td>Liberian</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>16</td>
<td>Kenyan</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>17</td>
<td>Nepalese</td>
<td>8</td>
<td>8</td>
<td>0.000</td>
<td>8.043</td>
<td>0.000</td>
</tr>
<tr>
<td>18</td>
<td>Nigerian</td>
<td>77</td>
<td>106</td>
<td>0.000</td>
<td>146.494</td>
<td>3.000</td>
</tr>
<tr>
<td>19</td>
<td>Malaysian</td>
<td>4</td>
<td>4</td>
<td>0.000</td>
<td>5.500</td>
<td>0.000</td>
</tr>
<tr>
<td>20</td>
<td>Malawian</td>
<td>0</td>
<td>1</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>21</td>
<td>Mozambican</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>1.300</td>
<td>0.000</td>
</tr>
<tr>
<td>22</td>
<td>Rwandan</td>
<td>2</td>
<td>2</td>
<td>0.000</td>
<td>0.450</td>
<td>10.000</td>
</tr>
<tr>
<td>23</td>
<td>South African</td>
<td>19</td>
<td>20</td>
<td>0.000</td>
<td>17.169</td>
<td>0.000</td>
</tr>
<tr>
<td>24</td>
<td>Senegalese</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.750</td>
<td>0.000</td>
</tr>
<tr>
<td>25</td>
<td>Sierra Leonean</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>26</td>
<td>Singaporean</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>1.500</td>
<td>0.000</td>
</tr>
<tr>
<td>27</td>
<td>Spanish</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>12.000</td>
<td>0.000</td>
</tr>
<tr>
<td>28</td>
<td>Tanzanian</td>
<td>9</td>
<td>13</td>
<td>0.000</td>
<td>13.550</td>
<td>0.000</td>
</tr>
<tr>
<td>29</td>
<td>Thai</td>
<td>2</td>
<td>2</td>
<td>0.000</td>
<td>3.500</td>
<td>0.000</td>
</tr>
<tr>
<td>30</td>
<td>Zambian</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>0.540</td>
<td>0.000</td>
</tr>
<tr>
<td>31</td>
<td>Zimbabwean</td>
<td>1</td>
<td>1</td>
<td>0.000</td>
<td>1.050</td>
<td>0.000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>178</strong></td>
<td><strong>215</strong></td>
<td><strong>5.480</strong></td>
<td><strong>316.189</strong></td>
<td><strong>64.400</strong></td>
</tr>
</tbody>
</table>


### 4.2. Analysis of Anti Narcotic Force Seizure

This will show the efforts and seriousness on the part of the Government to curtail narcotics smuggling through various exit points. The effort focuses on assisting the law
enforcement agencies in delineating their future course of action by understanding the
moves of smugglers. The following table presents an analysis of seizures at various
locations.

Table 4.10

<table>
<thead>
<tr>
<th>Locations/Places of Seizures</th>
<th>No. of Cases</th>
<th>Opium</th>
<th>Morphine Base</th>
<th>Heroin</th>
<th>Hashish</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities/Built Up Area</td>
<td>225</td>
<td>4874.445</td>
<td>2,7675.500</td>
<td>476.898</td>
<td>9450.557</td>
</tr>
<tr>
<td>Airport</td>
<td>265</td>
<td>9.850</td>
<td>0.000</td>
<td>408.266</td>
<td>0.250</td>
</tr>
<tr>
<td>Post Parcel</td>
<td>34</td>
<td>0.000</td>
<td>0.000</td>
<td>16.392</td>
<td>0.256</td>
</tr>
<tr>
<td>Dry Port</td>
<td>0</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Hinterland</td>
<td>9</td>
<td>5.260</td>
<td>13.000</td>
<td>0.000</td>
<td>2324.300</td>
</tr>
<tr>
<td>Road/Highway</td>
<td>137</td>
<td>1441.675</td>
<td>0.000</td>
<td>81.184</td>
<td>18473.525</td>
</tr>
<tr>
<td>Sea Port</td>
<td>0</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>670</strong></td>
<td><strong>6331.230</strong></td>
<td><strong>27,688.500</strong></td>
<td><strong>982.740</strong></td>
<td><strong>30248.897</strong></td>
</tr>
</tbody>
</table>


Recognizing the significance of international airports as a conduit for narcotics
smuggling, ANF paid special attention to foiling the efforts of smugglers through
airports. This strategy led to envious seizures, that clearly throws a light on the fact that
over 37% of the total heroin seized during 2006 was at airports. The following table
depicts the triumphs achieved during 2006.

Table 4.11

<table>
<thead>
<tr>
<th>Airports</th>
<th>Cases</th>
<th>Heroin Seized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peshawar</td>
<td>44</td>
<td>59,952</td>
</tr>
<tr>
<td>Islamabad</td>
<td>77</td>
<td>1930.115</td>
</tr>
<tr>
<td>Lahore</td>
<td>21</td>
<td>26,362</td>
</tr>
<tr>
<td>Faisalabad</td>
<td>11</td>
<td>28,804</td>
</tr>
<tr>
<td>Multan</td>
<td>3</td>
<td>8.145</td>
</tr>
<tr>
<td>Quetta</td>
<td>2</td>
<td>3.900</td>
</tr>
<tr>
<td>Karachi</td>
<td>120</td>
<td>239.478</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>278</strong></td>
<td><strong>2296.756</strong></td>
</tr>
</tbody>
</table>

Drugs are expensive but the human sources for carrying them are even harder to cultivate, and are scarcely available. Hence, traffickers are resorting to non-human sources like posted letters, parcels etc, for smuggling of narcotics to different destinations and markets. However, cargo and courier companies and mailing offices have been exercising enough vigilance in the detection and checking of suspicious materials and have been providing timely information, leading to valuable seizures. The following table provides an insight into the magnitude of drug smuggling.

Table 4.12

<table>
<thead>
<tr>
<th>City</th>
<th>Name of Agency and No of Attempts Failed</th>
<th>Drugs Seized</th>
<th>Modus Operandi</th>
<th>Destination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peshawar</td>
<td>ANF - 02</td>
<td>0.690 kgs heroin</td>
<td>Cover of Books</td>
<td>2 to England</td>
</tr>
<tr>
<td>Islamabad</td>
<td>ANF - 03</td>
<td>1.160 kg heroin, 0.056 kg hashish</td>
<td>Envelopes, Tool Boxes, Leather Jackets, Photo Album, Polythene Bags, Marker Pens, Parcels, Ladies Suits and Bicycle</td>
<td>1 to Holland, 1 each to Holland, Australia, Nigeria, UK Canada, South Africa &amp; UAE</td>
</tr>
<tr>
<td>Customs - 10</td>
<td></td>
<td>17.04 kgs heroin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karachi</td>
<td>ANF - 22</td>
<td>10.172 kg heroin, 0.200 kgs hashish</td>
<td>Envelopes, Buttons of Baby Suits/Cloth, Parcel, Book Folder, Book Cover, Sole Shoes (Pair), Card Board, Carton, Packing Cards, Inside Collar, Plastic Cover, Leather Jackets, Ladies Sharara Kameez, Ladies Frocks, Hairdips</td>
<td>6 each to UK &amp; South Africa, 2 each to Holland &amp; Australia, 1 each to Netherlands, USA, Canada, Casa Blanca, Spain</td>
</tr>
<tr>
<td>Customs - 69</td>
<td></td>
<td>30.207 kgs heroin, 278.00 kg hashish</td>
<td></td>
<td>24 to South Africa, 14 to UK, 6 to Nigeria, 3 each to Canada &amp; China, 2 each to Australia, Netherlands, Manila, Mozambique, Gabon Africa &amp; Le索tho Africa, 1 each to Holland, Tanzania, Indonesia, Philippines &amp; Amsterdam</td>
</tr>
<tr>
<td>Lahore</td>
<td>ANF - 01</td>
<td>0.070 kg heroin</td>
<td>Buttons, Vase, Baby Garments, Garments, Laces, Packing of Shirts, Book Bindings, Ladies Hand Bags, Ladies Shoes, Lead Pencils and Ladies Sandals</td>
<td>Holland</td>
</tr>
<tr>
<td>Customs - 14</td>
<td></td>
<td>10.585 kg heroin</td>
<td></td>
<td>5 to UK, 4 to Nigeria &amp; 1 each to South Africa, Indonesia, Holland and Australia</td>
</tr>
<tr>
<td>Gujranwala</td>
<td>Customs - 01</td>
<td>0.280 kg heroin</td>
<td>Parcel</td>
<td>South Africa</td>
</tr>
<tr>
<td>Sialkot</td>
<td>Customs - 03</td>
<td>1.450 kg heroin</td>
<td>Parcel, Ladies Hand Bags and Letter</td>
<td>1 each to Portugal &amp; South Africa</td>
</tr>
<tr>
<td>Attock</td>
<td>ANF - 01</td>
<td>1.010 kg heroin</td>
<td>Ladies Purse</td>
<td>USA</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>110</strong></td>
<td><strong>72,924 kgs heroin, 278,256 kgs hashish</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The government’s decision of establishing special courts for speedy trial of narcotics offences has proved to be an effective means to hit the drug supply and demand chain. The following table reflects the success of Anti Narcotics Force (ANF) in achieving excellent conviction rate.

Table 4.13.

<table>
<thead>
<tr>
<th>State of Prosecution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered Cases since 1995</td>
<td>5,569</td>
</tr>
<tr>
<td>Conviction Cases</td>
<td>3,219</td>
</tr>
<tr>
<td>Acquittal Cases</td>
<td>432</td>
</tr>
<tr>
<td>Dormant Cases</td>
<td>379</td>
</tr>
<tr>
<td>Closed Cases</td>
<td>234</td>
</tr>
<tr>
<td>Undertrial Cases</td>
<td>1,305</td>
</tr>
</tbody>
</table>

[Source: Anti Narcotic Force Pakistan, Analysis: Domestic Seizure, Islamabad, 2007]

The maximization of financial gains and accumulation of assets is an important goal of criminals involved in narco crimes. The Anti Narcotics Force has gone all out to deprive criminals of assets acquired by them through ill-gotten money. Such moves have had long-lasting effects on narcotics control. Under the CNS Act 1997, ANF initiated financial investigations which resulted in forfeiture and confiscation of colossal assets accumulated by drug barons.
The war against transnational organized crimes such as trafficking of narcotics cannot be fought without the voluntary and readily forthcoming cooperation of the international community. The comity of nations has realized the significance of this notion. The introduction of a series of UN Conventions in the last few decades clearly indicates that the war on drugs is one of the most important steps required to be taken to save humanity. The Government of Pakistan is making continuous efforts for enhancing international cooperation by signing maximum agreements with the affected countries. Pakistan has signed 26 MoUs and 28 extradition treaties with different countries so far. Moreover, it is a signatory to all the three UN Conventions and some regional conventions as well. Drug crimes cannot be tackled in isolation for these crimes encourage other criminal activities such as terrorism, which has proved to be extremely fatal for the security of even the most powerful nations. Realizing the significance of international cooperation,
Anti Narcotics Forces (ANF), with the prime assistance of the Drug Enforcement Administration (DEA) of the US, established a special unit to counter narcotics operations of international nature. This unit undertakes special investigations and maintains close liaison with various countries by sharing operational intelligence of mutual interest. Additionally, it also launches Controlled Delivery Operations to bust gangs operating on foreign soils with the help of their law enforcement agencies. Numerous operations have been conducted during 2006, resulting in sizable seizures of drugs and nabbing of offenders of international stature.

The following table presents the successes achieved by ANF during 2006.

<table>
<thead>
<tr>
<th>Date</th>
<th>Country</th>
<th>Drugs Seized (in Kgs)</th>
<th>Persons Arrested</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2006</td>
<td>Saudi Arabia</td>
<td>Hashish 1458.9</td>
<td>6</td>
</tr>
<tr>
<td>April 2006</td>
<td>Saudi Arabia</td>
<td>Hashish 500</td>
<td>2</td>
</tr>
<tr>
<td>May 2006</td>
<td>Germany</td>
<td>Hashish 750</td>
<td>1</td>
</tr>
<tr>
<td>July 2006</td>
<td>Belgium</td>
<td>Hashish 2000</td>
<td>4</td>
</tr>
<tr>
<td>August 2006</td>
<td>Netherlands</td>
<td>Hashish 2400</td>
<td>0</td>
</tr>
<tr>
<td>September 2006</td>
<td>Belgium</td>
<td>Hashish 3770</td>
<td>0</td>
</tr>
<tr>
<td>September 2006</td>
<td>UAE</td>
<td>Hashish 1000</td>
<td>3</td>
</tr>
<tr>
<td>November 2006</td>
<td>China</td>
<td>Heroin 13</td>
<td>10</td>
</tr>
</tbody>
</table>

[Source: Anti Narcotic Force Pakistan, *Analysis: Domestic Seizure*, Islamabad]

Keeping in view the excessive challenges posed by the transit trade through Pakistan and continuously increasing volumes of trading movements, Pakistan has fared well in controlling the drug trafficking in the face of limited resources. The use of cutting-edge technology and the lure of financial gains fuel the activities of criminals, more so because the law enforcement agencies have not been adequately equipped and strengthened along
modern lines. Pakistan needs to do a lot more – both in terms of equipping its law enforcement agencies with modern devices as well as instituting legislative interventions. This is a mammoth task that cannot be achieved without the assistance of the international community. Such expectations notwithstanding, ANF is determined to continue its war against drugs in order to preserve the present and future of all humanity. A coherent long-term strategy is needed that can help in the elimination of the menace of drugs. It can be easily concluded that Pakistan has made tremendous efforts by implementing the provisions of Act which has brought substantial successes.

4.3 Terrorism in Pakistan

Pakistan is bleeding due to prevalence of local and global terrorism. Being a front line state in Operation Enduring Freedom, Pakistan is facing unrest from Waziristan to Karachi. Different law enforcing agencies are actively involved in counter terrorism and approximately eighty thousand troops have been fighting with the foreign terrorists in the South Waziristan Agency and in rest of the tribal area where terrorism sanctuaries are existing. They also operate from here and consist of different nationalities. These terrorist activities have spillover effects in other parts of the country. In addition, sectarian killings in Pakistan are by all accounts and standards acts of terrorism to destabilize the governments and economy. Precisely, a new form and outfit of terrorists with different ideologies and motives are spreading unprecedented violence in the country. Consequently, many innocent lives have become victim of terrorists. Terrorist destabilize social order and create law and order problem for the country. Although their attacks are targeted, yet more innocent lives become victim of these targets. In the case of suicide bombings, the terrorists have convinced innocent supporters to give up their lives
for the cause. The effect of terrorism is damaging, on one side it kills innocent people while on the other side it has the ability to paralyze even government’s functioning.\textsuperscript{25} There is need of proper strategy to be adopted to counter this menace. It may be noted that so many factors contribute to terrorists’ activities and one of them is the underground economy which not only provides monetary support but also persuades even those people to adopt this profession who are not terrorists. They are compelled to join this vicious circle because of peculiar circumstances. There is need to look into the issue properly and come out with mechanism and strategy to counter this dangerous menace. This strategy will not only be useful for saving innocent lives but also help in bringing stability to the country and also prove as stabilizing factor for the financial institutions.

The pragmatic approach is that the internal terrorism should be controlled by enhancing the roles of the law enforcing agencies and activating the judicial mechanism besides creating general awareness and enlightenment. Winning the battle against this menace, of course, requires excellent intelligence gathering and law executing institutions in order to be effective. It is worth emphasizing that counter terrorist techniques may threaten the presence of civil liberties in a society. Therefore, there is a need to make distinction between a tight-knit core and a loose network of sympathizers. Hence, it is imperative that the government of Pakistan should chalk out a strategy, which must differentiate between the criminal gangs and law-abiding citizens of the state.

Pakistan promulgated Anti-Terrorism Act,1997 to meet the challenges posed by terrorists.\textsuperscript{26} A brief elaboration of this act is given below as it is directly related to the complex phenomenon of terrorism.
4.4. Anti Terrorism Act: 1997

The Anti terrorism Act (ATA) came into force on August 20, 1997 for “the prevention of terrorism, sectarian violence and for speedy trial of heinous offences and for matters connected therewith and incidental thereto”. Despite the fact that the Suppression of Terrorist Activities (Special Powers) Act 1975 (STA) was in operation, the two laws ran side by side up till August 15, 2001 when the then President of Pakistan, promulgated the Ordinance No. XXXIX of 2001 in which the STA was repealed. In the aftermath of its promulgation, many amendments were made.

Though this Act to some extent contains the substantive law, but primarily it is procedural in nature. Importantly, Article 37 (d) of the Constitution of Pakistan, 1973, demands that the State should ensure inexpensive and expeditious justice. The establishment of Special Courts has reflected this thinking and has led to relatively speedy disposal of terrorism cases. The Special Court(s) constituted under the ATA is a Court subordinate to the High Court. It has to act under its supervision and control. The substantive rights of the accused persons, remain unaffected. The provisions of the said Act, are not ex facie violative of the fundamental or other Constitutional rights of the citizens. The higher judiciary in Pakistan has proved many times that it reviewed the decisions of lower courts on merits. Ali Dayan Hassan gave the example of Mukhtara Mai in his article in the News.

4.5 Parallel Judicial System

Keeping in view the sensitivity and nefarious nature of the crime of terrorism, a parallel judicial system was established in Pakistan to expedite the cases of terrorism. It was believed that this system would ensure speedy trials by the military courts rather than the
normal judicial system. These courts were created to ensure speedy trials of the people involved in terrorism by bypassing the norms of normal judicial system. Owing to the complications involved in these cases, the Supreme Court of Pakistan ordered the establishment of anti terrorists courts and transfer of the unexecuted cases to these courts according to the guidelines provided by the superior judiciary. 31

However, to ensure a fair trial without any chances of law enforcement agencies excesses and habeas corpus cases, The Supreme Court made it mandatory for the law enforcing and investigating agencies to carry out fair and transparent investigation and held them accountable for their actions by introducing new guidelines according to the applicable law. 32

There is a strong will and movement in Pakistan for the prevalence of the rule of law which is a cornerstone of a civilized and just society. By having the rule of the law in the country, we can head towards the goal of a crimeless and prosperous society, where there would be hardly any room for menaces like terrorism and money laundering. To be precise, a sound and effective judicial system is a sine qua non for countering terrorism in Pakistan.

If we have a cursory look from 1999 to 2003, one can find very few terrorist activities during this period. 33 The provisions of the Act would have brought more successes in order to achieve the desired objectives had the concerned agencies concentrated upon the execution and monitoring aspect forcefully. 34 The unrest in North and South Waziristan since 2006 has almost changed the whole scenario. The suicide attacks at prominent places like Islamabad, Rawalpindi, Peshawar ,Lahore, Charsadda, Sargodha, Karachi 35 and other cities of the country have created chaos and uncertainty among citizens. The
killing of prominent politicians like Benazir Bhutto on 27th December 2007 along with other persons was an alarming indicator for Pakistan’s internal security. It may be noted that other than civilians, the target of suicide attackers has been the security forces of Pakistan which is again a clear cut signal to the fact that either the strategies to combat terrorism have not been clearly defined and followed, or the tactics and new techniques being used by terrorists remain unidentified. A suicide attack in Rawalpindi on 25th February 2008 killed more than 10 persons including a serving Lt. Gen. Mushtaq Baig, is a big challenge for security forces to maintain law and order situation as well as provide security to the general public. This aspect of terrorism needs proper scrutiny on the part of policy makers as how to deal with this dangerous and innovative method of killing innocent people and creating unrest and insecurity in the country. If one looks at these suicide attacks, it reveals that attackers must have been paid handsome amount not only to kill themselves but ruin the lives of so many innocent people. One cannot rule out the involvement of laundered money paid to these attackers for fulfillment of dangerous designs of terrorists. A brief discussion on the issue provides alarming picture and detailed discussion does not fall within the purview of the present study. However, it can be concluded that introduction of Acts and other measures to curb terrorism have not worked according to the expectations of the Pakistan’s government despite their tall claims. The matter needs serious attention as the internal security is linked with the external security and Pakistan cannot afford to put her internal security at stakes for which immediate and concrete measures are necessary. With the objective of eliminating money laundering, the Government of Pakistan took another measure by introducing National Accountability Ordinance, 1999.
4.6 National Accountability Ordinance, 1999

The Ordinance made provisions to deal with “the detection, investigation, prosecution and speedy disposal of cases involving corruption, misuse/abuse of power, misappropriation and kickbacks”. The Ordinance was a move to eradicate corruption as it is considered a predicate offence for money laundering. This Ordinance made it compulsory for the financial institutions to convey to the National Accountability Bureau (NAB) any suspicious financial transactions. The bank would also judge professionally all the suspicious transactions in order to control the element of corruption or illegitimacy in such cases which are to be reported to the Chairman, NAB in writing. As a consequence of anti money laundering measures, NAB was able to recover an amount of Rs.210 billion. Actions taken by NAB against loan defaulters, tax evaders, corrupt officials and business men was also acknowledged by Dr. Ishrat Hussain, the then Governor State Bank of Pakistan. The establishment of NAB was also helpful in redressing the grievances of different victims of financial scandals in the country. The NAB paid over Rs. 7 billion to the victims of various scams and provided support to the regulatory bodies like SECP in stemming the tide of probable financial scams.

NAB also adopted a crime preventing strategy in order to monitor criminals and safeguard victims of crimes. This strategy is meant to examine laws; procurement and regulation of various corruption prone government’s departments and suggest remedial measures and amendments in the regulations to plug the loopholes. As money laundering is a global problem, NAB also cooperates and coordinates with international anti corruption agencies for the cause of eradicating corruptions in accordance with FATF recommendations. Training, extradition, assets investigation, freezing of
assets/accounts and mutual legal assistance are some of the key areas of cooperation.\textsuperscript{44} This is another important step taken by Pakistan in line with the directives of the international anti-money laundering regimes. It may be noted that the establishment of NAB did retrieve back a huge amount of money although it has been criticized severely by all quarters particularly in the country for not bringing the desired results. \textsuperscript{45} Government of Pakistan took another initiative by introducing the Electronic Transactions Ordinance, 2002 in order to combat money laundering.

