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PAKISTAN'S AML AND CFT REGIME: ASSESSING STRATEGIES, CHALLENGES AND FUTURE DIRECTION IN THE EVOLVING FINANCIAL CRIME LANDSCAPE

Ghulam Mujtaba Malik

PhD Candidate in Law, Faculty of Law and Political Science, University of Szeged, Hungary.

gh.mujtaba@hotmail.com

Corresponding Author: *
Ghulam Mujtaba Malik

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ABSTRACT

Pakistan's Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) framework has undergone significant reforms in response to international pressures, particularly from the Financial Action Task Force (FATF). The country's inclusion on the FATF grey list from 2008 to 2022 exposed persistent deficiencies within Pakistan's AML and CFT systems, prompting a series of substantial reforms. Despite these efforts, financial crime rates have remained unchanged, indicating the gap remains between symbolic compliance, such as passing laws, and the substantive reforms needed for rigorous enforcement and effective crime prevention. The lack of inter-agency coordination, resource constraints, and ineffective data management systems exacerbate this gap, creating vulnerabilities in the fight against money laundering (ML) and terrorism financing (TF). This study aims to evaluate the effectiveness of Pakistan's AML and CFT frameworks and propose strategies for their enhancement. It focuses on identifying the structural, legislative, and operational deficiencies that hinder the country's progress in combating financial crime and aligning with international standards.The research employs a doctrinal analysis, reviewing the current legal framework and secondary legislative measures, coupled with qualitative content analysis of FATF evaluation reports, legal documents, and relevant academic papers. The study highlights key barriers, including fragmented inter-agency coordination, resource limitations, and ineffective data management. Furthermore, the lack of specialized legal provisions and outdated enforcement technologies exacerbates these issues, contributing to Pakistan's continued vulnerability to illicit financial activities. To address these deficiencies the study offers actionable recommendations to strengthen Pakistan's response to the complexities of ML and TF, enhancing its position in the global fight against illicit activities and making them more resilient to the evolving landscape of financial crime.

Keywords: *Pakistan, Anti-Money Laundering, Counter-Terrorism Financing, FATF, Financial Crime, Regulatory Reform, Enforcement, Governance.*

INTRODUCTION

Money laundering (ML) and terrorism financing (TF) are among the most significant global threats to the integrity of financial systems, economic stability, and governance. These illicit activities destabilize economies, facilitate corruption, and enable criminal and terrorist activities. Despite the establishment of international frameworks like the Financial Action Task Force (FATF) in 1989 by a G-7 countries to combat these threats, ML and TF continue to be pervasive, undermining efforts to foster economic development and international cooperation. Illicit financing is estimated to account for 2-5% of global GDP, and the rapid advancements in financial technology have further complicated the challenge by enabling the easy transfer of illicit funds across borders, amplifying the risks posed to the global financial system.

ML typically unfolds in three stages: placement, layering, and integration. These stages describe the process of distancing illicit proceeds from their criminal origins and reintegrating them into the legitimate economy. In contrast, TF involves the diversion of resources to commit violent acts, often motivated by ideological purposes. While ML is driven by profit, TF is motivated by purpose, and both crimes share operational tactics like trade mis-invoicing, wire transfer schemes, and the use of informal networks such as hawala. The overlap between ML and TF complicates detection efforts, as funds may appear to have legitimate origins. This convergence of criminal activities has necessitated the expansion of anti-money laundering (AML) infrastructure, including regulatory frameworks like Suspicious Transaction Reports (STRs), Know Your Customer (KYC) laws, and asset-freezing mechanisms.

Pakistan, situated at the crossroads of these global challenges, has been at the forefront of addressing the risks associated with ML and TF. The country's initial AML and CFT framework was underdeveloped, which led to its first inclusion on the FATF's grey list in 2008. In response, Pakistan enacted the Anti-Money Laundering Act (AMLA) in 2010, which has been revised multiple times to align with international standards. However, despite these efforts, systemic deficiencies remain within Pakistan's AML and CFT systems. Issues such as inadequate inter-agency coordination, lack of resources, and outdated enforcement technologies continue to undermine the effectiveness of these frameworks. Over the years, Pakistan has amended around 15 laws, additionally, over 30 rules and regulations were passed by authorities aimed at strengthening its AML and CFT structures, but the country continues to struggle with meeting the rigorous standards set by the FATF.

The 2018 re-listing of Pakistan on the FATF grey list underscored the persistent challenges faced by the country in addressing ML and TF effectively. Despite legal reforms, gaps in inter-agency coordination, resource allocation, and technological integration hindered the full operationalization of AML and CFT regulations. Pakistan's 2018 grey-listing was largely due to insufficient progress in addressing terror financing and other systemic vulnerabilities. In response, the Financial Monitoring Unit (FMU) was established, and agreements between law enforcement agencies (LEAs) were signed in 2018 to enhance operational coordination and information sharing. However, effective implementation requires sustained efforts, including continued training for investigators, prosecutors, and financial institutions to improve transparency and international cooperation.

This study critically examines Pakistan's AML and CFT framework, exploring the legislative and institutional challenges that hinder its effectiveness. By employing doctrinal analysis and qualitative content review of key legal documents, FATF evaluation reports, and academic literature, the paper assesses the progress made in response to FATF recommendations and identifies strategies to enhance Pakistan's compliance with international standards. The aim is to provide actionable recommendations that address structural and operational deficiencies, helping Pakistan strengthen its AML and CFT frameworks and mitigate financial crime risks.