\section*{4.7 The Electronic Transactions Ordinance, 2002}

The Electronic Transactions Ordinance, 2002 was an important step towards anti money laundering measures. With special reference to money laundering it provided that “any person who gains or attempts access to any information system with or without intent to acquire the information contained therein or gain knowledge of such information, whether or not he/she is aware of the nature or contents of such information, when he/she is not authorized to gain access shall be guilty of an offence punishable with either description of a term not exceeding seven years, or fine which may extend to Pak Rs. 1 million or both”.\textsuperscript{46} The Act also comprehensively elaborated that any person who does or attempts to alter, delete, generate, transmit or store information unauthorizedly, he/she shall be guilty under this ordinance.\textsuperscript{47} Through the introduction of this Ordinance, Government of Pakistan made another effort to plug as many holes as possible to curtail money laundering activities.\textsuperscript{48} Since the money launderers are well knit and organized and their web is strong, it is internationally required to have maximum possible restrictions to curtail their movements and activities and weaken their strength. This Ordinance made financial institutions careful in making financial transactions through
checks and balances. It also streamlined the financial practices and strengthened their working in accordance with international standards.\textsuperscript{49}

4.8 Anti-Money Laundering Ordinance 2007

The Government of Pakistan promulgated Anti-Money Laundering Ordinance, on Sept 8\textsuperscript{th} 2007. By promulgation of this Ordinance, the government fulfilled a major demand of the international community for introducing a financial system with legal backing for controlling the menace of money laundering.\textsuperscript{50} The Ordinance includes an effective mechanism for prevention of money laundering, its regulatory and financial sector requirement and detection of suspicious transactions, establishment of Financial Monitoring Unit (FMU). This is meant to control the offence of money laundering.\textsuperscript{51} The Ordinance also empowered National Accountability Bureau, Federal Investigation Agency and Anti-Narcotics Forces (ANF) to investigate ‘predicate offence’.\textsuperscript{52} The Ordinance clearly stated that a person would be guilty of the crime of money laundering by acquiring, converting, possessing or transferring property knowingly that the questioned property was the proceeds of the crime.\textsuperscript{53} This section is in conformity with FATF recommendation which stipulated that all the states should implement measures with regard to confiscation of property related to the crime of money laundering.\textsuperscript{54} Promulgation of AML Ordinance is the result of prolong efforts. The Government of Pakistan constituted a working group including the representatives from Ministry of Law, Ministry of Foreign Affairs, NAB, FIA, SECP and SBP to draft the Anti-Money Laundering Law. The draft law was considered by the Cabinet thrice and was approved on 29-06-2005. The draft law was then presented in the National Assembly on 22-09-2005.\textsuperscript{55} The AML Ordinance was promulgated in view of the international commitments
and obligations. The financial system of Pakistan may have suffered a loss of credibility
and reputation in case of its inability to introduce laws to stop money laundering till the
end of 2007. Moreover, it was necessary for the country’s banking system to win the
confidence of international community. The working of banking sector in accordance
with the provisions of AML Ordinance would encourage transfer of money through
proper banking channels and reduce the *Hawala* and *Hundi* activities. Owing to
international and national considerations coupled with push and pull factors Anti Money
Laundering Act 2010 was passed by the Parliament and promulgated on March
27, 2010. Besides, legislative measures, it is pertinent to see as how financial sector has
behaved in regulating the menace of money laundering in the light of steps taken by
Government of Pakistan. The financial sector is regulated by the State Bank of Pakistan
and Securities and Exchange Commission of Pakistan.

**4.8.1. Anti Money Laundering Measures for the Banking Sector**

Banks are vulnerable to money laundering and financial crimes. Insufficient anti money
laundering measures or absence of Know Your Customer Standards may inflict on the
banks reputational, operational, legal and concentration risks. Peter rightly states that
money laundering crimes can vitiate and corrupt the banking system and financial
institutions. It indicates the dangerous nature of money laundering activities and its
implications for financial sector in particular. All banking and other financial institutions
need to be regulated by a central authority in order to bring uniformity in the standards
and practices to be followed for financial transactions and other related matters. The
financial institutions and banking sector is regulated by the State Bank of Pakistan (SBP)
and in the capacity of banking regulator, it is mandatory for State Bank of Pakistan to
take stern and stringent measures to stabilize the financial institutions as well as curb all those activities which target financial sector and take it towards ruination and destabilization. The money laundering has become a bigger crime for the financial sector for which State bank of Pakistan has introduced a number of steps to overcome this crime and such other crimes which take birth as a result of money laundering. The SBP has been constantly updating and improving the regulatory framework for the financial sector in order to keep pace with the evolving needs of the economic agents.\textsuperscript{61} With a view to fight money laundering and terrorist financing, SBP has set up units dedicated for combating money laundering and terrorist financing. It has issued anti money laundering regulatory framework and instructions to banking and Development Financial Institutions in conformity with the recommendations of financial action task force and international standards. SBP receives Suspicious Transaction Reports from financial institutions and take suitable actions after its processing. In the process it ensures proper coordination with all the relevant government departments and stakeholders. International liaison with international organizations is maintained in the light of global standards. Accounts of proscribed and blacklisted entities are frozen through the directives of State Bank of Pakistan. It also ensures on site inspection and off site surveillance for proper working and compliance to its directives. Functioning of exchange companies is also supervised so that the culture of Hundi and Hawala can be eliminated and imposes restrictions on Rupees Traveler’s Cheques (TCs) and Bearer Instruments to curb the problem of money laundering.\textsuperscript{62}
4.8.2. End of Alternative Remittance System and Establishment of Exchange Companies

Money changers play an important role in the transfer of inward and outward money in Pakistan. In this regard alternative remittance system is used by FATF to denote the activity of services provided for transfer of money or other assets from one geographical location to another. It is generally not regulated by the regulator of the financial sector. The services provided by this method carry different region specific terms like Hundi, Hawala and padala etc. 63 State Bank in the light of FATF recommendations, took appropriate measures by declaring them illegal. According to the SBP, “the network of defunct money changers, operating in unregulated environment was highly susceptible to illegal use. Moreover, the network functioning as a parallel market was creating hindrance for SBP in the management of exchange rate”.64 This act on the part of money changers was a tangible threat to anti money laundering measures being taken at various levels as unregulated businesses can be used by criminals for their vested interest. The SBP made it obligatory for all other financial institutions to get them registered and have licenses for appropriate regulation and supervision so that money laundering activities should not take place. This step has also been taken to avoid and curtail the chances of terrorist financing. These financial institutions were also instructed to ensure compliance with the international standards to combat money laundering and terrorist financing.65

Complying to FATF recommendations, SBP established exchange companies in 2003 in order to bring remittances and exchange businesses under properly regulated financial system.66 As a consequence of elimination of informal system and establishment of exchange companies, many transaction belonging to eliminated informal system, came under the ambit of proper regulatory system wherein proper documentation, record
keeping, know your customer requirements have to be fulfilled as per international standards. As far formal and informal system is concerned, FATF described formal funds transfer system as those included in the regulated financial system, leaving all other methods in the informal category. Through compliance with international standards, SBP was able to reduce the exchange rate gap between inter-bank market and kerb market, besides, improving the flow of foreign remittances. The balance of payments for financial year 2005 for the first time included the receipts and payments made through the Exchange Commissions and conveyed a comprehensive and realistic picture of the transactions on the external account of the country. These measures on the part of SBP indicate the level of compliance with international anti-money laundering regimes, which have also proved useful for stability of financial sector of Pakistan. The financial regulator of a country is the guarantor of stability of financial institutions and this objective can only be achieved through a comprehensive regulatory framework so that flow of illicit and dirty money could be stopped from coming to the financial institutions. Both the State Bank of Pakistan and Securities and Exchange Commission of Pakistan have introduced various regulations which are discussed below.

4.9 State Bank of Pakistan and Anti Money Laundering Regulatory Framework

Regulatory framework is meant to ensure smooth, prudent and legal functioning of the banking sector. According to Peter, regulations “can reduce the risk of failure and legal and regulatory constraints help shape a country’s corporate and financial structures”. In Pakistan, one of the core function of the country’s central bank i.e. the State Bank of Pakistan is the inspection and regulation of banks and related financial institutions to
ensure their soundness and stability. The SBP has issued the following prudential regulations for banks to overcome money laundering.

4.9.1. Regulations Know Your Customer (KYC)

1. Proper customer identification is prerequisite for account opening in the banks. Keeping in view the international practice, state bank has issued M-1 regulation for banks and development financial institutions. M-1 regulation directs financial institutions with regard to know your customer requirements so that the banking channel may not be used by unscrupulous and criminal elements. This ensures proper identification and integrity of the prospective customer. This regulatory measure has plugged the chances of fictitious, numbered or bogus account which lead towards transparency and regulatory complications. Violation to this regulation can subject the deviant bank to strict action by the state bank of Pakistan. The USA Patriot Act also requires institutions to validate the identity of all new customers. In addition, institutions must have a well-defined “KYC” and “KYCC” policy to provide ongoing monitoring relationships. Same validation is required for institutions in Pakistan. The prudential regulations empower the regulator of financial sector to ensure effective implementation of all the parameters of know your customer both in theory and practice. During the course of monitoring if state bank of Pakistan observe any violation the deviant bank along with its employee faces penal action in accordance with the provision of banking companies ordinance 1962. Pakistan’s steps are in compliance with FATF’s recommendations of 2004, which obligate the financial institutions not to open any fictitious or anonymous accounts, ensuring compliance with due
diligence measures for ensuring proper identification. Fictitious or anonymous accounts are the main instruments facilitating the purpose of the money launderers. KYC regulation also has risk management function because of which Basel Committee on Banking Supervision has incorporated KYC policy as part of its core principles for effective banking Supervision. In line with international standards and its drive against money laundering and terrorist financing the state bank of Pakistan observe the true implementation of customer due diligence and KYC policy by financial sector of Pakistan.

4.9.2 Appropriate Anti-Money Laundering Measures
These Regulations as part of the Prudential Regulations provide that banks and DFIs should take appropriate anti-money laundering measures for which ascertaining the genuineness of customer’s status, his source of income, tracking and monitoring his or her account regularly, identification of the beneficiary and remitter is essential. Any inconsistency, abnormality, unlawfulness and illegal transactions are to be properly monitored. The regulations also provide that the business of the Financial Institutions must be conducted according to high ethical standards as per regulations. For banks and DFIs, there is no proper mechanism to exactly know the origin of illegal money but the strict adherence to regulations can lessen the possibility of illicit money coming to banks and DFIs. Similarly, it is pertinent to observe the nature of transaction originated from cross border, so that it should not be derived from any illegitimate activity.

4.9.3. Record Retention
While complying with recommendations of FATF, the State bank of Pakistan redoubled its efforts with regard to maintenance of record pertaining to suspicious
transactions. As the record and data assist law enforcing and legal professional experts therefore state bank made it mandatory to keep it at least for five years. The maintenance of the record of transactions and identification by banks and DFIs is very important in case of any litigation or prosecution. The maintenance of such record in systematic manner can save banks and DFIs from unnecessary litigations or reputational risk. The record keeping should be helpful in tracing the origin of the money along with its routes and documentary proofs. In case of any litigation and resultant legal proceeding, the maintained record can help the legal authorities. These measures are meant to save the financial institutions from illicit money. It also helps them in maintaining stability and transparency.

4.9.4. Correspondent Banking

Correspondent banking relationships are very important in present age of financial interdependence. In compliance to FATF’s recommendations, the state bank of Pakistan has assumed greater responsibility in ensuring that the correspondent banking relationships are established with well reputed and properly regulated financial institutions. The banks and DFIs are not allowed to entertain and accept shell and non-cooperative banks for the correspondent relationship. The SBP has issued special instructions for financial institutions that before establishing correspondent relationship, banks should be well conversant with the business of the correspondent bank. In line with FATF and Wolf’s Berg’s Principle for the correspondent Banking, SBP has laid down specific pre-requisites with regard to a correspondent banking relationship which include: (a) KYC, (b) management integrity, (c) core businesses of the bank, (d) anti
money laundering policies of the bank, (e) regulatory framework, (f) internal control system.90

4.9.5. Suspicious Transactions

This regulation is meant for reporting of ‘suspicious transactions’91 in accordance with the recommendations of FATF and is also in compliance with UN’s emphasis to discourage ‘suspicious transactions’.92 The SBP has instructed all the banks and DFIs on the importance of large, complicated, and unlawful transactions. On the basis of its significance the suspicious transaction is reported for further investigation. The regulations specifically provide that the bank/DFIs should report immediately any suspicious money proceeds within three days to the State Bank of Pakistan.93 The report should contain information with regard to: “(a) title, type and number of the accounts, (b) amounts involved, (c) detail of the transactions, (d) reasons for suspicion, (e) nature of the underlying criminal activity”.94 Pakistani banks are required to report suspicious transaction involving an amount of Rs.500,000/ or more to pinpoint unusual movement in the customer accounts.95 Suspicion can be developed due to the size of transaction, profession of the remitter or the beneficiary, location and type of the customer. 96 In addition, the SBP is also complying with international requirements of risk management. In order to see that banks/DFIs are fully complying with the instruction on combating money laundering and terrorist financing, the SBP has adopted a comprehensive mechanism of inspections, surveillance and intelligence gathering, in line with the international best practices by conforming to CAMELS system of rating to evaluate the health of the banks.97 The above mentioned measures show comprehensive approach of SBP to AML/CFT. It is evident that by following strict measures, not only the financial
sector of Pakistan can be stabilized but international cooperation can also be sought easily for fighting money laundering and terrorist financing. A viable financial system attracts foreign investments as well as aid from international agencies like World Bank, IMF and other such organizations for which SBP has made tremendous efforts. Other than banks and DFIs, there are investment companies, leasing corporations, investment finance services, housing and venture capital investment companies which need to be regulated through a regulatory body.

From the above discussion, it can easily be concluded that there is an excellent synergy between FATF’s recommendations and mechanism of correspondent banking adopted by the State Bank of Pakistan. The requirements for correspondent banking relationship prevent financial institution from money laundering and conform to the standards set by international anti-money laundering regimes. For this purpose, Securities and Exchange Commission (SECP) is performing the role of regulator to ensure that institutions falling under its domain function properly.
4.10. Securities and Exchange Commission of Pakistan and Anti Money Laundering Framework

The SECP came into existence as a result of the Securities and Exchange Commission of Pakistan Act, 1997 and started its operation from 1999. The SECP is a regulator of capital market, NBFC sector, Modarbas, pensions, insurance, financial market for the professional services providers and corporate sector. The money launderers prefer to use less regulated financial sector for their convenience and promptness. In this regard they can abuse insurance companies, stock exchanges and fund management companies in order to clean the dirty and illicit money. The launderers can easily use security trading and insurance companies for the purpose of cleaning the dirty money as indicated by FATF. So it is pertinent that non-banking financial institutions and professional intermediaries must also be regulated like banks and DFIs. The Basel Committee believes that like banking sector, there is need of guidance to be provided to these institutions as well.

The FATF ensures submission of reports on the role of international securities and their response to international anti money laundering measures. Securities and exchange Commission of Pakistan introduced substantial steps to fight money laundering, so that transparency and smoothness of financial market can be ensured. Realizing the global sensitivity on combating money laundering activities, The SECP with the help of World Bank assistance, has set up an Anti Money Laundering Unit. Anti money laundering measures are technically and financially supported by the World bank. The Anti Money laundering (AML) Cell was established at the commission with the technical assistance of the World Bank for reformation of the financial sector. This cell monitors...
anti money laundering measures and enhances capacity of securities and exchange commission of Pakistan. It works on standardization of legal and regulatory provisions. It also proactively harmonize anti money laundering measures with international standards. The SECP as a first step implemented some initial steps which included: (i) ‘Know-Your Customer’ (KYC) account opening forms, (ii) Payments and receipts above Rs 50,000/- to be made through cheques, and (iii) Designation of compliance officers. The designation of compliance officer is an important aspect as he/she has to safeguard the institutions against money laundering. Both the SECP and SBP have emphasized the appointment of compliance officer.

In order to reduce hawala /hundi related transaction, SECP has also formulated various policies to curb the unregulated transactions. The use of hundi for transactions is being discouraged as it is considered a primary conduit for laundering funds. SECP is also member of International Organization of Security Commissions (IOSC) and has made number of efforts to implement anti money laundering measures. The commitment of the SECP for the implementation of AML measures is evident from the corporate sector vision, which states that a progressively growing and robust corporate sector that adequately protects the rights of stakeholders, provides information in a transparent manner based on international standards, and propels economic growth. Similarly the capital market plays a significant role for the growth of economy as it is a meaningful alternative for fund raising and attracting investors. The following of core principles of securities regulations setout by the IOSCO, provides protection to investors, improves risk management and governance and engenders confidence of capital market participants for the integrity of the market. The SECP also encourages the development of a single
and well capitalized Clearing House in accordance with the laid down standards and principles of IOSCO.\textsuperscript{112} The SECP has also made it binding for market intermediaries and issuances of licenses that they would have to comply with IOSCO’s principles of regulation with respect to inspections and enforcement.\textsuperscript{113} The SECP regularly participates as active member of IOSCO in pursuance of international standards for developing efficient and vibrant markets. SECP is also actively working with various groups of IOSCO and as the Chair of the Working Group 3 (WG3), it has prepared a draft in-line with WG3’s mandate on ‘Guidance to Emerging Market Regulators regarding Capital Adequacy requirements for Financial Intermediaries’, and shared the same with all members of the Emerging Market Committee for their input.\textsuperscript{114} The exchange of views with various international groups and committees broadens the vision and helps in formulating better standards. SECP has also taken steps for reviewing and harmonizing the documentation and reporting of transactions in order to strengthen the capacity of SECP for combating money laundering. Proper know your customer policy and customer due diligence mechanism is being implemented by the SECP for all the members of stock exchanges. The SECP has also taken measures in the light of various international obligations imposed by the United Nations resolutions, Asia Pacific Group (AGP) and IOSCO on money laundering.\textsuperscript{115} The SECP has also taken certain measures for good governance and transparency, which are discussed briefly as under:-

4.10.1. Good Governance and Transparency Measures

Corporate governance results in fair business practices and is considered a shield against money laundering and terrorist financing. Good governance is important for every country because it has the ability ‘to tackle crimes of today effectively’ and it is
considered to be a sine qua non. It is important for Pakistan because most of the economic ills of Pakistan during 1990s are the result of bad governance and decaying financial institutions, as brinkmanship, cronyism, misappropriation of banks funds, corruption and bankruptcy frauds marred the economy. During this period, corruption, patronage, cronyism and nepotism by and large characterized economic decisions making. SECP is committed to ensure corporate governance which is essential to strengthen governance, enhance transparency, and reduce conflict of interest. Good governance not only makes the institution of a country stable but also brings transparency. There is a growing awareness of importance of corporate governance as it has brought numerous reforms in almost all the countries. The corporate governance is very important because ROSC Program lead by World Bank also includes principles of corporate governance. A UNDP sponsored project on corporate governance has already been implemented by Pakistan. Keeping in view the importance of corporate governance, the SECP introduced code of corporate governance to improve the governance of listed companies in Pakistan in 2002.

Corporate governance plays a very significant role on the performance of capital markets and other financial institutions of an economy by increasing management skills and accountability, operational efficiency protects investor confidence and develops conducive environment for all the stakeholders. Owing to this enhanced importance of the Corporate Governance, SECP has actively taken steps and introduced checks and regulations to comply with the international best practices of Corporate Governance. SECP has also taken strategic initiative for good corporate governance to be promoted in collaboration with Pakistan Institute of Corporate Governance. Besides risk
management; these measures protect financial institutions from the threat of money laundering and terrorist financing. With this objective, SBP, SECP along with 13 other financial institutions has set up the desired institution in 2004.125

4.10.2. Monitoring and Enforcement

In compliance to standards set by international anti-money laundering regimes, SECP also adopted the mechanism of monitoring different organizations. The SECP has initiated a process of legal action against exchange companies and illegal brokerage house. The SECP identified thirty-eight companies engaged in these businesses and filed petitions in the courts for winding up 15 companies. In addition, the cases of twenty-two unincorporated entities conducting such illegal business were referred to NAB.126 The SECP is taking penal action against unlawful businesses in order to create deterrence to discourage such unlawful and illegal companies.127

Such actions on the part of SECP have created a healthy environment for transactions and discouraged the acts of money laundering to a large extent. The monitoring and surveillance wing of the SECP is at the forefront of detecting matters relating to systemic risk and unfair market practices.128 Internationally elimination of systemic risk and fair market practices are considered essential safeguards against money laundering. To ensure market fairness, SECP has actively pursued and implemented measures pertinent to strengthening of the risk management framework. As a result of its surveillance and mechanism, numerous suspicious trading activities were detected through investigations and taking enforcement action against responsible participants.129 Owing to SECP efforts, recently two separate investigations for insider trading and violation of listing regulations in the shares of Fauji Fertilizer Company Limited were initiated.130 These steps on the
part of SECP would obviously eliminate the predicate offences of money laundering resulting in fair and stable financial market.

4.10.3. Prohibition of Undesirable Business Activities

Regulatory framework is sin-qua-non for ensuring smooth, disciplined and stable business environment. The undesirable business activities not only help money launderers but also destabilize the financial system of a country. In order to prohibit illegal fraudulent business activities and to curb financial crimes in the country, Undesirable Companies Bill, 2005 was finalized.\textsuperscript{131} It would enable SECP to proceed against undesirable companies involved in unscrupulous business activities.\textsuperscript{132} It may be noted that prior to 2005, there was no such Act or directive on the part of Government of Pakistan to discourage undesirable business activities. The SECP has taken the right initiative for elimination of undesirable business activities which create vicious web once established and can prove harmful for the financial stability of the society.

4.10.4. Universal (Client) Identification Number

Proper identification of client/customer prevents financial market from money laundering.\textsuperscript{133} In pursuance of SECP’s objective to increase transparency within the market and to improve its market surveillance capacity, the implementation of a Universal (Client) Identification Number (UIN) at the stock exchanges is near completion.\textsuperscript{134}

4.10.5. Pakistan’s Links with International Capital Market

The more transparent and stable financial institutions of a country develop confidence building measures. It also reduces the chances of money laundering. The countries which adopt strict AML measures not only increase their reputation but also the stability of their
financial institutions. It attracts foreign investments as well as facilitates aid and loans. This compliance can be helpful in generating requisite financial assistance and needed funds from the international markets as well as other agencies. Pakistan being a developing and resource deficient country needs a lot of external borrowings. In order to strengthen the economy, Pakistan needs funds for which it has planned to get the benefit of the global financial markets by issuing sovereign paper and shares in the international market. Besides borrowing, the compliance with international financial standards brings investment opportunities for Pakistan.

Pakistan became member of International Organization of Pension Supervisors (IOPS) in 2005. Keeping in view the importance of risk based approach towards supervision Pakistan along with Australia, Germany, Netherlands, UK and the World Bank, are working for its implementation. The agreed program “includes work on standards and good practices in pension supervision, information gathering and analytical projects, and international cooperation”. In case of non-compliance to the standards set by international regimes, foreign investors would always shy away from our domestic market. In this regard, it is pertinent to mention that the leading banks for Euro Bond were Deutsche Bank, JP Morgan and ABN Amro, having the membership of Wolfsberg Group. Pakistan could only utilize the services of member of this group because of its compliance with international standards. As these banks are the members of Wolfsberg Group which has the policy to extend cooperation to only those countries that have complied with standards for combating the menace of money laundering.
4.10.6. Rules for Housing and Real Estate Development Sector

The housing and real estate sectors are the important agents of generating huge amount of money. Both the sectors have enough capabilities to play with laundered money and as such can be a great threat for financial institutions of the country. In order to monitor housing and real sector activities for observing their role in money laundering, SECP has decided to provide a comprehensive regulatory framework to monitor the activities of both these sectors by their registration and providing post-incorporation compliance and legal requirements. If both these sectors are monitored with strict regulatory standards, Government of Pakistan can generate lot of funds through taxes which are otherwise evaded by land mafia. One example would be enough to substantiate the argument. It is general practice in urban as well as rural cities of Pakistan the land is sold on higher prices but during the course of registration/mutation, the purchasing price is shown on a very lower side of the actual, resulting in evading government taxes. It has been observed that a property worth Rs.2 crores was transferred to another’s name for Rs.5 lac only. If the government tax and other taxes are 5%, the amount payable towards taxes comes to Rs.1 million for the property sold for Rs. 2 crores while the payment of taxes has been made against Rs.5 lac which comes to Rs.25,000/-. From this example, one can easily judge that how much taxes are evaded by these sectors. There is need of strict regulations to be implemented in true spirit. One cannot rule out the possibility of supporting terrorist financing through a specific mafia involved in this business.

4.10.7. Investor’s Complaints

Protection of investors from financial fraud is also part and parcel of anti money laundering framework. With a view to protect investors from financial fraud, the SECP
works in close coordination with stock exchanges to investigate illegal practices of market intermediaries. These steps are important to counter money laundering and financial exploitation.

4.10.8. Inspection

Proper inspection is a part of anti money laundering measures. The Stock Exchange Members Inspection Rules, 2001 empower the SECP to inspect the books and records of members of the exchanges with the objective to improve transparency and ensure fair dealings and compliance with the securities laws. This step is in compliance to FATF recommendations that requires critical monitoring and inspections with authority to take stern action against the non compliant entities. This has enabled SECP to detect violation and take actions against those institutions who were found non compliant to the laid down standards.

4.10.9. Enforcement Actions against Market Abuses

The capital market plays an important role in money laundering and terrorist financing as pointed out by FATF in its forty recommendations. In order to ensure investors’ protection and market integrity, the monitoring capacity of SECP was considerably strengthened. This provided an opportunity to SECP to impose penalties and fines on companies which were found guilty of market abuse. It is natural that actions against those who commit market abuse, discourage others to follow the suit. Consequently it leads towards greater market transparency, improved governance and accountability as well as enhances investors’ confidence.
4.10.10. Insider Trading

One of the sources of dirty money is insider trading for which AML measures demand strict action against perpetrators of insider trading.\textsuperscript{145} In the first proven case of insider trading in the history of capital markets in Pakistan, the SECP imposed a fine of Rs. 535,000 on Pakistan Kuwait Investment Company Limited for involvement in insider trading in the shares of Fauji Fertilizer Company Limited.\textsuperscript{146} These practices if not properly controlled can lead towards corporate corruptions and damage the institutional reputation. Illegal convergence of interest has encouraged insider trading which causes frustration and setback to the genuine investors.\textsuperscript{147}

4.10.11. Amendments of Non Banking Financial Companies Rules (NBFCs)

NBFCs are very critical in the financial sector of any country. These institutions can become victim, perpetrator or an instrument of channel for money laundering and terrorist financing.\textsuperscript{148} FATF finds these institutions vulnerable to money laundering.\textsuperscript{149} Therefore SECP has taken considerable measures to ensure that these institutions should not be used by criminals. The SECP reviewed the rules being followed by NBFCs with a view to suggest amendments that would result in strengthening the regulatory regime for NBFCs and to make the legislation concurrent with international best practices.\textsuperscript{150} SECP has also issued prudential regulations for NBFCs and \textit{Modarabas} so that these institutions can work according to the international practices and standards. It is also important that NBFCs relate to those financial institutions for which stringent rules are must to regulate their activities. SECP has also established the Non-banking Finance Companies Department (NBFCD) to monitor the activities of those companies which fall within the purview of NBFCD.
4.10.12. Issuance of Anti-Money Laundering Measures for NBFCs and *Modarabas*

The SECP has implemented anti-money laundering measures for NBFCs and *Modarabas* in consonance with the recommendations of FATF of 2004. The NBFCs and *Modarabas* are obliged to follow the standards laid down for their protection from the criminal. The measures for NBFCs and *Modarabas* include: (a) to accept deposits from an investor after having proper account opening form; (b) to ensure proper customer identification; (c) to ensure payment through cheque in excess of fifty thousand Rupees.\(^{151}\)

The above mentioned measures are meant to protect these institutions from the intrusion of criminals and launderers.

4.10.13. Assisting the Fraud Investigating Unit (FIU)

Detection of fraud helps in identifying money laundering activity in the financial institutions. This mechanism is prevailing in SECP for the preemption and prevention of white-collar financial crimes. Identification of such crimes is largely a function of the enforcement department which reviews the financial reports of companies and identifies areas of further inquiry. Close coordination with FIU and synergic development in these areas would be a key second-generation reform area for the Enforcement Department.\(^{152}\)

FIU along with newly created FMU would result in effective strategy to counter money laundering.\(^{153}\) By virtue of financial globalization and collaboration of SECP with organizations like IOSCO and IAIS, the prudential and corporate governance has improved significantly. There are sufficient legal and regulatory developments to meet with the changing capital market requirements and international best practices.\(^{154}\) In its strategic initiative SECP has also introduced prudential regulations requiring foreign
intermediaries in Pakistan and offshore branches or subsidiaries or Pakistan intermediaries to meet either the home or host standards on AML.  

Although, Pakistan’s compliance with international standards is appreciable, yet some organizations are suspected of undesirable activity for which technical assistance is being provided to enhance its capacity. 

4.11. Insurance Sector

Anti money laundering measures for insurance sector are equally important to ensure compliance with FATF and IAIS Standards. Being a member of IAIS, the SECP made it binding for the insurance sector that the legal requirement should be in line with international best practices, particularly the standards set out by the IAIS. It works for the promotion and implementation of international insurance supervisory standards and collaborates with international organizations for the purpose of financial viability, soundness and stability. The membership of IAIS would strengthen regulatory capacity of SECP and ensures interactive communication with international insurance regulators. It will increase social capital of Pakistan by having regional and global interaction. “Moreover, the opportunity would enable the SECP to participate in standard setting process for the insurance industry and develop the local sector in line with international best practices”. As a result of international implications and convergence of policies with international standard setters, resulted in close cooperation and coordination with ADB, UNDP and the World Bank for the reformation of the financial sector of Pakistan.
Conclusion

In the light of the discussion, it can be concluded that Pakistan has taken a number of steps and measures to combat money laundering and terrorist financing. Pakistan has made considerable efforts to comply with the standards laid down by FATF, UN, IMF, World Bank, IOSCO, IAIS, Basel Committee, APG and other regional as well as Global organizations. It is an age of Globalization and it is painful for a country to remain isolated or to survive in isolation.

The international political and economic circumstances have rendered it imperative for the nation states to control or combat money laundering and terrorist financing by ensuring compliance with international standards and regulation. The geopolitical and geo-strategic environment and changes taking place in the region in general and in Pakistan in particular, called for immediate and comprehensive compliance with the international financial Regimes.

In this connection, the role of SBP and SECP has been quite critical and appreciable in the face of the level of compliance achieved so far, not withstanding the informal economy and the meager available resources. The political will of the Government of Pakistan and the support, technical and financial assistance from the international community has also gone a long way in achieving a satisfactory level of compliance with the standards. However, a lot more has to be done by Pakistan and international community. The financial standards compliance has helped Pakistan to integrate economically and politically with the international community and has brought about manifold economic and political advantages along with the curtailment of the menace of money laundering and terrorist financing.
The next chapter would focus upon the significance of international anti money laundering regimes for Pakistan.
END NOTES

3. Interview with Mr. Rakesh Mohan, Deputy Governor, Reserve Bank of India at Islamabad on 18th December 2005.
4. Forty plus Nine special recommendations of FATF are important in this regard.
5. Interview with Mr. Ashraf Janjua, Deputy Governor, State Bank of Pakistan, Karachi dated 18th December 2005.
12. Huzaima Bukhari and Dr Ikramul Haq, op.cit.
13. Ibid,
16. Ibid, Sec 37.
17. Ibid, Sec 67.
23. Ibid
24. Ibid, pp.260-275
25. Ibid
27. Ibid.
28. Despite the fact the Suppression of Terrorist Activities (Special Powers) Act 1975 (STA) was in operation, the two laws ran side by side up till August 15, 2001 when President of Pakistan promulgated the Ordinance No. XXXIX of 2001 in which the STA was repealed.
32. Ibid.
33. Interview with Muhammad Hanif, op.cit., 12th March 2006.
34. Interview with S.Arshad Shah Adl.Adv.Genral Supreme Court Ibid.,
35. On 18th October 2007, the procession of Benazir Bhutto’s was attacked. It was a suicide attack which killed many innocent lives but Benazir Bhutto luckily escaped. For detail see *The Daily Dawn* and other News Papers of 19th October 2007.
37. The suicide attack took place on 25th February 2008. It was reported at the same time on all television channels i.e. Geo, Aaj, ARY etc. The matter was also reported in all the leading news papers on 26th February 2008.
43. Ibid, p.84.
44. Ibid, p.83.
45. Interview with Dr. Nadeem ul Haque, op.cit.,
47. Ibid, Sec. 37.
49. Ibid,
52. Ibid,
53. Ibid,
57. Ibid.,
60. Peter J. Quirk, op.cit., p.9.
67. Ibid.,
68. World Bank, APEC ARS Working Group Report -Informal Funds Transfer Systems in the APEC Region, op.cit., p.3
73. Ibid, p.263.
76. State bank of Pakistan, Prudential Regulations for Corporate/Commercial Banking, op.cit., Regulation M-1.
77. FATF, The Forty Recommendations on Money Laundering, op.cit., Recommendation No.5.


82. Ibid, Regulation M- 2 (a).


85. Ibid, Regulation M-3(2)

86. Ibid.


89. Ibid., Regulation M-4(3,4)

90. Ibid., Regulation M-4


94. Ibid, M-5(2)


96. State Bank of Pakistan, *Prudential Regulations for Corporate/Commercial Banking*, op.cit., Also see Annexure-III..


104. SECP, *Anti-Money Laundering Unit- Securities and Exchange Commission of Pakistan Brief*, op.cit.,
107. See Annexure IV
111. Ibid, p.5.
120. Ibid
123. Ibid p-12
125. Ibid. p-42. The members of the Group included: the SECP, SBP, Federation of Pakistan Chambers of commerce and industry, Overseas Investors Chambers of commerce and Industry, KSE, LSE, ISE, Institute of Business Administration, LUMS, IAP, Invest bank Association of Pakistan, Leasing association of Pakistan, Modaraba Association of Pakistan, Mutual Funds Association of Pakistan, Pakistan Bank’s Association, ICAP, ICMAP, Institute of Corporate Secretaries of Pakistan; and Institute of Charted secretaries and Managers.

129. Ibid
130. Ibid
131. Ibid, p-68
132. Ibid
136. Ibid, p-158
138. Dr. Ashfaque H. Khan, “Pakistan’s Euro Bond: A Resounding Success”, in *Dawn*, March 15, 2004,


140. Ibid, p-87
141. Ibid, p-88
142. FATF, the Forty Recommendations on Money Laundering, op.cit., Recommendation No.29.

144. Ibid.
145. FATF, the Forty Recommendations on Money Laundering, Glossary, op.cit.,


151. Securities and Exchange Commission of Pakistan Circular No.23 of 2004, Islamabad: SECP, 2004, part-IV(a, b, c, d and e) Also see Circular No. 4 of 2004, ‘Prudential Regulations for Modarbas’, part-IV(a, b, c, d, and e)


153. FMU has been established by Anti Money Laundering Ordinance 2007.

158. Ibid. p-11.
159. Ibid,
160. Ibid,
161. Ibid, p-40
CHAPTER-5
THE SIGNIFICANCE OF INTERNATIONAL ANTI-MONEY LAUNDERING REGIME FOR PAKISTAN

In the globalized world, it is difficult for any country to live in isolation. The forces of globalization have seriously emasculated the power of policy making by nation states and as such the states have to follow the standards and codes set by the international anti-money laundering regimes. Compliance of these standards help developing countries in particular to seek monetary cooperation from the developed world through international regimes like World Bank, IMF and United Nations Organization. There is hardly any denial of the fact that while international diversification offers substantial advantages, the potential disadvantages should not be overlooked. The ever increasing interdependence among countries and the realization that financial policies of one national government have repercussions on others economies. This globalization phenomenon have also induced legal responses from international organizations.

Globalization has its implications for global unity, financial integration, international peace, harmony and prosperity in both positive as well as negative dimensions. Positive aspect of globalization provides opportunities and peace to people while negative aspect results in violence, chaos and crimes. The menace of Money Laundering and terrorist financing have endangered global financial system. This has necessitated a unity of purpose amongst the international anti-money laundering regimes to counter it. The International Anti-Money laundering regimes have also gained importance after the cold war era because of historical shift in power from nation states to international financial
institutions and organizations. The process of globalization cannot be taken for granted and the role of international organizations have tremendously been increased. The rising significance of international regimes is important milestone in the way of world’s march towards a common future. In case of money laundering, there is collaboration between international organizations to combat this menace and efforts are being made to come with new mechanisms and methodologies to face the challenge. So the collective efforts are needed to face the challenge of money laundering and terrorist financing and no state can earn annoyance of international financial institutions by deviating from the set standards and codes to root out the curse of money laundering and terrorist financing. There is hardly any doubt that the money launderers have the potential to damage a country’s financial institutions and reputation and destabilize international financial system. This is why, the international organizations condemned the move on the part of Seychelles, and termed it ‘as an invitation to money launderers’, when it extended immunity against any legal prosecution to anybody who would deposit or invest U$ 10 million or above in the Seychelles. All the banks and financial institutions were warned not to enter into financial transactions with the Seychelles and ultimately this law had to be shelved. In the present era of globalization, the significance of IMF, World Bank, UN and other international standard setters is visible in both theory and practice. Keeping in view the importance of international organizations for a country like Pakistan, the then Prime Minister of Pakistan, Mr. Shaukat Aziz categorically stated that for sustained economic growth, a peaceful regional and international environment is needed to keep up global trends shaped by economic forces thus external policies should be oriented to move with the spirit of time. Likewise the role of IMF, World Bank, UNO
etc clearly indicates the importance of international financial organizations as well as their impact. The advantages of globalization can only be reaped if the standards set by international organizations are adhered to strictly by the member countries.

If one looks at the mechanisms and standards set by international anti-money laundering regimes, it reveals that financial stability and soundness of world’s financial institutions is being linked with peace, security and harmony among the societies. In today’s global world, the financial instability can bring chaos, anarchy and instability. Therefore, cooperation at international level and following of standards, rules and codes by the international regimes becomes important as they determine rules of the game and are important for international policies.9 The proponents of globalization argue that the compliance of countries with international financial standards results in enhanced economic strength, viability and sustainability.10

It may be noted that countries having unregulated and self-oriented policies, cannot cope with the forces of money laundering and terrorist financing which prove harmful and chaotic not for the financial system but also for the country. During recent years there is introduction and use of ever new technologies. With the inception of electronic banking, the banking industry has undergone a revolutionary shift. It has enabled customers to utilize banking and allied services without having even physical interaction or presence. New banking technologies like ATM and internet banking has eliminated geographical distances between institutions and customers. This resulted in new concepts like branchless banking. Moreover, advancement in remittances and transfer systems have revolutionized customer service concept. This interface without geographical and physical proximity can result in the misuse of modern banking facilities.11 Thus with the
expansion of the banking industry, the money laundering has become relatively easier phenomenon. Keeping in view this development and growth of the banking sector, the members of the G7 club of industrialized nations have threatened tough action against countries which permit money laundering activities and countries failing to join Global drive against money laundering could also face sanction.\textsuperscript{12} This has become an international challenge for which the World Bank and the IMF are working in collaboration with other international organizations to ensure effectiveness of international efforts.\textsuperscript{13}

It may be noted that international anti money laundering institutions are of two types. (a) Organizations and institutions which dedicatedly set standards and guidelines for various countries in order to strengthen their financial system to eliminate the problem of money laundering and terrorist financing etc., (b) Organizations which have multiple functions including anti-money laundering. These international institutions work in close collaboration with other international standard setters while extending financial assistance to any country. So it can be construed that the phenomenon of financial assistance has linking relevance with the adoption of set standards of international organizations. These indicators have their own importance because without following the set standards of international financial institutions, a country cannot expect financial assistance from these institutions. In the light of these facts, the significance and impacts of each organization on Pakistan is discussed as under:-

5.1. United Nations Organization (UN)

The UN is meant for the maintenance of international peace, security and cooperation among the states. The UN and its allied agencies have so far achieved quite
commendable objectives towards the furtherance of UN’s proclaimed principles. It is mandatory for Pakistan to comply with the directives of UN being its member and signatory of numerous conventions. Pakistan is also dependent upon this organization for the resolution of many outstanding disputes as there is no alternative to this organization.14 No country can afford non-compliance with UN’s directives and resolutions as funding by international donor institutions and states to the developing countries like Pakistan is subject to compliance with the resolution of Security Council and mandate of UN.15

In order to deal with terrorist financing and money laundering, the United Nations adopted International Convention for the Suppression of Financing of Terrorism, Convention against Illicit Traffic in Narcotic, Drugs and Psychotropic Substance and Convention against Transnational Organized Crimes to which Pakistan is also one of the signatories.16 Pakistan signed these conventions not only to extend support to the UN but also with the intention to launch a drive against money laundering and to save financial institutions from various risks. Pakistan was also elected Vice-President to the United Nations Conference for the adoption of the Convention against Illicit Traffic in Narcotic, Drugs and Psychotropic Substance.17 The UN’s Security Council’s Resolution No. 1617 of 2005 obligates the member states to comply with comprehensive international standards on money laundering and terrorist financing. The subsequent approval of the FATF standards by the Security Council is an important advancement towards uniformed and comprehensive implementation of anti-money laundering and a boost to the significance of international organizations.18
The rising volumes of Foreign Direct Investments (FDIs) worth US$ 3521.0 million during 2005-06 in Pakistan was important. 75 percent of this has come from the countries like the United States, The UK, Switzerland, Japan, UAE and the Netherlands which are important and influential members of the UN. It also epitomizes the international regimes satisfaction with the level of compliance with international standards by Pakistan. The significance of UN is validated by signing of different conventions by Pakistan. Pakistan’s capital market accepted that the implementation of these recommendations would be quintessential to the regulators’ efforts in projecting Pakistan as a country fully cognizant and responsible to its international obligations and commitments. Since United States of America (USA) is an important member of UN and FATF, its opinion has a lot of significance in the decision making process of both the organizations. In order to observe Pakistan’s efforts for prevention of money laundering and receipt of suspicious transactions, a delegation of United States visited National Accountability Bureau, (NAB) Pakistan in 2006. When Anti-Money Laundering Ordinance, 2007 was promulgated in Pakistan, one of the leading news papers commented that ‘it was in compliance to UN’s efforts to combat money laundering’. Since UN is an organization that safeguards the interests of each member state, its efforts are always directed to provide technical assistance as well as training to all the developing countries through its own agencies directly and through its member countries indirectly for prevention, detection and control of money laundering. This is also indicative to the fact that international organizations consider money laundering a very dangerous issue. The UN requires comprehensive cooperation of the members states in technical
information sharing, communication networking, introduction of control devices, monitoring and tracking, and elaborate mechanism to control and root out the menace of the money laundering.  

Under the UN directives, the states are supposed to provide assistance in the field of information sharing, training programmes and technical know-how to combat the predicate offences of money laundering. This cooperation and mutual assistance could be materialized by conducting and organizing national, regional and global conferences, training workshops and seminars. The states are also stressed upon strengthening their capacity to control money laundering through operational effectiveness and training programmes by regional and international synergy. To strengthen the drive against the money laundering and allied crimes, the UNO wants the states to have a comprehensive compliance with International Conventions to achieve desired objectives. The UN also emphasizes upon international anti-money laundering organizations for capacity building of developing countries to combat transnational organized crime, which has great significance for Pakistan. The capacity building of the institutions with the assistance of international organizations could be beneficial in the long run. It may be noted that compliance to the guidelines set by international anti-money laundering regimes also results in financial, material and technical assistance for institutional and infrastructural development.

The UN also has special funding arrangement to assist the developing countries to get benefit of international cooperation. Since money laundering has become an organized crime for which many regional and international organizations are involved in combating money laundering and as such their efforts are supported by UN. The Palermo
Convention, 1988 provided that other states (particularly developing countries) and institutions should be provided with training programs and modern equipment towards the realization of international objectives. A multiple linkages strategy to combat money laundering is supported by UN. The countries which fail to comply with the laid down directives of UN have to face lot of difficulties and earn annoyance of major players including international anti-money laundering regimes. It is because of the significance of the UN and its ever increasing role in the international political and economic system that Pakistan is doing its level best to achieve comprehensive compliance with the measure and standards proposed and recommended by its various allied organizations and conventions, to eliminate the bane of money laundering.

5.2. The Bank for International Settlement (BIS)

The Bank for International Settlement seeks and promotes a close collaboration amongst the International Banking Regulators and other organizations to achieve the objective of global financial stability. The BIS has regulatory, financial and political significance for Pakistan because one of its key objectives is to promote monetary and financial stability. The BIS started primarily as a European organization but owing to its increasing international role, it has attained the status of an important international body working for an increased international financial strength. In order to promote financial stability, the BIS supports international cooperation. For this purpose, states “endeavour to develop and promote global, regional, sub-regional and bilateral cooperation among judicial, law enforcement and financial regulatory authorities in order to combat money laundering”. BIS also serves as bank for central banks and has paramount importance. In the present era of financial globalization, the role and significance of organizations like BIS is
increasing rapidly. The huge membership of the bank with prestigious financial institutions also makes it globally significant. The anti-money laundering measures by BIS are developed with the collective efforts of the members and each country has to comply with these measures. It may be noted that membership of the BIS is so strong that no developing country can dare to earn annoyance of this international organization as well as its members. The member banks and financial institutions play their significant role in international financial affairs upon which developing countries are dependent. Non-compliance by any country can lead to its isolation not only in financial matters but also on international issues.