The findings of this study will offer valuable insights for various stakeholders, including financial institutions, regulatory bodies, and the Government of Pakistan, to inform the development of more effective AML policies and enforcement mechanisms. By addressing the gaps in the current regulatory environment, this research seeks to guide future improvements in Pakistan's efforts to combat financial crime and align with international standards.

2. International influences and Pakistan's strategic reforms

The global landscape of financial regulation has evolved significantly, driven by the forces of globalization, which have expanded international trade, capital movement, and technological advancements. This transformation has created not only opportunities for economic growth but also new risks, including the proliferation of financial crimes such as ML and TF. The rapid increase in private capital flows since the 1990s, coupled with the growing complexity of financial transactions, has exposed systemic vulnerabilities in international financial systems. These illicit activities not only undermine the stability of economies but also enable criminal organizations and terrorist groups to thrive. To effectively combat such threats, necessitating robust legal frameworks and compliance mechanisms.

Compliance with AML and CFT international standards is not solely a legal responsibility but also a financial and political imperative for nations such as Pakistan. Global financial markets necessitate that nations comply with AML and CFT standards to maintain the stability and transparency of the financial system. The significance of harmonizing local AML and CFT frameworks with international standards is underscored by the fact that nations encounter mounting pressure from global entities, and non-compliance jeopardizes their financial systems while rendering them vulnerable to international sanctions.

2.1 International influences to reshape AML/CFT frameworks

The contemporary financial system is governed by an increasingly sophisticated network and system of international rules, peer-review processes, and sanctions that collectively push states toward convergence in AML and CFT practices. The FATF is at the centre of this complex structure, surrounded by "hard-law" tools from the United Nation Security Council (UNSC) and regional rules like the Anti-Money-Laundering Directives (AMLDs) of the European Union. These global norms though not legally binding, have gained universal endorsement and are increasingly incorporated into national laws, driving regulatory convergence across jurisdictions.

The FATF's influence extends beyond its soft law nature, with its recommendations becoming de facto mandatory due to the FATF's links with international financial institutions, such as the International Monetary Fund (IMF) and the World Bank. These relationships not only bolster the credibility of the FATF's guidelines but also increase the pressure on nations to implement these standards to maintain their standing within the global financial system. As these guidelines employ significant coercive pressure on nations through the peer review mechanism, which includes the potential risk of being placed on the FATF grey or blacklist. These external forces compel nations to align their domestic legal frameworks with global norms, as failure to do so can result in severe consequences, such as reduced foreign investment and limited access to international financial networks.

The theoretical foundation for understanding these global compliance pressures rests in institutional isomorphism theory, as articulated by DiMaggio and Powell (1983), which identifies three distinct mechanisms through which organizational fields become standardized; coercive, mimetic, and normative isomorphism. In the context of AML and CFT regulation, coercive isomorphism manifests through the binding nature of UNSC Resolutions and the threat of sanctions or exclusion from international financial systems. Mimetic isomorphism emerges as countries adopt regulatory frameworks like those of successful jurisdictions or international best practices, while normative isomorphism develops through professional networks and the institutionalization of compliance standards across national boundaries.

Evolution of global standards and complementary treaty obligations: The FATF was formed to frame a coordinated response to the emerging threat of ML driven largely by drug-trafficking revenues. Its original forty Recommendations, published in 1990, were intentionally a broad and non-binding form of “soft law designed to encourage gradual alignment of domestic frameworks without triggering sovereignty objections. Subsequent revisions progressively hardened the standard, such as the 1996 review that introduced explicit customer due diligence (CDD) rules, the 2001 “Special Nine” that extended the mandate to TF in direct response to 9/11, and the comprehensive 2012 consolidation that embedded the risk-based approach (RBA) as the organizing principle for all preventative, supervisory, and enforcement measures.

Soft-law pressure is reinforced by “hard-law” treaties. The 1988 Vienna Convention anchored drug-proceeds confiscation, the 2000 Palermo Convention broadened offences to all serious crime, and the 2003 Merida Convention attacked public corruption. Each required states to criminalize laundering and to facilitate mutual legal assistance (MLA), embedding FATF concepts in treaty law. Regional pacts such as Council of Europe Conventions and 6 successive EU AMLDs, and U.S. extraterritorial statutes further tighten the net, obliging financial-sector gatekeepers to know their customers, identify beneficial owners, and report suspicious transactions.

Layers of coercion, emulation, and professionalization: International efforts to combat ML and TF operate along overlapping layers of influence. At the outermost layer sits coercion. Although the FATF lacks treaty-based enforcement powers, its public “black” and “grey” lists have become potent instruments of economic pressure. Jurisdictions lowered to these lists face higher borrowing costs, disrupted correspondent-banking links, and the risk of being shut out of dollar-clearing networks, all of which create powerful incentives to legislate and enforce AML and CFT rules. Particularly, this external pressure compelled Pakistan to confront not only the technical deficiencies in its AML and CFT framework but also the deeper structural and operational challenges that had long undermined the effectiveness of its financial crime controls to address both external expectations and its own complex domestic vulnerabilities.

Beneath the direct pressures of coercion, a more subtle dynamic of policy emulation takes shape. The mutual evaluation process requires countries to publicly disclose their legal frameworks, supervisory practices, and conviction records, subjecting them to peer scrutiny. Following on-site evaluations, ratings are swiftly compared by investors, credit-rating agencies, and neighboring regulators, reinforcing a "naming-and-shaming" mechanism that motivates states to adopt the regulatory frameworks of higher-scoring peers.

A third and increasingly decisive layer is professionalization. A transnational compliance industry, consisting of specialist law firms, audit consultants, RegTech vendors, and certified AML officers, has emerged over the past two decades as the day-to-day custodian of FATF standards within financial and designated non-financial businesses. These private actors not only implement the rules but also help to interpret and extend them, creating new best-practice manuals, software “red-flag” libraries, and training curricula that circulate globally through conferences, webinars, and vendor campaigns.

Collectively, these levels establish a complex network of incentives and practices, markets penalize underachievers, peers shame those who perform poorly, and professionals integrate AML and CFT controls thoroughly within organizational procedures. Understanding the interaction of coercion, emulation, and professionalization is crucial for elucidating both the swift dissemination of FATF principles and the enduring implementation gaps that arise in the absence of political will, supervisory ability, or private sector experience.

2.2Overview of Pakistan’s AML/CFT legal framework and strategic reforms

In 1947, Pakistan attained independence following nearly two centuries of British colonial domination. Like its neighbors, the new nation adopted a Westminster-style constitutional framework and a common-law judicial system,it primarily legislated by amending these inherited laws rather than creating new legal codes.

In 1958, Pakistan underwent its inaugural dictatorship when General Ayub Khan imposed martial law; subsequently, the military persisted as the preeminent political entity through later seizures of power by General Zia-ul-Haq in 1977 and General Pervez Musharraf in 1999, highlighted by brief periods of civilian governance. Despite narcotics trafficking, smuggling, and corruption generating substantial illicit profits during the 1980s and early 1990s, the legal framework lacked a statute that recognizedML as an independent offence. Financial enquiries depended on fragmented provisions of pre-partition legislation or on sector-specific offences.

Pakistan's initial limited ML measures emerged in the late 1990s, the Control of Narcotic Substances Act (CNSA)1997criminalised the laundering of drug proceeds, while the National Accountability Bureau (NAB) Ordinance 1999 permitted the confiscation of assets obtained through corruption;however, both instruments were restricted in scope and application.

Following a post-9/11 increase in worldwide standards, Islamabad established an AML Ordinance in 2007, which was subsequently formalised as the Anti-Money-Laundering Act (AMLA), 2010established Pakistan’s initial stand-alone AML regime, criminalizing the acquisition, conversion, possession, and transfer of proceeds of crime and obligating financial institutions and designated non-financial businesses and professions (DNFBPs) to file STRs and CTRs.This section offers a comprehensive overview of Pakistan's AML and CFT frameworks, aimed at enhancing the nation's capacity to identify, prevent, and prosecute unlawful financial activities, so advancing its compliance with international AML and CFT standards.

Primary Legislation and major amendments: Pakistan’s AML and CFT framework has undergone significant development since the early 2000s, reflecting the country’s dual commitments under FATF mutual evaluations and UNSC resolutions 1373 and 1267. Pakistan has enacted a range of laws aimed at addressing ML, corruption, and TF predicate offences. These include the AML Act, the NAB Ordinance, the CNSA, the ATA, and the State Bank of Pakistan's (SBP) AML and CFT Regulations for Banks and DFIs. Additionally, the Securities and Exchange Commission of Pakistan (SECP) AML and CFT Regulations (2015), and the National Counter Terrorism Authority (NACTA) Guidelines on UNSCR 1373, provide further legal and regulatory frameworks to combat these issues.Table 1 outlines the details legislative developments and key provisions.

Table1. Overview of Pakistan's Primary Legislation against Money ML and TF

Legislation	Key Provisions	Amendments and Key Updates
Anti-Money Laundering Act (AMLA), 2010 and (Amendment) Act, 2020	Defines money laundering offenses, including the acquisition, possession, and transfer of criminal proceeds.	Introduced severe penalties: fines increased from Rs 1 million to Rs 25 million and prison sentences raised from 5 to 10 years. Section 7A (2020) mandates customer due diligence (CDD), verification of beneficial owners, and monitoring of accounts. Expanded powers for investigating officers to remand suspects for up to 180 days. Establishment of the National Executive Committee to coordinate law enforcement agencies, including FIA, CTDs, and NAB.
Anti-Terrorism Act (ATA), 1997 and Anti-Terrorism (Amendment) Act, 2020	Criminalizes terrorism financing by making it an offense to provide funds for terrorist activities or proscribed groups.	This legislation is linked to Immediate Outcomes No. 1 (Risk, Policy, and Coordination), No. 5 (Legal Persons and Arrangements), and No. 10 (Terror Financing Preventive Measures and Financial Sanctions) in terms of effective compliance. In terms of technical compliance, it also supplements Recommendations Nos. 2, 6, and 35. introducing asset-freezing and travel-ban obligations. Fines raised to Rs 25 million, and prison sentences extended to 10 years. [Section 11(O)(3)]
Control of Narcotic Substances Act, 1997 and (Amendment) Act, 2020	Criminalizes laundering proceeds of drug trafficking and facilitates asset forfeiture and freezing.	2020 amendments aligned the Act with broader ML regulations, ensuring a more comprehensive framework for combating narcotics-related money laundering. The change corresponds to FATF recommendation 3 including Money Laundering to its scope. The watchdog identified a lacuna in section 12 of this act, and this amendment was made to rectify the loophole.