The BIS enjoys international significance because Basel Committee on banking Supervision has its role for the management of different risks, anti-money laundering and terrorist financing. Since 1990s, the function of risk management has grown steadily in size and gained importance within commercial and investment banking. The BIS has assumed greater significance in the backdrop of financial sector assessment program by the World Bank and the IMF. At the time of assessment, the principles given by BIS are incorporated for the assessment of supervisory and prudential practices of the banking system of the developing countries. These assessments are used by the international donors and financial institutions to evaluate the level of compliance and consequent pattern of relationship therein.

The close coordination of BIS with international organizations like IMF, World Bank, IAIS, IOSCO and FATF etc further enhances its significance. Keeping in view the significance of BIS, the State Bank of Pakistan (SBP) has also ensured complete
compliance to the implementation of Basel II in Pakistan by issuing instructions to all banks and DFIs for its proper implementations.\textsuperscript{38}

Financial Sector Assessment Programme of Pakistan was also conducted by the International Regulators and evaluated it as compliant and satisfactory while moving in the right direction but the trend is bleak in 2012. In the light of above assessment and its significance for Pakistan, SBP initiated a consultative process involving all the stakeholders for the implementation of Basel II given by the BIS. \textsuperscript{39} Thus the above mentioned strengths and influence of BIS show that it is an effective international organization. It is the reason that the guidelines given by BIS for anti-money laundering and Risk management are complied with by Pakistan.

5.3. International Association of Insurance Supervisors (IAIS)

The International Association of Insurance Supervisors (IAIS) is significant for Pakistan as it regulates the insurance sector by issuing relevant standards, guidelines and principles to improve and safeguard insurance sector.\textsuperscript{40} Owing to its significance, Pakistan joined this organization in 2004.\textsuperscript{41} The IAIS organizes workshops and seminars so that international insurance members can get benefit of modern knowledge and best practices for the strength and stability of the insurance sector.\textsuperscript{42} It actively promotes implementation of principles and standards on insurance supervision and collaborates with other international standard setters to attain the goal of financial stability.\textsuperscript{43} Being a member of IAIS, the Securities and Exchange Commission of Pakistan directed the insurance sector of Pakistan to follow the legal requirements and international best practices in consonance with IAIS standards. \textsuperscript{44} For Pakistan, the membership of IAIS would prove beneficial and helpful in strengthening the Securities and Exchange
Commission’s regulatory capacity. Moreover, the opportunity would enable SECP to participate in standard setting process for the insurance industry and develop the local sector according to the international standards and best practices.\(^{45}\) In order to bring insurance standards in line with international standards set by IAIS, the Insurance Department of Pakistan thoroughly reviewed Insurance Ordinance to propose suitable amendments.\(^{46}\) Through IAIS platform, there is inter organizational interaction which becomes significant for financial, technical and social capital development. It also enhances mutual understanding and develops mutual cooperation and convergence of interests. The IAIS recommendations on anti money laundering have been implemented by SECP to eradicate the threat of money laundering.

5.4. The International Organization of the Securities Commission (IOSCO)

The IOSCO is an internationally important organization responsible for the setting of common and accepted standards for the securities markets.\(^ {47}\) This is the reason that standards and rules set out by this organization are considered very important by SECP.\(^ {48}\) The SECP is regulator of capital market in Pakistan and its vision statement provides that the development of the capital market envisages the application and compliance with the core principles of securities regulations setout by IOSCO.\(^ {49}\) The SECP has agreed to follow these principles because they are significant with regard to investor’s protection, risk management and governance, and engenders confidence of capital market participants in market integrity.\(^ {50}\) Like wise, the SECP encourages the development of a single-well capitalized clearing house in line with standards laid down by IOSCO.\(^ {51}\) Pakistan is so much particular in following the guidelines of IOSCO that the SECP has made it binding for market intermediary and issuance of licenses subject to compliance
with IOSCO principles of regulation. The SECP in 2005 has strengthened itself by complying with the standards set out by IOSCO and by implementing them in true spirit. The SECP during 2005 was also active member of organizations like the Emerging Markets Committee (EMC), the EMC Advisory Board, Chair of Working Group-3 (WG3) of EMC on financial intermediaries, the EMC’s Working Group-2 on regulation of secondary markets, and Technical Committee and Standing Committee on financial intermediaries.

IOSCO has become very significant because of sound regulatory infrastructure for the growth of emerging markets which enables them to maintain fairness, efficiency and transparency in the securities markets. Pakistan has implemented anti-money laundering measures against financing of terrorism. At international level, the anti-money laundering regimes are playing their active role in combating money laundering. If Pakistan is following set standards given by IOSCO, it is strengthening its institutions which fall within the purview of SECP. The strengthening of financial institutions brings financial stability and proves beneficial for the country.

5.5. Wolfsberg Group (WG)

The Wolfsberg represents the financial institutions of the economically rich, politically stable, technologically advanced and strategically influential countries of the World. Pakistani banks do not have large global presence and for the purpose of correspondent banking, they have to depend on these major financial institutions attached with WG. For Pakistan, WG has considerable significance because of need for correspondent banking, technological and professional cooperation and social capital and reputation at global level. The principles laid down by WG for anti-money laundering clearly deny the
support of correspondent banking to those countries which are not following the anti-money laundering mechanism as laid down by FATF.\textsuperscript{56} One of the provisions clearly states ‘correspondent banking’s client must operate in a fully compliant and prudently regulated environment with an effective anti-money laundering programme.\textsuperscript{57} It is pertinent to mention here that even Eurobond launched by Pakistan was managed by the member of this group. Internationally important banks namely Deutsche Bank, JP Morgan and ABN Amro Bank managed the Eurobonds launched by Pakistan.\textsuperscript{58} The involvement of these banks resulted in a huge demand for these instruments across the world. Its over subscription by the international investors was considered as a matter of great significance by the Government of Pakistan.\textsuperscript{59} International reputation is also important because in debt capital market, it is particularly government’s bonds that receive the highest credit rating indeed the established ratings agencies will not assign a credit rating to a borrower that is higher than that of the borrower’s domicile country.\textsuperscript{60} As Wolfsberg group has global presence and significant strength so adherence to their principles may attract international support and cooperation.\textsuperscript{61} The present financially interdependent situation shows that the Wolfsberg Group is very significant for the banking and financial sector of Pakistan.\textsuperscript{62} The main international financial players are the World Bank and IMF around which activities of all other financial institutions revolve.

5.6. The World Bank and International Monetary Fund (WB & IMF)

The World bank and the IMF are the global financial regulators. Both the regulators are of much importance and significance for Pakistan’s economy with regard to economic assistance, loans and technical assistance.\textsuperscript{63} Both the institutions have also provided
financing for bringing reforms in banking and financial sector of Pakistan. There are numerous financial and other projects which are being funded through technical and financial assistance of these international institutions. Pakistan stands amongst the very few countries who have been utilizing the IMF resources since long.\textsuperscript{64}

The IMF helps countries on macro economic stability through stabilizing their balance of payments and financial deficits. Whereas, the World Bank mainly deals with the financial structural reforms, good governance, stability and soundness of the financial systems.\textsuperscript{65}

keeping in view the role of these institutions for the economic stability and institutional reforms in the international arena, it has assumed a great importance in resolving the basic institutional issues especially of the developing countries of the world. Whereas there is another viewpoint about the role of these institutions according to which these institutions are highly politicized and their decision making is full of contradictions and is inclined towards interests of the developed World.\textsuperscript{66} The conditionalties imposed by these institutions attached with loans to debtor countries are criticized for the reasons as these are major impediments to human development.\textsuperscript{67} Irrespective of the arguments in favour or against the role of these institutions nobody can deny their significance for the developing countries like Pakistan. In the case of Pakistan, the World Bank and IMF are extending economic assistance for poverty alleviation. However, in the same breath, it is asking for down sizing and privatization which may lead to unemployment and poverty.\textsuperscript{68}

Since Pakistan is a developing country, it had to depend upon these major lending institutions to cope with the debt and development crises. Pakistan has utilized billions of US dollars assistance programmes from the World Bank, IMF and their Allied Agencies to resolve its longstanding financial and institutional problems.\textsuperscript{69} Although
programs of these financial institutions have so far not been able to resolve economic problems of Pakistan, yet, a dependency syndrome is prolonging. However, there is hardly any denial of the fact that the IMF has extended an invaluable economic assistance to Pakistan since 1988 to deal with its macroeconomic woes. Due to prevalence of good relations with IMF, Pakistan also enjoyed support of getting money from other lending agencies. IMF not only possesses this power but also has hegemony to prescribe certain solutions to the economic problems of a country irrespective of the utility or futility for the subject country. IMF is not only important and significant because of its own lending but its intrusive influence on the decisions of the other international financial players like International Banks, Paris Club, London club and other lending consortium. This is why, annoyance of the IMF or an adverse assessment of the IMF places a “borrowing country at great risks, erodes its credibility in the financial markets and reduces financial flow to the country. There are instances where this created a snowball effect amplifying the disequilibrium in macroeconomic balances as the IMF and other financiers collectively withheld their assistance”. It is pertinent to mention that in 1996, Pakistan was in crucial need of financial assistance, when the IMF enhanced the original loan of $600 million to $831 million to rescue Pakistan. During the second stint of Nawaz Shareef in Power, he introduced a number of deregulatory and privatization measure on the recommendations of the IMF to facilitate local and international investors. The relationship with the IMF were not based on one transaction, rather it was linked with the successful implementation of the reforms process for macro economic stability by reducing budgetary deficit, revenue generation reforms etc.
In the late 1990s, Pakistan was having foreign exchange reserve problems and utilized a package of worth $1.6 billion, Structural Adjustment Loan (SAL) package to avoid default on its foreign commitments.76 Similarly, the IMF also came to the rescue of Pakistan in 1999 by extending significant amount under the ESAF, EFF and the Compensatory Contingency Finance Facility (CCFF).77 Although the IMF, extended financial support to Pakistan, yet the funding accompanied tough economic performance targets and rigid conditionalties which demonstrate the significance of the IMF.78

It is the significance of these organizations that owing to the high levels of dependence on these institutions, every government civilian or military desires good relations with them. Although, the aid from these institutions often carries tough conditionality related to domestic reforms like freedom of press, and protection of human rights.79

Sometimes, the associated conditionalities of these donors institutions are quite tough and even against the basic national interest and sovereignty of the recipient country, yet, as the maxim goes that the beggars are not choosers. They have to accept and comply with the conditionalities of the IMF and the World Bank to save their governments. The Musharaf Government also benefited from the IMF by getting aid for strengthening different government programmes.80 In 2001, the IMF also provided a loan for poverty reduction and growth facility to help Pakistan.81

The aid programme from the IMF during the Musharaf era mainly were meant for tax reforms, financial restructuring, privatization and deregulation of the economy.82 The detail of assistance provided by IMF to Pakistan from 1994 onwards is given below in Table 5.1 to demonstrate the significance of international monetary organization.
### Table-5.1

**Assistance Given by IMF from 1996-2006**

<table>
<thead>
<tr>
<th>NAME</th>
<th>Date signed</th>
<th>Date Drawing Limit</th>
<th>Currency</th>
<th>Loan Amount</th>
</tr>
</thead>
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<td>22-feb-96</td>
<td>SDR</td>
<td>172,200,000</td>
</tr>
<tr>
<td>Enhanced structural adj. F</td>
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<td>22-feb-96</td>
<td>SDR</td>
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</tr>
<tr>
<td>Extended fund facility (EFF)</td>
<td>22-feb-94</td>
<td>22-feb-96</td>
<td>SDR</td>
<td>123,200,000</td>
</tr>
<tr>
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<td>22-feb-96</td>
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</tr>
<tr>
<td>Extended fund facility (EFF)</td>
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<td>22-feb-96</td>
<td>SDR</td>
<td>123,200,000</td>
</tr>
<tr>
<td>Stand by arrangement (SBA)</td>
<td>13-dec-95</td>
<td>30-sep-97</td>
<td>SDR</td>
<td>294,690,000</td>
</tr>
<tr>
<td>Stand by arrangement (SBA)</td>
<td>13-dec-95</td>
<td>30-sep-97</td>
<td>SDR</td>
<td>294,690,000</td>
</tr>
<tr>
<td>Stand by arrangement (SBA)</td>
<td>13-dec-95</td>
<td>30-sep-97</td>
<td>SDR</td>
<td>294,690,000</td>
</tr>
<tr>
<td>Stand by arrangement (SBA)</td>
<td>13-dec-95</td>
<td>30-sep-97</td>
<td>SDR</td>
<td>294,690,000</td>
</tr>
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<td>20-oct-00</td>
<td>SDR</td>
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</tr>
<tr>
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<td>20-oct-00</td>
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<td>SDR</td>
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<tr>
<td>Stand by arrangement (sba)</td>
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<td>30-sep-01</td>
<td>SDR</td>
<td>465,000,000</td>
</tr>
<tr>
<td>Stand by arrangement (sba)</td>
<td>29-nov-00</td>
<td>30-sep-01</td>
<td>SDR</td>
<td>465,000,000</td>
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<tr>
<td>Stand by arrangement (sba)</td>
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<td>30-sep-01</td>
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<td>30-sep-01</td>
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<td>861,420,000</td>
</tr>
<tr>
<td>Eff-imf-42653328</td>
<td>14-jan-99</td>
<td>31-dec-06</td>
<td>SDR</td>
<td>42,653,328</td>
</tr>
</tbody>
</table>

[Source: Government of Pakistan, Economic Affairs Division, Islamabad: 2007]

Despite the fact that there were lot of conditionalities, yet, various governments requested for and accepted IMF assistance because of the deficient resources, foreign exchange needs and snowball debt effect. 83
From the facts stated above, it appears that there was no way out for Pakistan but to opt for the assistance of IMF despite tough conditionalities. IMF assesses the reforms implementation process through different methods. These programmes of surveillance and technical assistance were useful for member countries as it promotes sound financial system. The program of technical assistance and surveillance is beneficial for developing countries in particular whose financial systems have yet to mature and become viable. The banking system requires legal, regulatory and financial framework for which both the World Bank and the IMF extended technical assistance and project specific loans. The experience of developing countries like Pakistan shows that most countries have created a debt trap. Such countries are unable to convert debt into development.

Since 1952 to 2002, the World Bank provided the largest financial assistance to Pakistan, to the tune of US$ 13 Billion in the form of 242 loan cases out of which 146 were interest free having only a minimal service charge of about 1% for the improvement of different sectors like infrastructure improvement, banking sector reform, energy sector improvement and a variety of other projects. Given the high importance of the financial sector of Pakistan, the World Bank also provided technical assistance and quality loans to make this sector efficient and vibrant. The World bank has accorded high significance to socio-economic development of the developing nations as well. This is why, it has given loans for the uplift and capacity building of the community to Pakistan. It was considered a successful programme because of the achievement of its expected results. Keeping in view the significance of investor confidence and tax reforms system, the World Bank also provided a significant amount of 350 million US$ to augment the
government’s efforts. To further these efforts towards the tax reforms and restructuring of the banking and financial structure, the World Bank extended help in the form of two programmes, SAC-1 and SAC-2. An analysis of the success or the failure of the World Bank and its conditionalities accepted by Pakistan would reveal that the World Bank always enjoyed very important standing. The results and outcomes of these programmes of the World Bank have been a blend of successes and failures. However, the dependence is an ongoing process. Similarly, the continuity of the World Bank’s programmes and its interest in the social, economic, political and structural dimensions of the society and state of Pakistan has been permanent feature. It has tried to reach even to the grass roots level and provide every possible technical and financial assistance to reform each and every institution to resolve crises of various natures, of the society and state by running programmes like community development and political devolution plan. To achieve the results of the World Bank’s Country Assistance Strategy, it has supported an indigenous reforms agenda, so that the general level of acceptance of the reforms programme and its credibility is enhanced.

The detail of project and non-project aid to Pakistan by World Bank (IBRD) and its agency International Development Association (IDA) during the period July 1991 onwards is shown in tables-5.2 and 5.3
### Table-5.2

**Detail of Assistance Provided by the World Bank Group**

**(1995-2005)**

<table>
<thead>
<tr>
<th>Name</th>
<th>date signed</th>
<th>date drawing limit</th>
<th>Currency</th>
<th>Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sector deepening</td>
<td>30-jan-95</td>
<td>31-dec-01</td>
<td>USD</td>
<td>1,471,873</td>
</tr>
<tr>
<td>Fin sec deepen &amp; inte.</td>
<td>30-jan-95</td>
<td>30-jun-03</td>
<td>USD</td>
<td>17,423,448</td>
</tr>
<tr>
<td>Telecommunications regulation</td>
<td>12-dec-95</td>
<td>31-mar-04</td>
<td>USD</td>
<td>17,763,638</td>
</tr>
<tr>
<td>Ghazi barotha hydropower</td>
<td>07-mar-96</td>
<td>30-mar-04</td>
<td>USD</td>
<td>339,884,427</td>
</tr>
<tr>
<td>Banking sector adjustment loan</td>
<td>12-dec-97</td>
<td>31-mar-98</td>
<td>USD</td>
<td>350,000,000</td>
</tr>
<tr>
<td>Structural adjustment</td>
<td>21-jan-99</td>
<td>30-jun-99</td>
<td>USD</td>
<td>221,051</td>
</tr>
<tr>
<td>Karachi Port Dev. Project</td>
<td>13 July 99</td>
<td>31 May 05</td>
<td>USD</td>
<td>200,000,000</td>
</tr>
<tr>
<td>Highway rehabilitation project</td>
<td>26-jan-04</td>
<td>30-jun-09</td>
<td>JPY</td>
<td>5,605,500,000</td>
</tr>
<tr>
<td>Tax admin reform project</td>
<td>09-mar-05</td>
<td>31-dec-09</td>
<td>USD</td>
<td>24,400,000</td>
</tr>
<tr>
<td>Banking sector dev. Policy</td>
<td>13-jan-05</td>
<td>31-jul-05</td>
<td>USD</td>
<td>200,000,000</td>
</tr>
<tr>
<td>Taunsa barrage rehab &amp; modernization</td>
<td>24-mar-05</td>
<td>31-dec-08</td>
<td>JPY</td>
<td>13,107,500,000</td>
</tr>
<tr>
<td>Highways rehabilitation proj.</td>
<td>06-dec-05</td>
<td>30-jun-09</td>
<td>USD</td>
<td>100,000,000</td>
</tr>
<tr>
<td>Additional loan for highways r</td>
<td>16-may-06</td>
<td>30-jun-09</td>
<td>USD</td>
<td>65,000,000</td>
</tr>
<tr>
<td>Punjab irrigation sector dev.</td>
<td>05-jun-06</td>
<td>30-jun-07</td>
<td>JPY</td>
<td>11,780,000,000</td>
</tr>
<tr>
<td>Punjab municipal serv. (pmsip)</td>
<td>05-jun-06</td>
<td>31-dec-10</td>
<td>USD</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Punjab irrig. Sec. Dev. Pol ii</td>
<td>07-jun-07</td>
<td>31-dec-07</td>
<td>USD</td>
<td>100,000,000</td>
</tr>
</tbody>
</table>

[Source: Government of Pakistan official data, Economic Affairs Division, Islamabad: 2007]

If one glances through the above assistance, it reveals that the World Bank provided substantial assistance for the development and restructuring of banking and financial sectors. The tax administrative reforms, development of Karachi port, highways, telecommunication and irrigation sectors also shared the major chunk of the WB aid.
Table-5.3
(1999-2005)
(IDA)

<table>
<thead>
<tr>
<th>Name</th>
<th>Date signed</th>
<th>Date drawing limit</th>
<th>Currency</th>
<th>Loan amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan poverty alleviation</td>
<td>07-jul-99</td>
<td>31-dec-04</td>
<td>SDR</td>
<td>66,499,232</td>
</tr>
<tr>
<td>Trade &amp; transport facility</td>
<td>01-may-01</td>
<td>30-jun-06</td>
<td>SDR</td>
<td>2,201,459</td>
</tr>
<tr>
<td>Structural adjustment cr.(sac)</td>
<td>12-jun-01</td>
<td>31-dec-01</td>
<td>SDR</td>
<td>276,100,000</td>
</tr>
<tr>
<td>NWFP on form water management</td>
<td>28-aug-01</td>
<td>30-jun-08</td>
<td>SDR</td>
<td>14,250,000</td>
</tr>
<tr>
<td>Banking sec res &amp; privatization</td>
<td>24-oct-01</td>
<td>31-dec-04</td>
<td>SDR</td>
<td>239,500,000</td>
</tr>
<tr>
<td>Second structural adjust cred</td>
<td>11-jun-02</td>
<td>31-dec-02</td>
<td>SDR</td>
<td>395,200,000</td>
</tr>
<tr>
<td>Sindh struct adjust credit</td>
<td>10-jul-02</td>
<td>31-dec-02</td>
<td>SDR</td>
<td>79,100,000</td>
</tr>
<tr>
<td>NWFP struct. Adjust credit</td>
<td>10-jul-02</td>
<td>31-dec-02</td>
<td>SDR</td>
<td>71,200,000</td>
</tr>
<tr>
<td>Banking sector tech assistance</td>
<td>11-jul-02</td>
<td>31-dec-07</td>
<td>SDR</td>
<td>21,300,000</td>
</tr>
<tr>
<td>AJK comm. Infrastr services</td>
<td>24-aug-02</td>
<td>30-jun-08</td>
<td>SDR</td>
<td>16,100,000</td>
</tr>
<tr>
<td>Partnership polio eradication</td>
<td>11-jun-03</td>
<td>30-jun-06</td>
<td>SDR</td>
<td>14,604,944</td>
</tr>
<tr>
<td>National edu assessment system</td>
<td>09-oct-03</td>
<td>30-jun-08</td>
<td>SDR</td>
<td>2,700,000</td>
</tr>
<tr>
<td>AIDS Prevention Project</td>
<td>09-oct-03</td>
<td>31-dec-08</td>
<td>SDR</td>
<td>20,200,000</td>
</tr>
<tr>
<td>Partnership polio eradication</td>
<td>29-oct-04</td>
<td>30-jun-06</td>
<td>SDR</td>
<td>14,628,181</td>
</tr>
<tr>
<td>Second poverty alleviation .f.p</td>
<td>20-jan-04</td>
<td>31-jul-08</td>
<td>SDR</td>
<td>168,100,000</td>
</tr>
<tr>
<td>Highways rehabilitation project</td>
<td>26-jan-04</td>
<td>30-jun-09</td>
<td>SDR</td>
<td>105,900,000</td>
</tr>
<tr>
<td>Punjab edu. Reform prog.</td>
<td>20-feb-04</td>
<td>30-sep-04</td>
<td>SDR</td>
<td>69,500,000</td>
</tr>
<tr>
<td>Public sect capacity building</td>
<td>16-jun-04</td>
<td>30-nov-09</td>
<td>SDR</td>
<td>36,900,000</td>
</tr>
<tr>
<td>NWFP - of wm - eq</td>
<td>06-dec-05</td>
<td>31-dec-07</td>
<td>SDR</td>
<td>6,900,000</td>
</tr>
<tr>
<td>AJK Community Infrastruct.EQ.</td>
<td>06-dec-05</td>
<td>30-jun-08</td>
<td>SDR</td>
<td>20,700,000</td>
</tr>
<tr>
<td>Second Poverty Alleviation.EQ.</td>
<td>06-dec-05</td>
<td>31-jul-08</td>
<td>SDR</td>
<td>68,900,000</td>
</tr>
</tbody>
</table>

[Source: Government of Pakistan official data, Economic Affairs Division, Islamabad: 2007]

It can be observed from the above table that during the period 1999-2005, the major portion of assistance was directed towards the restructuring and the reformation of the financial sector. This clearly indicates the keen interest on the part of World Bank to streamline the financial institutions of Pakistan to make them more transparent and sound besides increasing their capacity to combat money laundering activities.