Source: Author's own compilation

This table provides an overview of Pakistan's primary legal framework ML and TF. It highlights key legislative provisions, recent amendments, and the ongoing efforts to align with international standards, such as those outlined by the FATF and UNSC resolutions. The formulation in Article 24(1) of the UN Charter serves as a key example. It demonstrates how the UNSC was established with the primary responsibility for maintaining international peace and security. The article underscores the importance of effectiveness, with member states granting the UNSC the authority to take prompt and decisive actions in response to threats.

Secondary Legislation and Institutional Architecture: Pakistan has implemented a series of secondary legislative measures designed to strengthen its primary AML and CFT framework. These laws are strategically aimed at improving transparency, fostering international cooperation, and refining the regulatory oversight of corporate structures and trusts. Notable among these legislative developments is the NACTA (Amendment) Act, which enhances institutional coordination between various agencies involved in counterterrorism efforts. Additionally, the MLA (Criminal Matters) Act facilitates greater cross-border legal cooperation, while the Companies Act and the Limited Liability Partnership (LLP) Amendment Act target the issue of beneficial ownership transparency. Collectively, these secondary laws are integral to aligning Pakistan's legal infrastructure with global AML and CFT standards. The table 2 below underscores a summary of the key secondary legislation aimed at strengthening Pakistan's AML and CFT framework.

Table 2. Secondary Legislation in Pakistan to Combat ML and TF

Legislation	Key Provisions	Amendments and Key Updates
NACTA (National Counter-Terrorism Authority) (Amendment) Act, 2020	Enhances institutional coordination for counterterrorism and AML/CFT efforts.	Shifted leadership from the Prime Minister to the Interior Division Minister. Expanded Board of Governors to include IGPs and Home Secretaries from all provinces, improving inter-provincial coordination and decision-making processes. Section 8 allows additional Ministry Secretaries to attend Executive Committee sessions.
Mutual Legal Assistance (Criminal Matters) Act, 2020	Establishes a framework for cross-border cooperation in criminal investigations related to ML and TF.	Section 7 ensures assistance to foreign authorities, while Section 17 allows refusal if assistance conflicts with national interests or international human rights conventions. Aligned with FATF Immediate Outcomes and compliance.
Companies Act, 2020	Strengthens corporate transparency and prevents money laundering through corporate structures.	Immediate Outcome no. 5 for effective compliance and FATF Recommendations no. 11, 24, and 25 for technical compliance. Section 60-A prohibits bearer shares and Section 123(A) mandates maintaining records of beneficial owners. Enhances asset ownership transparency and traceability of illicit financial flows.
Limited Liability Partnership (LLP) Amendment Act, 2020	Requires LLPs to maintain and update records on beneficial ownership.	The 'Limited Liability (Amendment) Act 2020' changes align with the Companies (Amendment) Act 2020 regarding FATF recommendations. Both laws aim for asset ownership transparency and enhancing the domestic AML framework. Key provisions include i. Partnerships must comply with section 8 of 'The Limited Liability Partnership (Amendment) Act 2020' to report ultimate beneficial owners. ii. Non-compliance incurs a maximum penalty of Rs.1 million for individuals and Rs.10 million for Limited Liability Partnerships.
Islamabad Capital Territory Trust Act, 2020	Regulate trust properties to prevent misuse of money laundering or terrorism financing.	Outcome no. 3 and recommendations no. 26 and 27. Given the complexities of trust properties, enhanced oversight is essential to comply with FATF recommendations. Key features of the Act include i. Section 2 defines trust as an obligation tied to property ownership based on the owner's confidence. ii. Trust registration applications can be denied if the trust's purpose is illegal or linked to crime, preventing misuse by money launderers. Additionally, directors or trustees may face fines up to Rs. 1 million for non-compliance, Section 17(3)). Section 109 grants the Chief Commissioner Islamabad authority to establish rules for this process.

Source: Author's own compilation

This table provides a detailed summary of secondary legislation in Pakistan addressing ML and TF. These developments demonstrate Pakistan's maturing legislative compliance, enabling swift updates to reflect new predicate offences, enhanced due diligence (EDD) obligations, and effective enforcement powers consistent with national interests and global AML and CFT standards. It updated its UNSC sanctions implementation measures in compliance with Resolution 1267 and to fulfill its obligations under the FATF's 2018-2022 "grey list" monitoring action plan.

3. Fragmentation of the Legal, Judicial and Institutional Framework

The strength of a country's legal framework plays a decisive role in translating international AML and CFT obligations into enforceable domestic law. In Pakistan, the AMLA and the ATA form the legislative backbone of the AML and CFT system. However, both acts have faced criticism for their limited scope, overlapping mandates, and weak operational clauses and significant gaps in prosecutorial capacity, inter-agency coordination, and asset recovery mechanisms, suggesting that Pakistan's legislative reforms have often been reactive and fragmented.

Pakistan's AML and CFT legal reforms illustrate the government frequently passes amendments in response to international deadlines but lacks sustained investment in implementation, especially in provincial jurisdictions. For example, while the FMU is formally empowered to track STRs, its enforcement capacity is limited by institutional bottlenecks, lack of trained staff, and minimal prosecutorial follow-up.Moreover, Pakistan's legal system and fragmented jurisdictional landscape contribute to the complexity of AML and CFT enforcement. A critical issue lies in the jurisdictional fragmentation within the legal system.

This fragmentation leads to inefficiencies, particularly when financial crimes, such as tax evasion and money laundering, require the attention of multiple courts or institutions. The absence of specialized courts for ML cases further complicates matters, as the judicial system struggles to address complex financial crimes in a cohesive manner.

Legal and administrative framework: The legal framework of Pakistan is governed by a hierarchical structure that includes the Constitution of Pakistan, which serves as the highest law, followed by various acts, presidential ordinances, rules, regulations, and notifications. The Constitution outlines the fundamental rights and obligations of the people, defines the structures of the state, and establishes the economic and political systems. Below the Constitution, the legislative process involves the creation of Acts by Parliament or Provincial Assemblies, which are considered the primary legal instruments for governance. Ordinances, issued by the President or Provincial Governors, act as temporary laws during emergencies, while Rules and Regulations are developed under the authority of acts to regulate day-to-day operations of the legal system. Notifications, though less significant, officially announce actions taken by the government.

Judicialframework and enforcement: The fragmentation within Pakistan's judicial system plays a significant role in the ineffective enforcement of AML and CFT measures. Despite the presence of various regulations and laws designed to combat ML and TF, the legal system remains fragmented, leading to inconsistent enforcement and delayed justice. The judicial structure itself is complex and not specifically tailored to address the complexities of financial crimes, which adds to the challenges in prosecuting ML and TF offenses. The AML Act lacks a specialized judicial framework for ML cases, relying on ordinary courts, which hampers effective prosecution. Additionally, the ATA mandates unrealistic timelines for case resolution, with only 54 Anti-Terrorism Courts for 154 districts, leading to impracticality.

Pakistan's judicial system is divided into three main tiers: the Supreme Court, the High Courts, and the subordinate courts. The Supreme Court of Pakistan is the highest court of appeal and has the authority to exercise original, appellate, review, and advisory jurisdiction. The High Courts in each of Pakistan's provinces, along with one in the capital city Islamabad, supervise subordinate courts and are responsible for overseeing the application of laws within their jurisdiction. However, this hierarchical structure is not well-equipped to address the specific challenges posed by ML and TF, are often adjudicated by general criminal courts, which are not sufficiently equipped to deal with the complexities of financial crimes.

One of the fundamental issues in Pakistan's judicial system, especially in the context of financial crimes, is the fragmented jurisdictional framework.

Although the AMLA offences are now classified as cognizable to comply with FATF recommendations and section 25 mandates cooperation between federal and provincial officers. However, Section 20 of the AMLA stipulates that ML cases are to be tried in the same court that handles the predicate offenses associated with ML.This creates a significant challenge, as cases involving multiple offenses across different legal domains often result in jurisdictional confusion. When the same individual is charged with ML alongside tax evasion, the cases cannot be consolidated into a single trial, leading to inefficiencies and delays.

For instance, the 2001 Income Tax Ordinance and the 1969 Customs Act lack provisions that categories ML as a distinct offence. As a result, cases involving both tax evasion and ML cannot be tried together in the same court, leading to inefficiencies in the legal process. Similarly, special courts for tax-related offences are governed by separate legal provisions, such as the appointment of special judges under Section 203 of the Income Tax Ordinance. However, these special courts cannot handle ML cases, even when they are directly related to tax evasion. This fragmentation creates unnecessary delays and complications, as cases that involve multiple crimes must be handled in different courtrooms, wasting both judicial and law enforcement resources.

In this context, the establishment of specialized financial crime courts is urgently needed. These courts would be tasked specifically with dealing with financial crimes such as ML and TF, ensuring that such cases are handled by judges and legal professionals with the necessary expertise. Specialized courts would also streamline the judicial process, reduce delays and improve the quality of legal decisions related to financial crimes.

Institutional framework and Challenges: A major internal constraint is the fragmentation of Pakistan's institutional landscape. Multiple agencies, such as the FMU, SBP, SECP, NAB, FIA, Custom and various law enforcement bodies operate in silos, those agencies saddled with the responsibility of enforcing the provisions of the AML and CFT related laws but often lack effective coordination. These include inadequate staffing, lack of technical expertise, insufficient training, and limited access to modern investigative tools.Moreover due to outdated laws, unclear rules, and cumbersome procedures, where weak human, physical capacity and internal accountability mechanisms prevent effective implementation despite adequate legal frameworks.This fragmentation leads to gaps in enforcement, duplication of efforts, and missed opportunities for inter-agency collaboration, undermining the substantive impact of AML and CFT measures.

Investigations and prosecutions of ML and TF offenses are the responsibility of various federal and provincial agencies, each tasked with specific predicate crimes: the Federal Board of Revenue (FBR-IR) for tax evasion and fraud (Section 192 of the Income Tax Ordinance 2001), FBR-customs for smuggling (Section 185 of the Customs Act 1969), NAB for corruption (NAB Ordinance 1999), ANF for narcotics (Section 15 of the CNSA), and FIA for other offenses. These agencies also possess prosecutorial authority under their respective regulations, with certain agencies, such as FBR-customs, maintaining specialized AML cells for ML investigations.Table3 illustrates the role and responsibilities for AML and CFT enforcement and Implementation in Pakistan.