The World Bank aid to Pakistan covered all the important sectors and areas. It has focused on the overall social, political, economic and administrative sectors of the country to yield maximum results from its assistance programmes. On the one hand, the
World Bank has sought to reform the financial system of Pakistan by supporting and promoting privatization, deregulation, liberalization and allied structural and functional innovations. On the other hand, it has accorded invaluable help to social and political development in the country through its poverty reduction, education, community development, human rights protection, good governance and devolution programmes. It has also helped in bringing about financial stability and macroeconomic correction in the economy through its financial sector reforms, capital market reforms and tax related reforms. While commenting on the role of the World Bank, vice president of the World Bank Meiko Nishimizu says, “had these reforms not been pursued, Pakistan today would have seen a higher unemployment, high poverty and higher inflation which in turn would have impaired not only the government and its economy, but the poor man, too”.

Realizing the global significance of combating money laundering activities, the World Bank also provided assistance to Pakistan in order to set up an AML unit. This anti-money laundering unit is developing the Pakistani market on international standards.

The World Bank and IMF also undertook an analytical study of the accounting, auditing and financial reporting for corporate entities in Pakistan during 2005. Such a study provided lot of input to the banking sector and other financial institutions for streamlining their systems. The IMF and World Bank also play crucial role with respect to Report on Observance of Standards and Codes. This Programme empowers these international regimes to report on the compliance status of international standards along with requisite recommendations for the particular countries. The IMF has great significance because of which the State Bank is associated with formulation and implementation of IMF’s programs for the banking sector of Pakistan. The IMF and World Bank’s funding have
also conditionalities for the recipient countries, which makes them economically and politically more significant.\textsuperscript{101} This is the reason that State Bank of Pakistan is committed and directly involved in coordination of its policies to comply with the conditionalities and performance criteria of IMF.\textsuperscript{102}

The Brettonwoods institutions have extended extraordinary assistance to the member states to improve and stabilize their financial system and infrastructure.\textsuperscript{103} Had there been no IMF or the World Bank, there would have been system discrepancies and anomalies on the international level. The member states, especially the economies of the developing World would have found themselves in narrow straits among the comity of the nations.\textsuperscript{104} Absence of system and non adherence to rules of the game leads to jungle law where survival of the fittest rule prevails. A viable and sustainable banking system requires internationally supported and compatible reform program.\textsuperscript{105} This function of international conformity and globalization of trade and investment across the international borders is promoted by the World bank and the IMF.\textsuperscript{106}

The World Bank is also significant because its anti-money laundering program is a multi-pronged approach that complements other works in the financial sector which includes the development of private sector, infrastructural development, poverty reduction and economic management networks to stimulate sustainable growth and development in the member countries.\textsuperscript{107} From 1990 to 2005, the World Bank funded 13 main projects which were very important for the uplift of Pakistan’s economy.\textsuperscript{108}

To augment and strengthen Pakistan’s struggle against money laundering, the World Bank and the IMF recommended that Pakistan should have an anti money laundering law having international compatibility and conformity.\textsuperscript{109}
The World Bank is seriously pursuing anti money laundering steps and in this regard assistance is being provided under Technical Assistance for Banking Sector (TABS). In this regard, a lot of financial and technical assistance is provided to strengthen the structural and functional aspects of different institutions including establishment of Financial Intelligence Units (FIUs). These institutions not only provide much needed assistance to reform and restructure anti money laundering institutions but also comprehensively cover all the sectors of the economy and institutional set up at par with international standards.

The significance of these institutions is further crystallized by the fact that they work in close collaboration with internationally important institutions and standard setters like Basel Committee on Banking Supervision, International Association of Insurance Supervisors, International Organization of Securities Supervisors, Egmont Group, FATF-Style regional bodies and Wolfsberg group.

5.7. ASIAN DEVELOPMENT BANK

Asian Development Bank is having tremendous importance for Pakistan. Besides, other sectors assistance for anti money laundering is very important for Pakistan. Securities and Exchange commission of Pakistan was assisted by consultants of the Asian Development Bank for strengthening regulations, governance and enforcement of financial (non-bank) sectors. Asian Development Bank is also significant because it is an observer of APG. Asian development Bank’s significance for Pakistan is also demonstrated by the fact that Pakistan is the second largest recipient of loans and assistance to the tune of US 12.6 Billion from it.
Similarly, Financial Markets and Governance Program (FMGP) by Asian Development Bank have expedited Pakistan’s growth and development efforts through the provision of financial and technical support. In its efforts focusing on Pakistan, it has especially provided support to the non bank financial institutions for its capacity building and implementation of international financial standards.\textsuperscript{117} Its reform programme is meant to enhance regulatory capacity of the SECP so that financial sector can be strengthened according to the international standards.\textsuperscript{118} The reform programme of ADB was carried out by undertaking a consultancy assignment by paying attention to the reform of areas related to regulatory mechanisms, provision of qualitative training, enhancement of professional skills, institutionalization of financial markets and restructuring of capital markets.\textsuperscript{119} The ADB financed project ‘Access to Justice Programme’ focused the reformation and restructuring of the justice system of Pakistan to enhance the investors confidence and trust of international community in the institutional set up of the country. This programme has met a mix fortunes as far as the achievement of the intended results of the project are concerned. However, this at least shows the interest and focus of ADB in the reform process of the political and financial system of Pakistan to effect social and institutional development.

The above mentioned role of Asian Development Bank in the financial, judicial, development of infrastructure and streamlining of the banking sector of Pakistan demonstrates the significance of the ADB for Pakistan.

The detail of assistance provided to Pakistan by ADB from 1999 onwards is shown in table-5.4.
<table>
<thead>
<tr>
<th>Name</th>
<th>Date signed</th>
<th>Date drawing limit</th>
<th>Currency</th>
<th>Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second flood protection sec-oc</td>
<td>10-Feb-99</td>
<td>30-Jun-07</td>
<td>SDR</td>
<td>32,963,972</td>
</tr>
<tr>
<td>Women's health project-oc</td>
<td>21-Jan-00</td>
<td>30-Jun-07</td>
<td>SDR</td>
<td>32,083,000</td>
</tr>
<tr>
<td>Malakand rural dev. Project-oc</td>
<td>23-Apr-99</td>
<td>31-Dec-07</td>
<td>SDR</td>
<td>30,852,478</td>
</tr>
<tr>
<td>Punjab farmer managed irrig.</td>
<td>21-Jan-00</td>
<td>30-Apr-05</td>
<td>SDR</td>
<td>5,811,000</td>
</tr>
<tr>
<td>Trade, exp prom. &amp; ind. Prog</td>
<td>31-Mar-99</td>
<td>31-Jul-02</td>
<td>USD</td>
<td>300,000,000</td>
</tr>
<tr>
<td>Modernization of custums admn</td>
<td>31-Mar-99</td>
<td>30-Jun-03</td>
<td>USD</td>
<td>2,638,392</td>
</tr>
<tr>
<td>Instit. Support for trade regi</td>
<td>31-Mar-99</td>
<td>30-Jun-04</td>
<td>USD</td>
<td>2,049,328</td>
</tr>
<tr>
<td>Instit. Strengthening of boi</td>
<td>31-Mar-99</td>
<td>31-Dec-03</td>
<td>USD</td>
<td>793,269</td>
</tr>
<tr>
<td>Nwfp barani areas dev, proj-oc</td>
<td>14-Jun-01</td>
<td>31-Dec-08</td>
<td>SDR</td>
<td>40,065,000</td>
</tr>
<tr>
<td>Small&amp;medium size enterprise</td>
<td>15-Dec-00</td>
<td>2-Apr-04</td>
<td>USD</td>
<td>2,379,574</td>
</tr>
<tr>
<td>Microfinance sect dev prog-oc</td>
<td>6-Feb-01</td>
<td>30-Jun-06</td>
<td>SDR</td>
<td>54,114,000</td>
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<tr>
<td>Microfinance sect dev. Prog-oct</td>
<td>6-Feb-01</td>
<td>30-Jun-07</td>
<td>SDR</td>
<td>61,845,088</td>
</tr>
<tr>
<td>Energy sector rest programme</td>
<td>15-Dec-00</td>
<td>31-Dec-03</td>
<td>USD</td>
<td>153,000,000</td>
</tr>
<tr>
<td>Energy sec. Rest. Prgm-oc</td>
<td>15-Dec-00</td>
<td>30-Jun-06</td>
<td>JPY</td>
<td>5,648,358,039</td>
</tr>
<tr>
<td>Capacity enhancement energy</td>
<td>24-Jan-01</td>
<td>30-Jun-04</td>
<td>SDR</td>
<td>3,908,000</td>
</tr>
<tr>
<td>Nwfp urban dev. Sector proj</td>
<td>21-Dec-01</td>
<td>30-Jun-08</td>
<td>SDR</td>
<td>16,135,824</td>
</tr>
<tr>
<td>Agriculture sector prog-ii-oc</td>
<td>1-Apr-02</td>
<td>31-Jul-07</td>
<td>SDR</td>
<td>96,238,000</td>
</tr>
<tr>
<td>Agriculture sector program-ii</td>
<td>1-Apr-02</td>
<td>31-Jul-07</td>
<td>JPY</td>
<td>27,463,500,000</td>
</tr>
<tr>
<td>Agriculture sec prog-ii ta-oc</td>
<td>1-Apr-02</td>
<td>30-Sep-07</td>
<td>SDR</td>
<td>750,202</td>
</tr>
<tr>
<td>Road sec.national policy prog.</td>
<td>1-Feb-02</td>
<td>30-Jun-07</td>
<td>JPY</td>
<td>6,079,300,000</td>
</tr>
<tr>
<td>Road sector dev. Provincial</td>
<td>1-Feb-02</td>
<td>30-Jun-09</td>
<td>JPY</td>
<td>9,118,900,000</td>
</tr>
<tr>
<td>Road sec dev.provincial prog</td>
<td>1-Feb-02</td>
<td>30-Jun-09</td>
<td>SDR</td>
<td>59,232,565</td>
</tr>
<tr>
<td>Access to justice program.</td>
<td>21-Dec-01</td>
<td>31-Aug-07</td>
<td>JPY</td>
<td>29,685,000,000</td>
</tr>
<tr>
<td>Access to justice program-oc</td>
<td>21-Dec-01</td>
<td>30-Jun-07</td>
<td>SDR</td>
<td>67,914,000</td>
</tr>
<tr>
<td>Institut dev access justice-oc</td>
<td>21-Dec-01</td>
<td>31-Dec-07</td>
<td>SDR</td>
<td>15,648,000</td>
</tr>
<tr>
<td>Reproductive health proj-oc</td>
<td>20-Mar-03</td>
<td>30-Jun-08</td>
<td>SDR</td>
<td>28,453,798</td>
</tr>
<tr>
<td>Decentralized eleme. Educ-oc</td>
<td>9-Apr-03</td>
<td>30-Jun-09</td>
<td>SDR</td>
<td>16,411,000</td>
</tr>
<tr>
<td>Punjab road dev. Sector proj</td>
<td>26-Mar-03</td>
<td>31-Dec-08</td>
<td>JPY</td>
<td>18,396,800,000</td>
</tr>
<tr>
<td>Sindh rural dev. Project-oc</td>
<td>3-Mar-03</td>
<td>30-Jun-10</td>
<td>SDR</td>
<td>2,772,788</td>
</tr>
<tr>
<td>Decentralization support prog.</td>
<td>23-Jan-03</td>
<td>30-Jun-06</td>
<td>JPY</td>
<td>24,564,125,000</td>
</tr>
<tr>
<td>DSP: Earthquake relief</td>
<td>20-Dec-05</td>
<td>31-Dec-05</td>
<td>SDR</td>
<td>58,898,720</td>
</tr>
<tr>
<td>Decentralization supp prog.-oc</td>
<td>23-Jan-03</td>
<td>30-Jun-06</td>
<td>SDR</td>
<td>108,005,720</td>
</tr>
<tr>
<td>Local govt perform enhance-oc</td>
<td>23-Jan-03</td>
<td>31-Dec-07</td>
<td>SDR</td>
<td>17,376,498</td>
</tr>
<tr>
<td>Gender &amp; govnce mainstream-oc</td>
<td>23-Jan-03</td>
<td>30-Jun-07</td>
<td>SDR</td>
<td>5,288,000</td>
</tr>
<tr>
<td>Punjab community water supy-oc</td>
<td>23-Jan-03</td>
<td>31-Jul-07</td>
<td>SDR</td>
<td>37,885,182</td>
</tr>
<tr>
<td>Name</td>
<td>Date signed</td>
<td>Date drawing limit</td>
<td>Currency</td>
<td>Loan Amount</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------</td>
<td>--------------------</td>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td>Financial markets &amp; governance</td>
<td>3-Mar-03</td>
<td>17-May-07</td>
<td>USD</td>
<td>182,600,000</td>
</tr>
<tr>
<td>Streng of pension insurance-oc</td>
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<td>31-Dec-07</td>
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<td>JPY</td>
<td>130,000,000</td>
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<td>14-Jun-06</td>
<td>31-Jul-10</td>
<td>SDR</td>
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The above chart shows the significant role and the dependence of Pakistan mainly on the Support and Aid of the ADB.

5.8. FATF

FATF is internationally significant organization. The IMF, World Bank and UN along with other global and regional organizations render full support for the implementation of FATF recommendations, which makes FATF more significant for all the member countries of UN. Security Council’s Resolution No.1617 (2005), impresses upon all the members of the UNO to implement and comply with the FATF’s 40+9 recommendations related to anti-money laundering and anti-terrorist financing. This support of the FATF recommendations by the SC has enhanced the relevance and importance of FATF as anti-money and anti-terrorist regime. FATF is also significant because of the membership of economically and politically important countries.
Because of its membership by permanent members of Security Council has made FATF more forceful organization for getting its recommendations adopted and implemented by every member country of UN. Even the Members of the G7 nations support the FATF. They “have threatened tough action against countries which permit money laundering on their territory.”\textsuperscript{124} The European Commission which is an important supporter of FATF visited Pakistan in 2004 to deliberate upon the issues concerning money laundering.\textsuperscript{125} These discussions between Pakistan and European Commission resulted in the adoption of an anti money laundering strategy. Subsequent to this adoption of anti money laundering strategy, a Swiss Mission came to Pakistan as follow up visit and appreciated the steps taken by Pakistan.\textsuperscript{126} Pakistan is an active member at regional level and promotes interest of international community by ensuring compliance in its true sprit. The anti money laundering strategy being followed by Pakistan indicates FATF’s paramount significance.\textsuperscript{127}

The anti-money laundering efforts by different states and international institutions also demonstrate the importance and significance of FATF. The projects on Corporate Governance, Financial Sector Reforms, and initiation of anti-money laundering steps in Pakistan are being implemented with the help of ADB, UNDP and the World Bank.\textsuperscript{128} It is because of FATF significance that adoption of international standards on money laundering is the official strategy of Pakistan.\textsuperscript{129} The strategy of Pakistan to combat money laundering does not have regional significance only but also embraces international recognition. SBP, the central bank of Pakistan, in the capacity of a regulatory body attaches great significance and importance to FATF. The SBP while formulating changes in anti-money laundering measures for Banks and DFIs, ensured
compliance with the recommendations of FATF on money laundering. The SBP recognizes the fact that the counter money laundering measures given by FATF also ensure the protection of different stake holders interests. The SBP have directed the Pakistani financial institutions to be watchful from having ‘relationships with correspondent banks with inadequate KYC policy and resultanty declared non cooperative institutions by the FATF. The FATF stresses for vigilance and care for suspicious transaction through Wire Transfer from those financial institutions included in ‘NCCT List’ by FATF. This indicates that FATF is working like a protector of financial institutions the world over to save them from becoming the victim of money launderers. Owing to the significance of FATF, Pakistan not only supported the recommendations of FATF but also promulgated Anti money laundering Ordinance in 2007. The Anti-Money laundering measures as per recommendations of FATF have also been implemented by the financial sector of Pakistan.

The significance of FATF is not only recognized by more than 150 jurisdictions but the Boards of IMF and World Bank as they have also supported the standards set by FATF. The FATF 40+ 9 recommendations are considered very important by all international financial institutions. The FATF attain international support by making use of pull and push factors. Since developing states are facing acute shortage of resources and chronically relying on international financial institutions and advanced states so they have to comply with the set standards of international regimes as non-compliance to these set standards and recommendations results in refusal of economic assistance and bad name as well. In order to get more cooperation from the developing countries in particular, the FATF regularly publishes list of non cooperative countries and
entities. The non-cooperation with FATF can deprive any country of having financial and technical assistance from international regimes and other developed nations. The basic component of the strategy to counter money laundering and terrorist financing is the evaluation and monitoring mechanisms according to the international standards. In this regard, a regular exercise is conducted by FATF, IMF and World Bank for attaining sustainable results.

In this regard, the example of the Seychelles inviting international investors to put money in their Banks without proper compliance with international standards was strongly condemned by the international community and forced them to withdraw this policy.

The above discussion clearly demonstrates the significance of FATF for all countries including Pakistan. Therefore, its recommendations on anti-money laundering not only carry theoretical importance but practically Pakistan has implemented most of FATF’s recommendations and standards in the financial and non financial sector yet FATF expects a lot more.

5.9. Asia Pacific Group (APG)

The APG has become a very significant organization because of its collaboration with regional and international organizations like the Commonwealth Secretariat, UNDC, IMF, World Bank, Egmont Group, European Commission, Interpol, Asian Development Bank, World Customs Organization and the Oceania Customs Organisation. Because of its significance and importance, Pakistan has also become its member. Its typology Working Group enjoyed the support and membership of 22 members during 2005. The APG is of great significance because of its political, technical, and strategic roles by providing a regional forum, promotion of membership related activities, networking with
other anti-money laundering bodies, promoting research and development activities regarding anti-money laundering, implementation of anti-money laundering standards and assessment of compliance status by the member countries. The APG also undertook an evaluation of Pakistan’s compliance with anti-money laundering standards. Subsequently, the APG’s team also held detailed discussions with stakeholders, including the SECP for insuring compliance with the international standards. Keeping in view the significance of APG, Pakistan implemented all the directives of APG. APG appreciated Pakistan’s efforts in this regard and certain recommendations were also made to strengthen the anti-money laundering framework.

5.10. International Police Organization (INTERPOL)

The International Police Organization (Interpol) is also playing quite important role for preventing crimes of money laundering, terrorist financing and others. It has been noted that as a consequence of Globalization and international financial integration, the crimes during the last two decades have seen an unprecedented increase in number, nature and geographical scope. It is not possible for a single nation to cope with this dangerous phenomenon for which cooperation at global level is required. The International Police Organization works as international watch dog on crimes by supporting and helping various national and international bodies involved in the crime detection, prevention and investigation. Therefore its role becomes more important as an international organization. Interpol not only facilitates other countries but also makes available various resources at its disposal to help and assist member states in order to protect peaceful citizens against crimes of variety of nature. Pakistan is no exception as being a developing nation, different types of crimes are taking place for which cooperation at
national and international levels is also required. There exists cooperation both at the state as well as institutional levels. In addition to other governmental agencies, National Accountability Bureau (NAB) of Pakistan also coordinates and cooperates with different international agencies.\textsuperscript{149} Through this cooperation with Interpol, Pakistan is benefiting in the fields of training, extradition, assets investigation, freezing of assets, freezing of accounts and mutual legal assistance in different fields, and these measures are helpful in eradication of various crimes.\textsuperscript{150}

In pursuance of the approval of the United Nations Organization General Assembly, Interpol established a cluster of Global Anti-Crime Centres to serve as focal points for international law enforcement expertise in investigative techniques and operational support to member countries at international level.\textsuperscript{151} The Interpol is also cooperating with Pakistan to combat the forces of terrorism. The Fusion Task Force initiated by Interpol assists member countries in their terrorism-related investigations.\textsuperscript{152} So the existence of such an international organization is considered significant not only by Pakistan but also by other nations of the World.