Table 3. Authorities Responsible for AML/CFT Implementation

Authority	Agency	Responsibility
1. Federal Authorities National Executive Committee (NEC)	Ministry of Finance, Ministry of Foreign Affairs, Ministry of Law and Justice, Ministry of Interior, SBP Governor, SECP Chairman, FMU Director-General	Oversees and implements the national AML/CFT strategy, determines predicate offences, provides guidance on rules and regulations, makes recommendations for effective implementation of AMLA, and issues directions on AML/CFT matters.
General Committee (GC)	Secretaries of Finance, Interior, Foreign Affairs, Law and Justice, Chairman NAB, Director General FIA, ANF, Deputy Governor SBP,	Reviews performance of agencies involved in AML/CFT, including investigating agencies, FMU, financial and non-financial businesses, and training programs for both government and private sectors.

Authority	Agency	Responsibility
	SECP Commissioner, FMU Director-General	
Financial Monitoring Unit (FMU)	Financial Monitoring Unit (FMU)	National central agency for receiving, analysing, and disseminating STRs and related reports. Conducts asset-tracing and temporary freezing of accounts, playing a key role in the detection and investigation of financial crimes.
Ministry of Foreign Affairs (MOFA)	Ministry of Foreign Affairs	Manages international MLA requests, treaty relationships, and Pakistan's obligations under UNSCRs. Chairs the Inter-Agency Committee on Proliferation Financing (PF) matters. Coordinates enforcement and licensing under PF-related regulations.
State Bank of Pakistan (SBP)	State Bank of Pakistan (SBP)	Regulates monetary and credit systems, supervises and regulates financial institutions, and ensures compliance with AML/CFT regulations under the Banking Companies Ordinance 1962, Microfinance Institutions Ordinance 2001, and other relevant laws.
Securities and Exchange Commission of Pakistan (SECP)	Securities and Exchange Commission of Pakistan	Regulates and supervises capital markets, non-banking financial companies, modarabas, insurance sectors, and corporate registrations, including licensed NPOs, to ensure AML/CFT compliance.
National Accountability Bureau (NAB)	National Accountability Bureau (NAB)	Federal law enforcement agency responsible for eradicating corruption, wilful defaults, and investigating ML and predicate offences under its jurisdiction.
Federal Investigation Agency (FIA)	Federal Investigation Agency (FIA)	Investigates economic crimes, including ML, with national and international implications. Responsible for enforcing AML/CFT regulations and prosecuting related offences.
Anti-Narcotics Force (ANF)	Anti-Narcotics Force (ANF)	Primary enforcement agency under the Control of Narcotics Substances Act 1997, responsible for investigating drug-related ML, asset confiscation, and forfeiture.
Federal Board of Revenue - Customs (FBR-Customs)	Federal Board of Revenue - Customs (FBR-Customs)	Responsible for protecting borders, overseeing customs duties, and ensuring compliance with AML/CFT rules related to cross-border trade. Investigates ML and related crimes under its jurisdiction.
Federal Board of Revenue - Inland Revenue (FBR-IR)	Federal Board of Revenue - Inland Revenue (FBR-IR)	Investigates ML related to inland tax evasion, with regional directorates in key cities. Supports compliance with AML/CFT regulations for tax-related matters.
National Counter-Terrorism Authority (NACTA)	National Counter-Terrorism Authority (NACTA)	Coordinates national TF policy and oversees cooperation through the National Task Force on

Authority	Agency	Responsibility
		Counter-Terrorism Financing (CFT). Leads the TF Subcommittee of Task Force.
Institute of Chartered Accountants of Pakistan (ICAP)	Institute of Chartered Accountants of Pakistan (ICAP)	Regulates the profession of accountancy and ensures compliance with AML/CFT standards among chartered accountants, particularly in the audit of public companies.
Pakistan Bar Council (PBC)	Pakistan Bar Council (PBC)	Regulates the legal profession and promotes legal education, providing free legal aid to citizens, while ensuring adherence to AML/CFT standards within the legal community.
2. Provincial Authorities Police	Provincial Police Services (Punjab, Sindh, KPK, Balochistan)	Primary law enforcement agencies responsible for general law enforcement, with designated units investigating TF under R.30 of FATF.
Counter-Terrorism Units	Counter-Terrorism Departments within Provincial Police	Specialised units responsible for investigating TF and related crimes under R.30 of FATF.

Source: Author's own compilation

This table summarizes the key authorities involved in Pakistan's AML and CFT efforts, illustrating the roles of federal and provincial agencies, their respective responsibilities, and how they contribute to the effective implementation of the country's financial crime prevention framework.

Moreover, the absence of a well-structured referral system between federal and provincial agencies further complicates the investigation process. For example, provincial law enforcement agencies do not have the authority to pursue ML investigations in parallel with predicate crimes. If a ML element is detected, the case must be referred to the FIA, but there is no formal referral mechanism in place. While the national risk assessment 2023 identified high-risk sectors and predicate offenses, the integration of findings into operational practice remains limited, with many agencies unable to translate risk assessments into targeted supervisory actions.

Underlying many of these institutional weaknesses are broader governance issues, including political interference, elite capture, and a lack of accountability. These factors impede the development of a professional, independent regulatory and enforcement apparatus.The politicization of appointments in key agencies, selective enforcement of anti-corruption laws, and the use of regulatory powers for political ends all contribute to a culture of impunity and undermine the credibility of AML and CFT efforts.

Policy priorities often focus on immediate external pressures rather than long-term institutional strengthening, leading to cycles of reform and relapses as international attention waxes and wanes. For example, Pakistan's removal from the FATF grey list in 2022 was achieved through a flurry of legislative and regulatory activity, but subsequent evaluations and academic studies have questioned the sustainability and depth of these reforms, noting that much vulnerability remain unaddressed at the operational level.