5.11. EGMONT GROUP

The Egmont Group has gained importance because of its global anti money laundering role. The Egmont Group is a platform for international financial intelligence units so that global cooperation and coordination for anti-money laundering should be appropriately fostered at international level.\textsuperscript{153} It further renders cooperation and coordination to a variety of national and international agencies involved in countering the threat of money laundering and terrorism financing.\textsuperscript{154} So Egmont Group has attained a great significance due to its role against money laundering. Pakistan cannot tackle the problem of money
laundering single handedly, rather needs cooperation of organizations like Egmont Group and FATF. The UN has also solicited international cooperation and directed states to foster regional, sub regional and international cooperation involving judicial and administrative structures to tackle this problem.\textsuperscript{155} Egmont Group has a membership of more than 100 nations who cooperate and coordinate bilaterally and multilaterally to fight this bane.\textsuperscript{156}

In pursuance of the international requirement, Anti money Laundering Ordinance has been promulgated and Financial Monitoring Unit has been established.\textsuperscript{157} The foremost objective of the Financial Monitoring Unit is to foster coordination and enhance cooperation with other financial intelligence units and other law enforcing agencies by sharing information, intelligence sharing and exchanging documentation to tackle money laundering.\textsuperscript{158} Pakistan can definitely benefit by extending cooperation to the international community for fighting against these crimes. The establishment of FMUs will help Pakistan in seeking cooperation and support of Egmont Group both at national and international levels. It will also earn good will of other financial intelligence units, international groups and forums which address the offence of money laundering and other related matters.\textsuperscript{159} The Egmont Group works in collaboration with the World Bank and IMF which also increases its significance.\textsuperscript{160}

This enhanced and critical significance of international anti-money laundering regime has resulted in increased deterrence of NCCT list by FATF. This indicates to the fact that none of the countries can afford to ignore the guidelines and standards laid down by international regime. It is but natural that cooperation between the states on one issue brings them together on many other issues and credit of unity of action goes to
international anti-money laundering financial institutions. The states have accorded high priority to this issue as it has resulted in the reduction of crime and also promises for the welfare in the future. Strengthening of financial institutions and documentation of economy is also a crucial gain for the compliant states.\footnote{161}

The studies conducted by the World Bank and the IMF show that the enhanced flow of foreign remittances has significant impact on the health of the economy of the recipient country.\footnote{162} The stringent anti-money laundering measures have also enhanced the volumes of the foreign remittances in Pakistan. These foreign remittances play important role for economic growth and social development of Pakistan. As a consequence to anti money laundering measures foreign remittances are properly documented and streamlined the process of planning and forecasting. These measures and their results signify the significance of international standardsetters. If one looks at the statistics of foreign remittances from 1999-2000 to 2004-05, it appears that there has been considerable increase with the passage of time. In 1999-2000, the reported foreign remittances amounted to $ 913 million as compared to $ 1022 million in 2000-01. Similarly, the foreign remittances in 2001-02 increased during 2002-2003 from $ 2,341 million to $ 4,191 million which was a good indicator for the economy of Pakistan. During the year 2004-2005 home remittance were $ 4.11 billion but it reached to above $11billion in 2011.\footnote{163}

From the following table, it can be seen that trend of foreign remittances has been on increase from 1999-01 to 2004-05 with the exception of decrease during 2003-04. Foreign remittance from countries like USA, U.A.E., U.K and Saudi Arabia were larger as compared to other countries. If we look at the USA and U.K., they are also members
of FATF, which is an indicator that toeing of international standards set by international anti-money laundering organizations have been fruitful. Pakistan can attract more foreign remittances through banking institutions provided more facilities and incentives are extended to the individuals so that they do not rely upon transactions through *Hundi/Hawala*. In fact foreign exchange is important for economy of Pakistan and this can be increased through foreign remittances by adopting more prudent and transparent policies.

Table 5.5 given below shows the % share of remittances from different countries.

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By looking at the percentage share of each country, it reveals that foreign remittances from USA have been on the rise since 9/11. Similarly, remittances from U.K. and Kingdom of Saudi Arabia have also been on increase which shows significance of these countries for Pakistan.

The trend of foreign remittances shows that the huge inflows of Overseas Pakistani Workers remittances are even larger than private capital flows and official development assistance. Money laundering activities are dangerous for the societies as well as financial institutions. Peter and Truman have rightly stated that due to financial globalization every financial institution and every society in the world is being adversely affected by the problem of money laundering. The label of money laundering is considered international stigma as well as economic loss for a country. In this regard non cooperative countries list and name and shame lists are regularly published. Consequently foreign investment and foreign trade is also adversely affected. In international politics states act and react in response to other states for the protection of their national interests. In order to root out the malicious activities of money laundering and terrorist financing, the Members of the G7 club of industrialized nations have threatened tough action against countries which permit money laundering on their territory. The promulgation of anti money laundering ordinance 2007 in Pakistan was the result of international demand and deadline given by European Union and other international organizations. International anti-money laundering regimes want to have a stable global financial system for which certain guidelines and standards have been set by different financial
organizations operating at international level. In the globalized economic world, the objectives of routing out money laundering and terrorist financing can only be attained by the collective cooperation among all the states. Prior to systematic incentives strategy of international anti-money laundering regimes criminals and money launderer used to get benefits from offshore banks and shell companies existing in many parts of the world. 

The consistent efforts on the part of international anti-money laundering institutions have controlled such unregulated entities which is a significant gain for international regime. The financial institutions of most of the countries have strengthened themselves by adopting international standards and modified their domestic laws. As there is convergence of interests so states are cooperating with international anti-money laundering institutions. This clearly reflects the degree of significance of international anti-money laundering regimes. To fulfill the international requirements, the developing states even sacrifice the interests of service end users as they have insufficient banking facilities. One can cite the example of implementation of international measures by each state against Hawala/Hundi. The legitimate clients who used to avail Hawala/Hundi have to pay more physical, psychological, and financial cost due to more documentation, formalities and other measures being adopted by banking sector.\textsuperscript{168} 

The role of various international institutions like World Bank, IMF, UNO, FATF, IOSCO, IAIS and Interpol etc., clearly demonstrates the significance of these international actors for all the countries in general and Pakistan in particular. It may be noted that all the international anti-money laundering institutions have great bearing collectively because they collectively collaborate in anti-money laundering efforts.\textsuperscript{169} In order to have collaboration and cooperation as well as earning of good will of
international anti-money laundering regime, Pakistan has made significant efforts to comply with international regimes against this menace. Moreover, it is pertinent to mention that Pakistan being a developing country cannot afford to isolate herself from these international institutions as it can prove a blow for the economy of Pakistan. While discussing the role of IMF, World Bank and its various agencies, we have observed that major chunk of project aid and financial assistance flow from these international financial institutions. These institutions are also extending maximum support to strengthen those institutions which are making efforts to combat money laundering and terrorist financing. It clearly indicates that these institutions go hand in hand and breaking relations with one result in isolation from all international financial institutions. The discussion has amply proved that Pakistan will have to rely upon these international institutions not only to eradicate the menace of money laundering but also to strengthen her economy in particular and financial institutions in general.

In order to conclude the study, the next chapter is devoted to conclusions and recommendations.
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CONCLUSIONS AND RECOMMENDATIONS

The emerging trends of enhanced international cooperation for development and growth of the global community has further highlighted the need for a closer cooperation and coordination among all the countries of the World. This need for mutual global cooperation calls for integrated efforts at national, regional, sub-regional and international level. This also demands application of certain common and universally accepted standards, laws, principles and regulations. Global trends of more integrated international development have enhanced the role of international anti-money laundering regime as regulator of world economies. International interdependence of economies, international market contagion tendency and international crimes have exacerbated the international donor agencies ambitions for economic and institutional stability. In order to integrate the world economy globally, the need for global standards having international acceptability for strengthening the financial institutions has considerably been increased. The international financial and anti-money laundering institutions have emerged as the strongest actors in the field of economy as a result of which developing countries like Pakistan are left with no option but to toe the guidelines set by these international actors.

Since the flow of funds as well as frauds have become borderless and as such cooperation at global level is required to stop the fraudulent acts and encourage legitimate flow of funds. Both the elements have the power to move from one country to the other and have positive as well as negative implications for the societies. Money has become a powerful tool and financial crises in one country can effect the whole region having its global implications. The international financial institutions and international anti-money
laundering regimes have the objectives to save the financial markets from crises in order to bring stability in the financial institutions as well as smooth flow of funds from one country to the other. Keeping in view the structural theory, the international institutions like IMF and World Bank have their vested interests because a weak financial system in any country can result into business, legitimacy and credibility crises as well as loss of original amount of project aid/assistance. The international anti-money laundering institutions strengthened the financial system of member states through introducing various standards and guidelines. These institutions too, are working in collaboration with international financial institutions just to safeguard their interests. Moreover, the global trade also demands established and stable institutional framework to ensure the safety and security of funds and earnings. The investors also wish that their investments do not go in waste and there is suitable and safe environment in the country where they are investing. It is, therefore, necessary to have a stable, internationally compatible and responsive system which is of domestic as well as international investors’ interests. A country with reliable international ratings has more capacity to attract foreign direct investments and attain sustainable economic development. It also enables compliant states to receive foreign assistance from the international financial institutions.

Realizing the situation, the economic managers in Pakistan realized the importance of stability, vitality and international standards of the financial sector for the overall economic development. For a developing country like Pakistan, it is difficult to live in isolation divorcing all international financial organizations and international anti-money laundering institutions. Pakistan cannot receive financial assistance and support without complying the guidelines of international financial actors because of their well knit
integration and collaboration with each other. Financial Sector reforms cannot be undertaken in isolation from other sectors of the economy. The pre-requisite for successful financial sector reforms in any country is integration of all sectors on account of their interdependence and overlapping nature. The financial sector reformation process can prove successful provided they have the ability to bring change for sustained economic growth in the country. The sustained economic growth can only take place by following prudent economic policies in line with global norms and standards. A strong, stable, efficient and vibrant financial sector is key to economic growth and human development in any country. The financial institutions of a country are backbone of the economy and the international crimes can badly affect financial system of any country if it is not following fool proof mechanisms for stability of its financial institutions. The increasing financial and political globalization demands that every country should abide by the international standards for stability of financial sector and Pakistan cannot be an exception to that.

The international economic figures and statistic demonstrate that the countries operating in well coordinated and regulated financial and economic structures have achieved higher economic growth and human development. The unified application and universal compliance with the rules, standards, values, systems, procedure, codes and laws enhances the credibility and legitimacy of financial system. These standards and best international practices improve internal control systems and ensure sound management practices, which ultimately result in stability, consistency, continuity and yield sustainable results.
That’s why, the international regime is trying to forge uniformity of practices and procedure so that international financial system should become stable and predictable for the stake holders. It is also significant as globalization has the potential to bring risk and opportunities to the institutions and individuals of a nation.

Financial Institutions can strengthen themselves by adhering to strict financial discipline which can only be brought about with the help of adherence to set standards and norms. As far as developing countries are concerned, they do not have that much expertise to frame internationally acceptable standards so they have to rely upon the international standards laid down by the international actors in the field. These standards are result of continuous efforts and labor on the part of international financial institutions to avoid financial crises and resultant collapse of financial institutions. If one looks at the causes of 1990s crises, it was the weak financial institutions, inadequate banking regulations, transparency and lack of supervision.

Although there are numerous crimes taking place in various financial systems of the world, yet money laundering and terrorist financing have attracted the attention of international actors to make efforts to combat both the crimes. Money laundering in its reverse form gives birth to terrorist financing which cannot be afforded by any society. So if seen in this perspective, money laundering as well as underground economy are the most dangerous elements not only for the financial institutions but for societies as a whole. Money laundering gives birth to many other crimes in the society and results in anarchy, uncertainty, and insecurity. In view of these problems, international efforts were initiated with force, vigor, continuity and collaboration. The policies have both positive as well as negative impacts.
In the pre-anti money laundering regime era many offshore banks and shell banks were existing for the abuse of criminals and launderers in various parts of the world. There was also a culture of fictitious accounts, numbered accounts and walking accounts. Prior to the active role taking of the anti money laundering regime, there was no systematic mechanism to combat this menace as a result of which social, economic, institutional, political and operational problems started taking place in the societies. Consequently, these problems started posing severe internal security threats to many states which could result in the instability of financial institutions of the world as well as global system. There was no way out but to adopt certain fool proof mechanism to counter the forces of money laundering to ensure stability of financial institutions and security of the societies. In this regard, the international actors introduced a holistic approach to counter this threat. The strategy while formulating standards and guidelines was based on the principle of carrot and stick approach. There was provision of incentives as well as penalties for the cooperative and non-cooperative states respectively. It was natural that non-cooperative states would be denied any financial assistance from the international institutions, whereas the compliant states would be encouraged to benefit from it. In view of developing a synergy, the UN also impressed upon the member countries to have a supervisory and regulatory mechanisms for ant-money laundering. International problem need international approach to address it. It has become more important in the present era of financial and political globalization where super state institutions are becoming important and effective. To quell the money laundering and terrorist financing, there are specific institutions like FATF, Egmont Group, IOSCO, IAIS and Wolfsberg Group of Banks etc., whose main focus is to prepare the states for fighting against this
menace. The IMF and the World Bank are extending support to these institutions with the help of UN.

With particular reference to anti-money laundering measures introduced by international anti-money laundering regimes, there are significant impacts on the financial sector of Pakistan. This is visible in both structural as well as functional aspect. The international anti-money laundering regime has extended valuable help to Pakistan in putting in place regulatory, legislative and institutional measures. Pakistan besides following the line of international actors not only introduced standards in the financial institutions but has also promulgated anti Money Laundering Ordinance in conformity with directives of the United Nations Organizations. Similarly, the State Bank of Pakistan and SECP have also complied with the recommendations of FATF to streamline the financial sector.

If viewed in positive terms, Pakistan is trying to implement all necessary standards and measures in order to safeguard its financial institutions from the menace of money laundering. It has resulted in positive impacts on the economy of Pakistan as a whole as IMF and World Bank have been continuously assisting Pakistan financially to save it from financial crises. As far as adoption and implementation of anti-money laundering measures is concerned, it is useful for strengthening the financial institutions and economy of Pakistan. However, it must be cautioned that Pakistan should not solely depend upon international financial institutions in particular for aid and financial assistance. Reliance upon foreign aid is not beneficial for ever as it does not allow economic growth domestically. The domestic economic growth can only take place provided financial institutions of the country are on strong footings and there are strict and transparent measures for strengthening of the economy.
It is noteworthy that the impacts of international anti-money laundering regimes are different for various stakeholders i.e., international anti-money laundering institutions, International financial institutions, states and individuals. As far as international anti-money laundering institutions are concerned, their efforts are directed to make the global financial system quite transparent, westernized, free of crime and stable. This would in turn attract foreign investors as well as other traders for business in various societies of the world without any fear. Similarly, the interests of international financial institutions lie in the stability of financial institution of the states where they are aiding and assisting financially and in turn earning their good will as well as profit. The states are also important stakeholders in the sense that by following uniform policies and standards, they not only capitalize on the confidence of the international regime but also succeed in attracting international financial institutions as well as investors for financial assistance/aid and investment. The individuals are also important stakeholders in the sense that they remit money to their respective states through various means which are convenient to them. They want to save themselves from unnecessary documentation, extra cost and inconvenience. So it is necessary that while formulating policies with regard to combating money laundering, their interests should also be taken into account. It is also of great importance for the states that their interaction with each other helps in accumulating social capital. It is further suggested that the accumulated social capital is used as a means to get returns in future. The states retain their reciprocal relations with each other by extending different form of cooperation and favors. Notwithstanding the economic, financial, political and social constraints, the developing countries make their utmost efforts to comply with the international anti money
laundering regime. It is believed that strong anti money laundering regime is linked with good governance, social capital, attraction of foreign investment and international support. Financial institutions have to incur heavy cost on information technology, operational modifications, infrastructural development, human resource development and training. However, in pursuit of successful anti-money laundering measures, there is need to have convergence rather than divergence of policies. International convergence can be attained by having pragmatic, consistent, transparent and consensus based policy. Pakistan has not only successfully complied with many directives of international anti-money laundering institutions by introducing necessary measures to safeguard the financial institutions but also toeing the line of international regimes to come to their increasing expectations for meeting various standards. The policies adopted by Pakistan can pay dividend in the form of foreign investments, foreign remittances as well as financial support from international financial institutions. It also enable financial sector of Pakistan to adopt prudential measures to manage operational, legal, concentration, credit and reputational risks. There has been considerable positive impact on the financial institutions of Pakistan as they have been strengthened to a great extent.

One cannot deny the fact that developing countries like Pakistan have to depend upon the financial support of international financial agencies. However, sustained reliance upon international financial agencies cannot be a permanent solution for boosting the economy of a particular state. Therefore realistic measures are needed to have sound economic policies depending upon indigenous sources so that reform process can bring a positive change in the society. For this purpose, some recommendations are being suggested to
tackle the problems of money laundering and allied crimes to bring about financial stability and economic viability to the country.

**Recommendations**

From the foregoing study it is revealed that efforts of international anti-money laundering regimes are meant to stabilize the financial institutions on global level. The stability of financial institutions definitely help in boosting the economy of a given country. As far as Pakistan is concerned, the measures to combat money laundering need to be broadened on the following lines.

**(a) Plugging the Sources of Dirty Money**

It has been noted that money is laundered through different means and despite the fact that strict measures are taken by the governments, yet the money launderers succeed in their objectives by adopting certain undetectable methods. This is why, it is compulsory to plug the sources of dirty money to stop the money laundering activities in Pakistan. Money laundering takes place because of terrorism, corruption, drug trafficking, tax evasion, human smuggling, smuggling of goods and gold, financial frauds and other anti social and anti state activities. There is dire need to control all these activities otherwise illicit money can make its way where it wishes to flow. There is need to strengthen institution which can play their role in anti money laundering. One can cite the examples of Excise and Taxation Departments, Income Tax, Police, Customs, Revenue Department etc which are responsible for collecting taxes and generating revenue for the state. International community should also cooperate in installing and institutionalizing mechanism for elimination of predicate offenses of money laundering. Prevalence of
large scale corruption and other social crimes can be targeted by the conditionality of international financial institutions and developed countries. These institutions along with developed countries have the capacity to influence governmental policies in the developing countries. Therefore, for the sake of long term global and humanitarian interest there is need to eliminate all those activities which generate illicit wealth. This would ultimately eliminate the threat of money laundering.

(b) **Strengthening Institutions**

There is need of macroeconomic stability for which strengthening of institutions is essential. Pakistan should not largely depend upon International Financial Institutions for assistance but should try to rely on its own indigenous resources to end its financial woes. Better tax collection, rational economic policies along with improved governance structure and transparency can go a long way in achieving the goal of self reliance. For this purpose, there is need of strong institutions to implement such policies. Therefore, it is recommended that all institutions like financial, judiciary, bureaucracy and army etc., should be professionally strengthened by performing their due roles within given paradigm. If these institutions stand on sound footings, they can certainly bring internal security as well as stability which in turn are key to macroeconomic stability. The elimination of corruption and other illicit practices from the society would definitely eliminate the activities of money laundering and strengthen the financial institutions of the country. This will also enhance the economy and there would be less reliance upon international actors for financial assistance.
(c) Good Governance

One can hardly think of economic stability, human development and a crime free society without good governance. Good governance means bringing a transparent, accountable, efficient, and just political, administrative and judicial system in the country. A stable, viable, legitimate, democratically elected and accountable to the people system of government is must to attain the goal of good governance. To augment and support the role of the government, an independent and corruption free judiciary is a part and parcel of a political system which can boast of providing good governance to the masses. Such government has the trust and confidence of the people and can help and ensure a crime free society, which respects the law and the constitution.

The transparency, freedom of information and accountability are the most basic ingredients of a political system which can work towards good governance paradigm. Once good governance is in place, the institutions would be working in the right direction within their jurisdiction resulting in stability of the financial institutions as well as reduction in the chances of money laundering.

(d) Increasing Foreign Direct Investment

The foreign direct investments can be increased by introducing strict monetary and fiscal measures so as to combat money laundering and ensuring safety of investment by foreign investors. To achieve the goal of attracting foreign investment in the country, a country has to ensure developed infrastructure, peaceful law and order environment, availability of trained and educated workforce, power and other amenities, along with a just and incorruptible political system.
(e) Public Awareness Campaign

It is necessary that full-fledged campaign should be launched for creating awareness among the populace regarding negative aspect of money laundering resulting into dangerous consequences like terrorism and insecurity in the country. It is a reality that most of people equate money laundering with only *Hundi* or *Hawala*. The awareness may enable the people to know the dangerous impacts of money laundering on all the sector of economy. In order to win the support of general masses and discourage *Hundi/Hawala* formal banking system should be facilitated.

(f) Creating win-win situation for all the stakeholders

Despite concrete efforts at global level and national level, the threat of money laundering and terrorist financing is still looming large in the face of the national and international community. This may be due to various reasons like various stakeholders have not been taken into confidence particularly by the international regimes before introducing any move to combat money laundering. One can quote the example of those individuals who prefer to make transactions though *Hundi/Hawala*. If they are given enough incentives, they would definitely follow the right method of transactions instead of adopting short cut way out. Special care should be taken for the interests of developing countries, exchange of expertise, training of personnel, information technology development etc. The interest of commercial banks should also be protected by involving them in policy making process. Like wise the interest of regulatory regime needs to be reconciled with the changing needs. The clients or end users of services are interested in safety, security, convenience and cost. Their interests also demand very special attention by service
providers and regulators in order to win their cooperation. In this regard already given Principal-Agent model can bring desirable results.

(g) Replacement of Channels of Informal Remittance System

Informal remittance system is generally undocumented and poorly regulated as compared to that of formal system. This renders the system vulnerable to the abuse of money launderers. The formal system is well documented and regulated through a mechanism which the money launderers cannot easily break. So it is necessary that formal channels should be increased in order to attract more and more remittances. This would also provide confidence to the clients.

(h) Socio-Cultural Understanding of Different Societies

There are different attitudinal preferences for the people in different parts of the world. Likewise keeping of large amount of cash in the developed world is considered as suspicious. While in developing countries people keep large amount of cash because of various pull and push factors. In the tribal area of Pakistan many people maintain large cash because they either do not have banking facilities or religiously they don’t consider banking system matching to their belief system. People use cash for charity purpose. They also use Cash for some social and religious occasions. Along with these factors the plastic money mechanism in the rural area is neither prevalent nor people trust it. Even the problem of load shedding and power breakdown is so common that ATM operations has become very difficult. While contrary to it people in the developed world have different facilities. They witness power breakdown once in a blue moon. Therefore, when the criteria of suspicious transactions are developed, heterogeneous socio-cultural norms and values need to be considered pragmatically. In developed world, a deshaped and dirty
currency note may be suspected that it has passed from the hands of druggy but in hot and poor societies poverty and sweat mostly render currency notes undesirable. Likewise, many other socio-economic ground realities must be considered by the policymakers.

In addition to above, it is recommended that: (i) banking facilities should be provided particularly in rural areas where no such facility exists; (ii) the system should be transparent and legitimate; (iii) establishment of the writ of the Government; (iv) provision of banking services without any disruption; (v) reduction in cost of banking; (vi) services for the poor; (vii) facilitating flow of funds and remittances by providing new and efficient channels; (viii) ensuring international cooperation in preventive and curative methodologies; (ix) inculcating ethical and humanitarian spirit in anti-money laundering activities; (x) respect for writ of judiciary (xi) proper training; (xii) political will and administrative acumen (xiii) social capital based cooperative countries must have multiple incentives.

The study concludes with the assumption that impact of international anti money laundering regime can bring magnificent results if the above mentioned recommendations are implemented in letter and spirit.
ANNEXURE I

FATF 40 RECOMMENDATIONS

Recommendation 1


Countries should apply the crime of money laundering to all serious offences, with a view to including the widest range of predicate offences. Predicate offences may be described by reference to all offences, or to a threshold linked either to a category of serious offences or to the penalty of imprisonment applicable to the predicate offence (threshold approach), or to a list of predicate offences, or a combination of these approaches.

Where countries apply a threshold approach, predicate offences should at a minimum comprise all offences that fall within the category of serious offences under their national law or should include offences which are punishable by a maximum penalty of more than one year’s imprisonment or for those countries that have a minimum threshold for offences in their legal system, predicate offences should comprise all offences, which are punished by a minimum penalty of more than six months imprisonment.

Whichever approach is adopted, each country should at a minimum include a range of offences within each of the designated categories of offences.

Predicate offences for money laundering should extend to conduct that occurred in another country, which constitutes an offence in that country, and which would have
constituted a predicate offence had it occurred domestically. Countries may provide that the only prerequisite is that the conduct would have constituted a predicate offence had it occurred domestically.

Countries may provide that the offence of money laundering does not apply to persons who committed the predicate offence, where this is required by fundamental principles of their domestic law.

Recommendation 2

Countries should ensure that:

a) The intent and knowledge required to prove the offence of money laundering is consistent with the standards set forth in the Vienna and Palermo Conventions, including the concept that such mental state may be inferred from objective factual circumstances.

b) Criminal liability, and, where that is not possible, civil or administrative liability, should apply to legal persons. This should not preclude parallel criminal, civil or administrative proceedings with respect to legal persons in countries in which such forms of liability are available. Legal persons should be subject to effective, proportionate and dissuasive sanctions. Such measures should be without prejudice to the criminal liability of individuals.

Provisional measures and confiscation

Recommendation 3

Countries should adopt measures similar to those set forth in the Vienna and Palermo Conventions, including legislative measures, to enable their competent authorities to confiscate property laundered, proceeds from money laundering or predicate offences,
instrumentalities used in or intended for use in the commission of these offences, or property of corresponding value, without prejudicing the rights of bona fide third parties. Such measures should include the authority to: (a) identify, trace and evaluate property which is subject to confiscation; (b) carry out provisional measures, such as freezing and seizing, to prevent any dealing, transfer or disposal of such property; (c) take steps that will prevent or void actions that prejudice the State’s ability to recover property that is subject to confiscation; and (d) take any appropriate investigative measures.

Countries may consider adopting measures that allow such proceeds or instrumentalities to be confiscated without requiring a criminal conviction, or which require an offender to demonstrate the lawful origin of the property alleged to be liable to confiscation, to the extent that such a requirement is consistent with the principles of their domestic law.

Measures to be taken by Financial Institutions and Non-Financial Businesses and Professions to prevent Money Laundering and Terrorist Financing

Customer due diligence and record-keeping

Recommendation 4

Countries should ensure that financial institution secrecy laws do not inhibit implementation of the FATF Recommendations.

Recommendation 5

Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names.

Financial institutions should undertake customer due diligence measures, including identifying and verifying the identity of their customers, when:

establishing business relations;
carrying out occasional transactions: (i) above the applicable designated threshold; or (ii) that are wire transfers in the circumstances covered by the Interpretative Note to Special Recommendation VII; there is a suspicion of money laundering or terrorist financing; or the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data.

The customer due diligence (CDD) measures to be taken are as follows:

a) Identifying the customer and verifying that customer’s identity using reliable, independent source documents, data or information [4].

b) Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner such that the financial institution is satisfied that it knows who the beneficial owner is. For legal persons and arrangements this should include financial institutions taking reasonable measures to understand the ownership and control structure of the customer.

c) Obtaining information on the purpose and intended nature of the business relationship.

d) Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution’s knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.

Financial institutions should apply each of the CDD measures under (a) to (d) above, but may determine the extent of such measures on a risk sensitive basis depending on the type of customer, business relationship or transaction. The measures that are taken should be consistent with any guidelines issued by competent authorities. For higher risk
categories, financial institutions should perform enhanced due diligence. In certain circumstances, where there are low risks, countries may decide that financial institutions can apply reduced or simplified measures.

Financial institutions should verify the identity of the customer and beneficial owner before or during the course of establishing a business relationship or conducting transactions for occasional customers. Countries may permit financial institutions to complete the verification as soon as reasonably practicable following the establishment of the relationship, where the money laundering risks are effectively managed and where this is essential not to interrupt the normal conduct of business.

Where the financial institution is unable to comply with paragraphs (a) to (c) above, it should not open the account, commence business relations or perform the transaction; or should terminate the business relationship; and should consider making a suspicious transactions report in relation to the customer.

These requirements should apply to all new customers, though financial institutions should also apply this Recommendation to existing customers on the basis of materiality and risk, and should conduct due diligence on such existing relationships at appropriate times.

Recommendation 6

Financial institutions should, in relation to politically exposed persons, in addition to performing normal due diligence measures:

a) Have appropriate risk management systems to determine whether the customer is a politically exposed person.
b) Obtain senior management approval for establishing business relationships with such customers.

c) Take reasonable measures to establish the source of wealth and source of funds.

d) Conduct enhanced ongoing monitoring of the business relationship.

Recommendation 7

Financial institutions should, in relation to cross-border correspondent banking and other similar relationships, in addition to performing normal due diligence measures:

a) Gather sufficient information about a respondent institution to understand fully the nature of the respondent’s business and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to a money laundering or terrorist financing investigation or regulatory action.

b) Assess the respondent institution’s anti-money laundering and terrorist financing controls.

c) Obtain approval from senior management before establishing new correspondent relationships.

d) Document the respective responsibilities of each institution.

e) With respect to “payable-through accounts”, be satisfied that the respondent bank has verified the identity of and performed on-going due diligence on the customers having direct access to accounts of the correspondent and that it is able to provide relevant customer identification data upon request to the correspondent bank.
Recommendation 8

Financial institutions should pay special attention to any money laundering threats that may arise from new or developing technologies that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes. In particular, financial institutions should have policies and procedures in place to address any specific risks associated with non-face to face business relationships or transactions.

Recommendation 9

Countries may permit financial institutions to rely on intermediaries or other third parties to perform elements (a) – (c) of the CDD process or to introduce business, provided that the criteria set out below are met. Where such reliance is permitted, the ultimate responsibility for customer identification and verification remains with the financial institution relying on the third party.

The criteria that should be met are as follows:

a) A financial institution relying upon a third party should immediately obtain the necessary information concerning elements (a) – (c) of the CDD process. Financial institutions should take adequate steps to satisfy themselves that copies of identification data and other relevant documentation relating to the CDD requirements will be made available from the third party upon request without delay.

b) The financial institution should satisfy itself that the third party is regulated and supervised for, and has measures in place to comply with CDD requirements in line with Recommendations 5 and 10.
It is left to each country to determine in which countries the third party that meets the conditions can be based, having regard to information available on countries that do not or do not adequately apply the FATF Recommendations.

Recommendation 10

Financial institutions should maintain, for at least five years, all necessary records on transactions, both domestic or international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal activity.

Financial institutions should keep records on the identification data obtained through the customer due diligence process (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the business relationship is ended.

The identification data and transaction records should be available to domestic competent authorities upon appropriate authority.

Recommendation 11

Financial institutions should pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help competent authorities and auditors.
Recommendation 12

The customer due diligence and record-keeping requirements set out in Recommendations 5, 6, and 8 to 11 apply to designated non-financial businesses and professions in the following situations:

a) Casinos – when customers engage in financial transactions equal to or above the applicable designated threshold.

b) Real estate agents - when they are involved in transactions for their client concerning the buying and selling of real estate.

c) Dealers in precious metals and dealers in precious stones - when they engage in any cash transaction with a customer equal to or above the applicable designated threshold.

d) Lawyers, notaries, other independent legal professionals and accountants when they prepare for or carry out transactions for their client concerning the following activities: buying and selling of real estate;
managing of client money, securities or other assets;
management of bank, savings or securities accounts;
organization of contributions for the creation, operation or management of companies; creation, operation or management of legal persons or arrangements, and buying and selling of business entities.

e) Trust and company service providers when they prepare for or carry out transactions for a client concerning the activities listed in the definition in the Glossary.

Reporting of suspicious transactions and compliance

Recommendation 13
If a financial institution suspects or has reasonable grounds to suspect that funds are the
proceeds of a criminal activity, or are related to terrorist financing, it should be required,
directly by law or regulation, to report promptly its suspicions to the financial intelligence
unit (FIU).
Recommendation 14
Financial institutions, their directors, officers and employees should be:
a) Protected by legal provisions from criminal and civil liability for breach of any
restriction on disclosure of information imposed by contract or by any legislative,
regulatory or administrative provision, if they report their suspicions in good faith to the
FIU, even if they did not know precisely what the underlying criminal activity was, and
regardless of whether illegal activity actually occurred.
b) Prohibited by law from disclosing the fact that a suspicious transaction report (STR) or
related information is being reported to the FIU.
Recommendation 15
Financial institutions should develop programmes against money laundering and terrorist
financing. These programmes should include:
a) The development of internal policies, procedures and controls, including appropriate
compliance management arrangements, and adequate screening procedures to ensure high
standards when hiring employees.
b) An ongoing employee training programme.
c) An audit function to test the system.
Recommendation 16
The requirements set out in Recommendations 13 to 15, and 21 apply to all designated non-financial businesses and professions, subject to the following qualifications:

a) Lawyers, notaries, other independent legal professionals and accountants should be required to report suspicious transactions when, on behalf of or for a client, they engage in a financial transaction in relation to the activities described in Recommendation 12(d). Countries are strongly encouraged to extend the reporting requirement to the rest of the professional activities of accountants, including auditing.

b) Dealers in precious metals and dealers in precious stones should be required to report suspicious transactions when they engage in any cash transaction with a customer equal to or above the applicable designated threshold.

c) Trust and company service providers should be required to report suspicious transactions for a client when, on behalf of or for a client, they engage in a transaction in relation to the activities referred to Recommendation 12(e).

Lawyers, notaries, other independent legal professionals, and accountants acting as independent legal professionals, are not required to report their suspicions if the relevant information was obtained in circumstances where they are subject to professional secrecy or legal professional privilege.

Other measures to deter money laundering and terrorist financing

Recommendation 17

Countries should ensure that effective, proportionate and dissuasive sanctions, whether criminal, civil or administrative, are available to deal with natural or legal persons covered by these Recommendations that fail to comply with anti-money laundering or terrorist financing requirements.
Recommendation 18

Countries should not approve the establishment or accept the continued operation of shell banks. Financial institutions should refuse to enter into, or continue, a correspondent banking relationship with shell banks. Financial institutions should also guard against establishing relations with respondent foreign financial institutions that permit their accounts to be used by shell banks.

Recommendation 19 (This Recommendation was revised and the following text was issued on 22 October 2004)

Countries should consider the feasibility and utility of a system where banks and other financial institutions and intermediaries would report all domestic and international currency transactions above a fixed amount, to a national central agency with a computerized data base, available to competent authorities for use in money laundering or terrorist financing cases, subject to strict safeguards to ensure proper use of the information.

Recommendation 20

Countries should consider applying the FATF Recommendations to businesses and professions, other than designated non-financial businesses and professions that pose a money laundering or terrorist financing risk.

Countries should further encourage the development of modern and secure techniques of money management that are less vulnerable to money laundering.
Measures to be taken with respect to countries that do not or insufficiently comply with the FATF Recommendations

Recommendation 21
Financial institutions should give special attention to business relationships and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply the FATF Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, the findings established in writing, and be available to help competent authorities. Where such a country continues not to apply or insufficiently applies the FATF Recommendations, countries should be able to apply appropriate countermeasures.

Recommendation 22
Financial institutions should ensure that the principles applicable to financial institutions, which are mentioned above are also applied to branches and majority owned subsidiaries located abroad, especially in countries which do not or insufficiently apply the FATF Recommendations, to the extent that local applicable laws and regulations permit. When local applicable laws and regulations prohibit this implementation, competent authorities in the country of the parent institution should be informed by the financial institutions that they cannot apply the FATF Recommendations.

Regulation and supervision

Recommendation 23
Countries should ensure that financial institutions are subject to adequate regulation and supervision and are effectively implementing the FATF Recommendations. Competent authorities should take the necessary legal or regulatory measures to prevent criminals or their associates from holding or being the beneficial owner of a significant or controlling interest or holding a management function in a financial institution.

For financial institutions subject to the Core Principles, the regulatory and supervisory measures that apply for prudential purposes and which are also relevant to money laundering, should apply in a similar manner for anti-money laundering and terrorist financing purposes.

Other financial institutions should be licensed or registered and appropriately regulated, and subject to supervision or oversight for anti-money laundering purposes, having regard to the risk of money laundering or terrorist financing in that sector. At a minimum, businesses providing a service of money or value transfer, or of money or currency changing should be licensed or registered, and subject to effective systems for monitoring and ensuring compliance with national requirements to combat money laundering and terrorist financing.

Recommendation 24

Designated non-financial businesses and professions should be subject to regulatory and supervisory measures as set out below.

a) Casinos should be subject to a comprehensive regulatory and supervisory regime that ensures that they have effectively implemented the necessary anti-money laundering and terrorist-financing measures. At a minimum:

- casinos should be licensed;
competent authorities should take the necessary legal or regulatory measures to prevent criminals or their associates from holding or being the beneficial owner of a significant or controlling interest, holding a management function in, or being an operator of a casino; competent authorities should ensure that casinos are effectively supervised for compliance with requirements to combat money laundering and terrorist financing.

b) Countries should ensure that the other categories of designated non-financial businesses and professions are subject to effective systems for monitoring and ensuring their compliance with requirements to combat money laundering and terrorist financing. This should be performed on a risk-sensitive basis. This may be performed by a government authority or by an appropriate self-regulatory organization, provided that such an organization can ensure that its members comply with their obligations to combat money laundering and terrorist financing.

Recommendation 25
The competent authorities should establish guidelines, and provide feedback which will assist financial institutions and designated non-financial businesses and professions in applying national measures to combat money laundering and terrorist financing, and in particular, in detecting and reporting suspicious transactions.

Institutional and other measures necessary in systems for combating Money Laundering and Terrorist Financing

Competent authorities, their powers and resources

Recommendation 26
Countries should establish a FIU that serves as a national centre for the receiving (and, as permitted, requesting), analysis and dissemination of STR and other information
regarding potential money laundering or terrorist financing. The FIU should have access, directly or indirectly, on a timely basis to the financial, administrative and law enforcement information that it requires to properly undertake its functions, including the analysis of STR.

Recommendation 27
Countries should ensure that designated law enforcement authorities have responsibility for money laundering and terrorist financing investigations. Countries are encouraged to support and develop, as far as possible, special investigative techniques suitable for the investigation of money laundering, such as controlled delivery, undercover operations and other relevant techniques. Countries are also encouraged to use other effective mechanisms such as the use of permanent or temporary groups specialized in asset investigation, and co-operative investigations with appropriate competent authorities in other countries.

Recommendation 28
When conducting investigations of money laundering and underlying predicate offences, competent authorities should be able to obtain documents and information for use in those investigations, and in prosecutions and related actions. This should include powers to use compulsory measures for the production of records held by financial institutions and other persons, for the search of persons and premises, and for the seizure and obtaining of evidence.

Recommendation 29
Supervisors should have adequate powers to monitor and ensure compliance by financial institutions with requirements to combat money laundering and terrorist financing,
including the authority to conduct inspections. They should be authorized to compel production of any information from financial institutions that is relevant to monitoring such compliance, and to impose adequate administrative sanctions for failure to comply with such requirements.

Recommendation 30

Countries should provide their competent authorities involved in combating money laundering and terrorist financing with adequate financial, human and technical resources. Countries should have in place processes to ensure that the staff of those authorities are of high integrity.

Recommendation 31

Countries should ensure that policy makers, the FIU, law enforcement and supervisors have effective mechanisms in place which enable them to co-operate, and where appropriate co-ordinate domestically with each other concerning the development and implementation of policies and activities to combat money laundering and terrorist financing.

Recommendation 32

Countries should ensure that their competent authorities can review the effectiveness of their systems to combat money laundering and terrorist financing systems by maintaining comprehensive statistics on matters relevant to the effectiveness and efficiency of such systems. This should include statistics on the STR received and disseminated; on money laundering and terrorist financing investigations, prosecutions and convictions; on property frozen, seized and confiscated; and on mutual legal assistance or other international requests for co-operation. Transparency of legal persons and arrangements
Recommendation 33
Countries should take measures to prevent the unlawful use of legal persons by money launderers. Countries should ensure that there is adequate, accurate and timely information on the beneficial ownership and control of legal persons that can be obtained or accessed in a timely fashion by competent authorities. In particular, countries that have legal persons that are able to issue bearer shares should take appropriate measures to ensure that they are not misused for money laundering and be able to demonstrate the adequacy of those measures. Countries could consider measures to facilitate access to beneficial ownership and control information to financial institutions undertaking the requirements set out in Recommendation 5.

Recommendation 34
Countries should take measures to prevent the unlawful use of legal arrangements by money launderers. In particular, countries should ensure that there is adequate, accurate and timely information on express trusts, including information on the settler, trustee and beneficiaries that can be obtained or accessed in a timely fashion by competent authorities. Countries could consider measures to facilitate access to beneficial ownership and control information to financial institutions undertaking the requirements set out in Recommendation 5.

International co-operation

Recommendation 35
Countries should take immediate steps to become party to and implement fully the Vienna Convention, the Palermo Convention, and the 1999 United Nations International
Convention for the Suppression of the Financing of Terrorism. Countries are also encouraged to ratify and implement other relevant international conventions, such as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the 2002 Inter-American Convention against Terrorism.

Mutual legal assistance and extradition

Recommendation 36

Countries should rapidly, constructively and effectively provide the widest possible range of mutual legal assistance in relation to money laundering and terrorist financing investigations, prosecutions, and related proceedings. In particular, countries should:

a) Not prohibit or place unreasonable or unduly restrictive conditions on the provision of mutual legal assistance.

b) Ensure that they have clear and efficient processes for the execution of mutual legal assistance requests.

c) Not refuse to execute a request for mutual legal assistance on the sole ground that the offence is also considered to involve fiscal matters.

d) Not refuse to execute a request for mutual legal assistance on the grounds that laws require financial institutions to maintain secrecy or confidentiality.

Countries should ensure that the powers of their competent authorities required under Recommendation 28 are also available for use in response to requests for mutual legal assistance, and if consistent with their domestic framework, in response to direct requests from foreign judicial or law enforcement authorities to domestic counterparts.
To avoid conflicts of jurisdiction, consideration should be given to devising and applying mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country.

Recommendation 37

Countries should, to the greatest extent possible, render mutual legal assistance notwithstanding the absence of dual criminality.

Where dual criminality is required for mutual legal assistance or extradition, that requirement should be deemed to be satisfied regardless of whether both countries place the offence within the same category of offence or denominate the offence by the same terminology, provided that both countries criminalize the conduct underlying the offence.

Recommendation 38

There should be authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate property laundered, proceeds from money laundering or predicate offences, instrumentalities used in or intended for use in the commission of these offences, or property of corresponding value. There should also be arrangements for co-ordinating seizure and confiscation proceedings, which may include the sharing of confiscated assets.

Recommendation 39

Countries should recognize money laundering as an extraditable offence. Each country should either extradite its own nationals, or where a country does not do so solely on the grounds of nationality, that country should, at the request of the country seeking extradition, submit the case without undue delay to its competent authorities for the purpose of prosecution of the offences set forth in the request. Those authorities should
take their decision and conduct their proceedings in the same manner as in the case of any other offence of a serious nature under the domestic law of that country. The countries concerned should cooperate with each other, in particular on procedural and evidentiary aspects, to ensure the efficiency of such prosecutions.

Subject to their legal frameworks, countries may consider simplifying extradition by allowing direct transmission of extradition requests between appropriate ministries, extraditing persons based only on warrants of arrests or judgments, and/or introducing a simplified extradition of consenting persons who waive formal extradition proceedings.

Other forms of co-operation

Recommendation 40

Countries should ensure that their competent authorities provide the widest possible range of international co-operation to their foreign counterparts. There should be clear and effective gateways to facilitate the prompt and constructive exchange directly between counterparts, either spontaneously or upon request, of information relating to both money laundering and the underlying predicate offences. Exchanges should be permitted without unduly restrictive conditions. In particular:

a) Competent authorities should not refuse a request for assistance on the sole ground that the request is also considered to involve fiscal matters.

b) Countries should not invoke laws that require financial institutions to maintain secrecy or confidentiality as a ground for refusing to provide co-operation.

c) Competent authorities should be able to conduct inquiries; and where possible, investigations; on behalf of foreign counterparts.
Where the ability to obtain information sought by a foreign competent authority is not within the mandate of its counterpart, countries are also encouraged to permit a prompt and constructive exchange of information with non-counterparts. Co-operation with foreign authorities other than counterparts could occur directly or indirectly. When uncertain about the appropriate avenue to follow, competent authorities should first contact their foreign counterparts for assistance.

Countries should establish controls and safeguards to ensure that information exchanged by competent authorities is used only in an authorized manner, consistent with their obligations concerning privacy and data protection.
Annexure II

ANTI-MONEY LAUNDERING ORDINANCE, 2007

FOLLOWING IS THE TEXT OF THE ORDINANCE

SHORT TITLE, EXTENT AND COMMENCEMENT:

(1) This Ordinance may be called the Anti-Money Laundering Ordinance, 2007.
(2) It extends to the whole of Pakistan.
(3) This section shall come into force at once and the remaining provisions shall come into force on such date as the Federal Government may, by notification in the official Gazette, appoint.

2. DEFINITIONS: In this Ordinance, unless there is anything repugnant in the subject or context,
   (a) "accounts transaction" means any facility or arrangement by which a financial institution does any one or more of the following acts, namely; (i) accepts deposits of currency; (ii) allows withdrawal of currency or transfers into or out of the account; (iii) pays cheques or payment orders drawn on a financial institution or collects cheques or payment orders on behalf of a person; (iv) provides a facility or arrangement for a safety deposit box; (v) wire transfer; or (vi) allows any transaction which has the effect of any debit or credit entry in respect of particular accounts;
   (b) "attachment" means prohibition of transfer, conversion, disposition or movement of property by an order issued under section 8;
   (c) "CTR" means report on currency transactions exceeding such amount as may be specified by the National Executive Committee;
   (d) "Court" means the Court specified under section 20;
   (e) "Director General" means the Director General of FMU appointed under section 6;
   (f) "financial institutions" means entities licensed or supervised by SBP and non-banking finance companies as defined under the Companies Ordinance, 1984 (XLVII of 1984), and includes a foreign exchange company and a company managing, conducting or supervising a foreman, agent or, in any other capacity, any person or entities which
conduct or engage in one or more of the financial activities or business, including insurance, trading in transferable securities and commodity futures trading;

(g) "fiscal offence" means an offence punishable under the Income Tax Ordinance, 2001 (XLIX) of 2001, the Federal Excise, Act, 2005, the Customs Act, 1969 (IV of 1969), the Sales Tax Act, 1990 and any other law as the Federal government may notify in this behalf;

(h) "FMU" means the Financial Monitoring Unit established under section 6;

(i) "foreign serious offence" means an offence.