4. Pakistan's post-grey list strategies: Symbolic compliance or Substantive reform

The FATF's influence on Pakistan AML and CFT regime describe as "compliance under conditionality," where states enact reforms to regain access to global financial systems. Indeed, the threat of economic isolation, restricted foreign direct investment, and downgraded credit ratings led to Pakistan's accelerated legal amendments between 2019 and 2022. However, this form of compliance raises critical questions: are reforms sustained once external pressure recedes?Furthermore do they reflect genuine domestic institutional transformation, or are they limited to "checklist compliance"?

The FATF-driven reform often results in formal legal compliance (*de jure*) without equivalent improvements in enforcement or conviction rates (*de facto*). This has been observed in jurisdictions such as Nigeria, the UAE, and even high-capacity states like Italy. Pakistan's compliance trajectory fits this pattern, with laws amended under FATF scrutiny, but implementation hindered by entrenched political and institutional constraints.The FATF mandates actual compliance with international norms, not merely technical adherence. Pakistan's legal system struggles to translate reforms into effective actions against TF. The issue lies not in the laws themselves, but in their inadequate execution.

The impact of external pressures and FATF grey list journey: Pakistan's AML and CFT strategies are heavily influenced by FATF's external pressures. The threat of sanctions from FATF forced Pakistan to urgently implement AML and CFT reforms. Consequently, from 2019 to 2022, Pakistan made several legal changes to comply with FATF's 27-point action plan. However, the urgency of these reforms highlights a significant challenge: external pressure for compliance conflicts with internal implementation issues in Pakistan. Pakistan's relationship with FATF is complex and longstanding. Since 2008, Pakistan has been placed on the grey list three times, notably around election periods and power transitions. Table 4 below underscores Pakistan's FATF grey list journey timeline.

Table 4. Timeline of Pakistan's Compliance with FATF Action Plan and Strategic Responses

Year	Summary of substantive compliance and progress
2008	On February 28, 2008, Pakistan was placed on the FATF grey list for failing to meet international AML/CFT standards and was urged to collaborate with the Asia Pacific Group to achieve the required targets.
2010	In June 2010, Pakistan exited the FATF monitoring list, having enacted the Anti-Money Laundering Act and made significant progress in strengthening its AML/CFT framework, including enacting a permanent anti-money laundering law.
2012	FATF revises its evaluation methodology recommendations, while Pakistan's relations with the US deteriorate following the Salala massacre and the Osama bin Laden operation. Pakistan is subsequently placed on the FATF grey list for non-compliance with standards addressing money laundering and terrorist financing.
2013	FATF introduces new guidelines for assessing technical compliance with AML/CFT systems.
2015	FATF removes Pakistan from the grey list, acknowledging the country's "significant progress" in improving its AML/CFT regime. Pakistan enacts the Anti-Money Laundering Amendment Act, establishing the necessary legal framework to meet its action plan commitments, successfully exiting the grey list that year.
2016	The Panama Papers leak exposes extensive corruption through offshore accounts, underlining global AML/CFT risks.
2018	On June 28, 2018, Pakistan was placed on the FATF grey list for the third time, with insufficient action against terror financing cited as the primary reason. Following a 12-day inspection, the APG, on August 16, 2018, identified deficiencies in Pakistan's implementation of its FATF action plan.FATF declares Pakistan's progress on the 27-point action plan unsatisfactory.
2019	In June 2019, FATF acknowledged Pakistan's progress in curbing money laundering. By October 2019, FATF extended Pakistan's deadline until February 2020 for full compliance, while also designating banned outfits in Pakistan as high-risk. In response, Pakistan introduced new policies to combat terror financing, and the Prime Minister established a body to assist in meeting FATF targets. On October 18, 2019, FATF retained Pakistan on the grey list, urging the country to complete its full action plan by February 2020.
2020	In February 2020, FATF praised Pakistan's progress but kept the country on the grey list, giving a deadline extension until June. Due to COVID-19, compliance was further extended until October 2020. Key milestones included Hafiz Saeed's terror financing conviction in February and November 2020, alongside the passing of FATF-related bills by Parliament. Despite

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Year	Summary of substantive compliance and progress
	implementing 21 of 27 action points, FATF retained Pakistan on the grey list until February 2021.
2021	In February 2021, FATF retained Pakistan on the grey list for failing to meet 3 of 27 action points. By June, one unresolved action item kept Pakistan on the list. Key actions included the SBP amending AML regulations (Jan 8), Lakhvi's conviction (Jan 8), and the FIA setting up a money-laundering squad (May 19). FATF continued monitoring Pakistan's progress, noting full implementation was still pending by October 2021.
2022	In March 2022, FATF retained Pakistan on the grey list, urging further financial reforms. By June, Pakistan met all 34 action items, and FATF scheduled an on-site visit. Hafiz Saeed was sentenced to 33 years (April 8). The FATF conducted an on-site visit in August (Aug 29–Sept 2). Despite compliance with 38 out of 40 technical recommendations, the APG rated Pakistan's effectiveness as "low" on 10 out of 11 anti-money laundering and terrorism financing goals (Sept 2).
2022	On October 21, 2022, FATF removed Pakistan from its enhanced monitoring list after the country successfully met all 34 action items outlined in two concurrent action plans over several years. The Foreign Office expressed confidence that the visit of the 15-member delegation culminated in Pakistan's exit from the grey list. It described the visit as "smooth and successful".