(i) against the law of a foreign State stated in a certificate issued by, or on behalf of, the government of that foreign State; and

(ii) which, had it occurred in Pakistan, would have constituted a predicate offence;

(j) "intermediary" means a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under the Securities and Exchanges Commission of Pakistan Act, 1997 (XLII of 1997);

(k) "investigating or prosecuting agency" means the National Accountability Bureau (NAB), Federal Investigation Agency (FIA), Anti-Narcotics Forces (ANF) or any other law enforcement agency as may be notified by the Federal Government for the investigation or prosecution of a predicate offence;

(l) "investigating officer" means the officer nominated or appointed under section 24;

(m) "National Executive Committee" means the National Executive Committee constituted under section 5;

(n) "non-financial business and professions" means real estate agents, jewelers, dealers in precious metals, precious stones, lawyers, notaries and other legal professionals, accountants, trust and company service providers and such other non-financial businesses and professions as may be notified by the Federal Government;

(o) "offence of money laundering" has the meaning as defined in section 3;

(p) "person" means an individual, a firm, an entity, an association or a body of individuals, whether incorporated or not, a company and every other juridical person.

(q) "prescribed" means prescribed by rules made under this Ordinance;
(r) "proceeds of crime" means any property derived or obtained directly or indirectly by any person from the commission of a predicate offence or a foreign serious offence;
(s) "property" means property or assets of any description, whether corporeal or incorporeal, movable or immovable, tangible or intangible, and includes deeds and instruments evidencing title to, or interest in, such property or assets, including cash and monetary instruments, wherever located;
(t) "predicate offence" means an offence specified in the Schedule to this Ordinance having nexus with money laundering, but does not include fiscal offence;
(u) "record" includes the records maintained in the form of books or stored in a computer or any electronic device, or such other form as may be prescribed;
(v) "SBP" means State Bank of Pakistan established under the State Bank of Pakistan Act, 1956 (XXXIII of 1956);
(w) "Schedule" means schedule to this Ordinance;
(x) "SECP" means Securities and Exchange Commission of Pakistan established under the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997);
(y) "Suspicious Transactions Report" means the report on suspicious accounts transactions specified under section 7; and
(z) "transfer" means sale, lease, purchase, mortgage, pledge, gift, loan, or any other form of transfer of right, title, possession or lien.

APP ADDS: 3. Offence of money laundering.- A person shall be guilty of offence of money laundering, if the person:

(a) acquires, converts, possesses or transfers property, knowing or having reason to believe that such property is proceeds of crime; or
(b) renders assistance to another person for the acquisition, conversion, possession or transfer of, or for concealing or disguising 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) 4. PUNISHMENT FOR MONEY LAUNDERING: Whoever commits the offence of money laundering shall be punishable with rigorous imprisonment for a term which shall not be less than one year but may extend to ten years and shall also be
liable to fine which may extend to one million rupees and shall also be liable to forfeiture of property involved in the money laundering.

5. NATIONAL EXECUTIVE COMMITTEE TO COMBAT MONEY LAUNDERING:
(1) Within thirty days of the commencement of this Ordinance the Federal Government shall, by notification in the official Gazette, constitute a committee to be known as the National Executive Committee which shall consist of the following members, namely:

(a) Minister for Finance or Advisor to the Prime Minister on Finance -Chairman
(b) Senior Advisor to the Prime Minister on Foreign Affairs, Law, Justice, and Human Rights –Member
(c) Minister for Law and Justice -Member
(d) Minister for Interior -Member
(e) Governor State Bank of Pakistan -Member
(f) Chairman Securities and Exchange Commission of Pakistan -Member
(g) Director General -Member
(h) any other Member to be nominated by the Federal Government.

(2) The Director General shall also act as Secretary of the National Executive Committee.

(3) THE NATIONAL EXECUTIVE COMMITTEE SHALL:
(a) meet regularly to develop, co-ordinate and publish an annual national strategy to fight money laundering;
(b) determine offences existing in Pakistan that may be considered to be predicate offences for the purposes of this Ordinance;
(c) provide guidance and sanction in framing of rules and regulations under this Ordinance;
(d) make recommendations to the Federal Government for effective implementation of this Ordinance and framing of national policy to combat money laundering;

(e) issue necessary directions to the agencies involved in the implementation and administration of this Ordinance;

(f) discuss any other issue of national importance relating to money laundering; and

(g) undertake and perform such other functions as assigned to it by the Federal Government, relating to money laundering.

(4) The National Executive Committee shall be assisted by a General Committee to be composed of:

(a) Secretary Finance Chairman

(b) Secretary Interior Member

© Secretary Foreign Affairs Member

(d) Secretary Law Member

(e) Governor SBP Member

(f) Chairman SECP Member

(g) Director General Member

(h) any other Member to be nominated by the Federal Government.

(5) The Director General shall also act as Secretary of the General Committee.

(6) The General Committee may invite any person to participate in the meeting as it deems necessary.

(7) The General Committee Shall, Inter Alia:
(a) take measures as necessary for development and review of performance of investigating agencies, FMU and the financial institutions and non-financial businesses and professions, relating to anti-money laundering;

(b) review training programs for Government, financial institutions, non-financial businesses and professions and other persons, relating to anti-money laundering;

(c) provide necessary assistance to the National Executive Committee in carrying out its functions and duties under this Ordinance;

(d) discuss any other issue of national importance relating to money laundering: and

(e) undertake and perform such other functions as assigned to it by the National Executive Committee.

6. FINANCIAL MONITORING UNIT: (1) The Federal Government shall, by notification in the Official Gazette, establish a Financial Monitoring Unit which shall be housed in SBP or at any other place in Pakistan.

(2) The FMU shall have independent decision making authority on day-to-day matters coming within its areas of responsibility.

(3) A Director General who shall be a financial sector specialist who shall be appointed by the Federal Government in consultation with SBP to head FMU and exercise all powers and functions of the FMU subject to the supervision and control of the General Committee.

(4) The FMU shall exercise the following powers and perform the following functions, namely:-

(a) to receive Suspicious Transactions Reports and CTRs from financial institutions and
such non-financial businesses and professions as may be necessary to accomplish the objects of this Ordinance;

(b) to analyze the Suspicious Transaction Reports and CTRs and in that respect the FMU may call for record and information from any agency in Pakistan (with the exception of income tax information) concerning the person in question. All such agencies shall be required to promptly provide the requested information;

(c) to disseminate, after having considered the reports and having reasonable grounds to suspect, the Suspicious Transaction Reports and any necessary information to the investigating agencies concerned as described in clause (k) of section 2;

(d) to create and maintain a data base of all Suspicious Transaction Reports and CTRs, related information and such other materials as the Director General determines are relevant to the work of the FMU and in that respect, the FMU is authorized to establish necessary analytic software and computer equipment to effectively search the data base, sort and retrieve information and perform real time linkages with databases of other agencies both in and outside Pakistan as may be required from time to time;

(e) to co-operate with financial intelligence units and appropriate law enforcement authorities in other countries and to share and request information and documents;

(f) to represent Pakistan at all international and regional organizations and groupings of financial intelligence units and other international groups and forums which address the offence of money laundering and other related matters;

(g) to submit to the National Executive Committee an annual report containing recommendations based upon necessary information and statistics regarding countermeasures which can be taken to combat money laundering and such reports shall
provide an overall analysis and evaluation of the Suspicious Transaction reports limited to details of the investigations and prosecutions that have been or are being conducted in relation to the offence of money laundering in Pakistan;

(h) to frame regulations in consultation with SECP for ensuring receipt of Suspicious Transaction Reports and CTRs from the financial institutions and non-financial businesses and professions with the approval of the National Executive Committee;

(i) to engage a financial institution or an intermediary or such other non-financial businesses and professions or any of its officers as may be necessary for facilitating implementation of the provisions of this Ordinance, the rules or regulations made hereunder; and

(j) to perform all such functions and exercise all such powers as are necessary for, or ancillary to, the attainment of the objects of this Ordinance.

(5) Subject to the regulations sanctioned by the National Executive Committee in this behalf, the Director-General may, if there appear to be reasonable grounds to believe that any property is involved in money laundering, order freezing of such property, for a maximum period of fifteen days, in any manner that he may deem fit in the circumstances.

7. PROCEDURE AND MANNER OF FURNISHING INFORMATION BY THE FINANCIAL INSTITUTIONS:

(1) Every financial institution shall file with the FMU, to the extent and in the manner prescribed by the FMU, Suspicious Transaction Report conducted or attempted by, at or through that financial institution if the financial institution knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):
(a) involves funds derived from illegal activities or is intended or conducted in order to hide or disguise proceeds of crime;
(b) is designed to evade any requirements of this section; or
(c) has no apparent lawful purpose after examining the available facts, including the background and possible purpose of the transaction:

Provided that Suspicious Transaction Report shall be filed by the financial institution with the FMU immediately, but not later than seven working days after forming that suspicion.

(2) All CTRs shall, to the extent and in the manner prescribed by the FMU, be filed by the financial institutions with the FMU immediately, but not later than seven working days, after the respective currency transaction.

(3) Every financial institution shall keep and maintain a record of all Suspicious Transactions Reports and CTRs filed by it for a period of five years subsequent to termination of its business relationship with the particular client whose transaction was reported by it under sub-sections (1) and (2).

(4) The provisions of this section shall have effect notwithstanding any obligation as to secrecy or other restriction on the disclosure of information imposed by any other law or written document.

(5) Notwithstanding anything contained in any other law for the time being in force, any Suspicious Transactions Reports required to be submitted by any person or entity to any investigating and prosecuting agencies shall, on the commencement of this Ordinance, be solely and exclusively submitted to FMU to the exclusion of all others.
8. ATTACHMENT OF PROPERTY INVOLVED IN MONEY LAUNDERING:

(1) The investigating officer may, on the basis of the report in his possession received from the concerned investigating agency, by order in writing, with prior permission of the Court, provisionally attach property, which he reasonably believes to be proceeds of crime or involved in money laundering for a period not exceeding ninety days from the date of the order.

(2) The investigating officer shall within forty-eight hours immediately after attachment under sub-section (1), forward a copy of the order, along with the material in his possession, referred to in that sub-section, to the head of the concerned investigating agency, in a sealed envelope, in the manner as may be prescribed, and the concerned investigating agency, shall keep such order and material for such period as may be prescribed.

(3) Every order of attachment made under sub-section (1) shall cease to have effect after the expiry of the period specified in that sub-section or on the date of the finding made under sub-section (2) of section 9 whichever is earlier.

(4) Nothing in this section shall prevent the person interested in the enjoyment of the immovable property attached under sub-section

(1) FROM SUCH ENJOYMENT:

EXPLANATION: For the purposes of this sub-section, "person interested", in relation to any immovable property, includes all persons claiming or entitled to claim any interest in the property.

(5) The investigating officer who provisionally attaches any property under sub-section (1) shall, within a period of thirty days from such attachment, file a complaint stating the
facts of such attachment before the Court.

9. INVESTIGATION: (1) The investigating officer shall, not later than seven days from the date of order of attachment made under sub-section (1) of section 8 or, seizure of property under section 14 or section 15, serve a notice of not less than thirty days on the person concerned.

The notice shall call upon such person to indicate the sources of his income, earning or assets, out of which or by means of which he has acquired the property attached under sub-section (1) of section 8, or, seized under section 14 or section 15, the evidence on which he relies and other relevant information and particulars, and to show cause why all or any of such properties should not be declared to be the properties involved in money laundering and forfeited by the Federal Government:

Provided that where a notice under this sub-section specifies any property as being held by a person on behalf of any other person, a copy of such notice shall also be served upon such other person: Provided further that where such property is held jointly by more than one person, such notice shall be served upon all persons holding such property.

(2) THE INVESTIGATING OFFICER SHALL, AFTER:

(a) considering the reply, if any, to the notice issued under sub-section (1);

(b) hearing the aggrieved person; and

(c) taking into account all relevant materials placed on record before him; record a finding whether all or any other properties referred to in the notice issued under sub-section (1) are involved in money laundering: Provided that if the property is claimed by a person, other than a person to whom the notice had been issued, such person shall also be given an opportunity of being heard to prove that the property is not involved in
money laundering.

(3) Where the investigating officer on the basis of report received from the concerned investigating agency decides under sub-section (2) that any property is involved in money laundering, he shall, apply to the Court for an order confirming the attachment of the property made under subsection (1) of section 8 or retention of property or record seized under section 14 or section 15. Such attachment or retention of the seized property or record shall-

(a) continue during the pendency of the proceedings relating to any predicate offence or money laundering before a court; and

(b) become final if it is proved in the court that the property is proceeds of crime or involved in money laundering and order of such court becomes final.

(4) Where the provisional order of attachment made under sub-section (1) of section 8 has been confirmed under sub-section order immediate sale of the property in any manner deemed appropriate in the circumstances

(3), the investigating officer shall forthwith take possession of the attached property: Provided that where the property seized is perishable in nature or subject to speedy and natural decay, or when the expense of keeping it in custody is likely to exceed its value, the Court may, on the application of the investigating officer,
ANNEXURE-III

EXAMPLES OF SUSPICIOUS TRANSACTIONS UNDER REGULATION

1. General Comments

The list of situations given below is intended mainly as a means of highlighting the basic ways in which money may be laundered. While each individual situation may not be sufficient to suggest that money laundering is taking place, a combination of such situations may be indicative of such a transaction. Further, the list is by no means complete, and will require constant updating and adaptation to changing circumstances and new methods of laundering money. The list is intended solely as an aid, and must not be applied as a routine instrument in place of common sense.

A customer's declarations regarding the background of such transactions should be checked for plausibility. Not every explanation offered by the customer can be accepted without scrutiny. It is justifiable to suspect any customer who is reluctant to provide normal information and documents required routinely by the bank in the course of the business relationship. Banks should pay attention to customers who provide minimal, false or misleading information or, when applying to open an account, provide information that is difficult or expensive for the bank to verify.

2. Transactions Which Do Not Make Economic Sense

i) A customer-relationship with the bank that does not appear to make economic sense, for example, a customer having a large number of accounts with the same bank, frequent transfers between different accounts or exaggeratedly high liquidity;

ii) Transactions in which assets are withdrawn immediately after being deposited, unless the customer's business activities furnish a plausible reason for immediate withdrawal;
iii) Transactions that cannot be reconciled with the usual activities of the customer, for example, the use of Letters of Credit and other methods of trade finance to move money between countries where such trade is not consistent with the customer's usual business;

iv) Transactions which, without plausible reason, result in the intensive use of what was previously a relatively inactive account, such as a customer's account which shows virtually no normal personal or business related activities but is used to receive or disburse unusually large sums which have no obvious purpose or relationship to the customer and/or his business;

v) Provision of bank guarantees or indemnities as collateral for loans between third parties that are not in conformity with market conditions;

vi) Unexpected repayment of an overdue credit without any plausible explanation;

vii) Back-to-back loans without any identifiable and legally admissible purpose.

3. Transactions Involving Large Amounts of Cash

i) Exchanging an unusually large amount of small-denominated notes for those of higher denomination;

ii) Purchasing or selling of foreign currencies in substantial amounts by cash settlement despite the customer having an account with the bank;

iii) Frequent withdrawal of large amounts by means of cheques, including traveler’s cheques;

iv) Frequent withdrawal of large cash amounts that do not appear to be justified by the customer's business activity;

v) Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad;
vi) Company transactions, both deposits and withdrawals, that are denominated by unusually large amounts of cash, rather than by way of debits and credits normally associated with the normal commercial operations of the company, e.g. cheques, letters of credit, bills of exchange, etc;

vii) Depositing cash by means of numerous credit slips by a customer such that the amount of each deposit is not substantial, but the total of which is substantial;

viii) The deposit of unusually large amounts of cash by a customer to cover requests for bankers' drafts, money transfers or other negotiable and readily marketable money instruments;

ix) Customers whose deposits contain counterfeit notes or forged instruments;

x) Large cash deposits using night safe facilities, thereby avoiding direct contact with the bank;

xi) Customers making large and frequent cash deposits but cheques drawn on the accounts are mostly to individuals and firms not normally associated with their business;

xii) Customers who together, and simultaneously, use separate tellers to conduct large cash transactions or foreign exchange transactions.

4. Transactions Involving Bank Accounts

i) Matching of payments out with credits paid in by cash on the same or previous day;

ii) Paying in large third party cheques endorsed in favor of the customer;

iii) Substantial increases in deposits of cash or negotiable instruments by a professional firm or company, using client accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other client company and trust accounts;
iv) High velocity of funds through an account, i.e., low beginning and ending daily balances, which do not reflect the large volume of funds flowing through an account;

v) Multiple depositors using a single bank account;

vi) An account opened in the name of a moneychanger that receives structured deposits;

vii) An account operated in the name of an offshore company with structured movement of funds.

5. Transactions Involving Transfers Abroad

i) Transfer of money abroad by an interim customer in the absence of any legitimate reason;

ii) A customer which appears to have accounts with several banks in the same locality, especially when the bank is aware of a regular consolidated process from such accounts prior to a request for onward transmission of the funds elsewhere;

iii) Repeated transfers of large amounts of money abroad accompanied by the instruction to pay the beneficiary in cash;

iv) Large and regular payments that cannot be clearly identified as bona fide transactions, from and to countries associated with (i) the production, processing or marketing of narcotics or other illegal drugs or (ii) criminal conduct;

An interim customer is one who is not a regular customer of the bank in question, or does not maintain an account, deposit account, safe deposit box, etc. with the bank.

v) Substantial increase in cash deposits by a customer without apparent cause, especially if such deposits are subsequently transferred within a short period out of the account and/or to a destination not normally associated with the customer;
vi) Building up large balances, not consistent with the known turnover of the customer's business, and subsequent transfer to account(s) held overseas;

vii) Cash payments remitted to a single account by a large number of different persons without an adequate explanation.

6. Investment Related Transactions

i) Purchasing of securities to be held by the bank in safe custody, where this does not appear appropriate, given the customer's apparent standing;

ii) Requests by a customer for investment management services where the source of funds is unclear or not consistent with the customer's apparent standing;

iii) Larger or unusual settlements of securities transactions in cash form;

iv) Buying and selling of a security with no discernible purpose or in circumstances which appear unusual.

7. Transactions Involving Unidentified Parties

i) Provision of collateral by way of pledge or guarantee without any discernible plausible reason by third parties unknown to the bank and who have no identifiable close relationship with the customer;

ii) Transfer of money to another bank without indication of the beneficiary;

iii) Payment orders with inaccurate information concerning the person placing the orders;

iv) Use of pseudonyms or numbered accounts for effecting commercial transactions by enterprises active in trade and industry;

v) Holding in trust of shares in an unlisted company whose activities cannot be ascertained by the bank;
vi) Customers who wish to maintain a number of trustee or clients' accounts that do not appear consistent with their type of business, including transactions that involve nominee names.

8. Miscellaneous Transactions

i) Purchase or sale of large amounts of precious metals by an interim customer;

ii) Purchase of bank cheques on a large scale by an interim customer;

iii) Extensive or increased use of safe deposit facilities that do not appear to be justified by the customer's personal or business activities.
ANNEXURE IV

ANTI-MONEY LAUNDERING UNIT A Project under Technical Assistance of The World Bank BRIEF SERIES VOL. IV, 2004

Role and Responsibilities of Compliance Officers

Definition

The role of a compliance officer (CO) is undoubtedly critical to the maintenance of integrity within financial institutions. It is the first line of defense against fraud and money laundering. Being a CO requires a myriad of specialized skills. A CO must be part legislative expert, part innovator, part counselor and part operations officer. The CO mostly functions as an independent and objective body that reviews and evaluates compliance issues/concerns within the institution. The CO coordinates planning and implementation of the institution’s compliance program and is responsible for designing policy and procedures for program application and implementation. Components of a good compliance program would consist of:

A code of ethics and professional conduct for employees.

- Clearly delineated duties for CO, managers, administrative staff and other employees of the institution.

Procedures for employee supervision at branch and head office levels.

Procedures to ensure completeness of records and exception reporting.

- Procedures for suitability checks, including know your customer (KYC) and know your employee forms.

- Procedures for handling complaints, including documentation and follow-up.
Procedures for addressing conflicts of interest.

Provisions to anticipate and prevent fraud and money laundering.

Responsibilities:

In general, COs are responsible for oversight of the institution’s compliance with applicable rules and regulations. They devise and maintain appropriate systems and controls for the institution as a whole and advise management on compliance issues. In addition, the CO must exhibit an awareness and understanding of ethical and moral principles consistent with the mission and values of the organization. Depending upon the particular jurisdiction, COs may also serve as consultative functions, such as providing advice and support for business transactions and other related activities. The following are the major responsibilities of COs:

- Coordinate development and implementation of compliance program.
- Establish and chair a compliance committee.
- Develop and maintain Standards of Conduct as well as other related policies, procedures and rules.

Securities and Exchange Commission of Pakistan

Establish employee reporting channels including, but not limited to, a compliance hotline, which employees may use to report problems and concerns without fear of retaliation.

- Implement corporate-wide training and communication programs to ensure that all employees and affiliated parties are educated on the Standards of Conduct, the corporate compliance program, etc.
- Monitor the compliance plan for periodic updates when needed.
- Coordinate and conduct inquiries and/or investigations when deemed necessary.
- Delegate responsibility to conduct appropriate compliance investigations
(e.g., legal, HR, and internal audit) to ensure proper follow-up and resolution. Develop audit controls and measurements to ensure correct practices are established. Maintain a working knowledge of relevant issues, laws and regulations through periodicals, seminars, training programs, and peer contact. Report regularly to the appropriate committee on the status of compliance program. Respond appropriately if a violation is uncovered, including a direct report to the Board of Directors or external agency if deemed necessary. Recommendations Institutions must ensure that adequate levels of resources and personnel exist to meet compliance requirements commensurate with the nature and size of the institution’s operations. Compliance personnel should be accorded the power and authority to initiate and implement steps required to achieve compliance.

Office responsibilities of compliance personnel should be focused on internal surveillance and oversight activities and not handling general, legal or administrative matters. Clear departmental lines of authority should be established so there is no confusion as to responsibilities. The reporting line of compliance personnel varies from institution to institution. Some institutions may have the compliance officer report directly to the Chief Executive Officer. Others may have one or more layers between the compliance officer and the CEO. Whatever is the policy, an institution must have procedures wherein senior management always carefully considers recommendations of the compliance department.
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