Source: Author's own compilation data based on various secondary sources

The FATF's grey-listing journey of Pakistan in 2008-2022 marked a pivotal moment in the country's AML and CFT reform process. This timeline encapsulates Pakistan's journey in addressing the 27-point action plan imposed by the FATF. The timeline reflects the key milestones and challenges faced by Pakistan in striving for full compliance with international AML and CFT standards. External pressure from FATF, along with domestic policy responses, shaped the course of compliance efforts, demonstrating the complex relationship between international scrutiny and domestic regulatory adjustments.

The external pressure to demonstrate compliance, coupled with internal constraints, led to a "tick-box" approach, where legal reforms were passed to meet FATF's deadlines but were not always followed through with the required capacity-building at the operational level. This pattern of compliance reflects the influence of external pressures on Pakistan's reform efforts, but it also highlights the challenges inherent in achieving substantive change when institutional weaknesses persist. This dynamic between external pressures, internal constraints, and political considerations further complicated Pakistan's ability to transmit the fine line between symbolic and substantive compliance.

The symbolic compliance or substantive reforms: The clash between symbolic compliance and substantive reforms in Pakistan's AML and CFTframework is evident in the gap between legal reforms and their actual implementation. While Pakistan has made significant strides in aligning its legal and regulatory frameworks with the FATF 40+9 Recommendations, these efforts often fall short in practice. Legal amendments, such as those to the AMLA and ATA, were introduced to meet FATF's standards, but the country's ability to enforce these laws has been undermined by systemic challenges. Internal factors such as political interference, bureaucratic inefficiencies, and lack of inter-agency coordination have hindered the full implementation of these reforms, leading to a situation where Pakistan appears to comply with FATF's requirements on paper but lacks the operational capacity to carry out these reforms effectively.

For example, while the country has passed laws to curb ML and TF, the prosecution of such crimes remains lethargic, with low conviction rates and insufficient penalties.The case, such as the Ayyan Ali, ML case in 2015, where the famous model was arrested with over $500,000 in cash at the airport. Although she was detained and a case was filed, weak prosecution and judicial delays resulted in her eventual release on bail after paying fines, demonstrating the legal loopholes in Pakistan's financial crime enforcement. This issue highlights the tension between symbolic compliance, such as signing treaties and passing laws, while substantive reforms which require rigorous enforcement and effective capacity building within the country's regulatory bodies.

Pakistan's efforts, though extensive in terms of passing legal reforms, often fail to result in tangible changes because the institutions tasked with enforcement are not adequately resourced or coordinated. For instance, the absence of a joint task force among the four primary law enforcement agencies results in fragmented efforts where "ML and TF will continue to go unchecked". This coordination failure represents a fundamental structural weakness that enables continued exploitation of regulatory gaps. The creation of bodies such as the National Anti-Money Laundering and Counter Financing of Terrorism Authority (NAMLCFTA) was an attempt to improve institutional responses; however, the lack of sufficient capacity in these bodies has prevented them from fully fulfilling their mandates due to the lack of sufficient capacity-building and operational readiness at the ground level.

Pakistan's FATF journey reveals a pattern of reactive compliance rather than proactive reform,further needs to acknowledge the current reactive nature of Pakistan's approach and the need for a fundamental shift toward proactive reform. While Pakistan achieved technical compliance with 31 out of 40 FATF recommendations by 2021, effectiveness compliance remained problematic. For instance, the chronology shows Pakistan consistently meeting compliance targets only when faced with specific deadlines and consequences.

The Basel Institute's Pakistan briefing (2022) highlights a significant effectiveness gap in the country's AML efforts, revealing a stark contrast between technical compliance and actual operational impact. Pakistan scored only 3% for effectiveness, despite achieving 72% for technical compliance.The FATF report on the state of effectiveness and compliance (2022) acknowledges that while "most countries have satisfactorily adopted the 40 recommendations (technical compliance)," they "still face challenges in taking effective action commensurate to the risks". This validates the broader pattern observed in Pakistan's case.

Political will plays a crucial role in bridging this gap between symbolic and substantive compliance.while in Pakistan's case, the same political and institutional actors responsible for implementing AML and CFT measures are sometimes reluctant to disrupt established practices that may benefit them. For instance, the case of one prominent political influential figure exemplifies the symbolic nature of Pakistan's AML enforcement. Despite being arrested by the NAB in September 2020 on ML charges involving Rs. 16 billion, the same institution found "no single evidence of money laundering" in June 2022 following a change in government. This demonstrates how institutions can be manipulated for political purposes rather than serving their intended mandate. This creates a conflict of interest that undermines the country's efforts to effectively combat financial crimes. The challenge, therefore, is not only about passing laws but also about ensuring that political leaders and institutional actors are genuinely committed to implementing these reforms.

5. Discussion: Regulatory Complexities, Framework Gaps and Informal Economy Challenges

In discussing Pakistan's AML and CFT framework, the paper highlights both significant reforms and persistent challenges. Despite notable legal advancements spurred by external pressures, particularly from the FATF, Pakistan's progress is impeded by substantial systemic weaknesses. Key findings reveal that although Pakistan has established a multi-agency regulatory architecture, critical inefficiencies persist due to fragmented institutional structures, poor inter-agency coordination, and insufficient resources allocated to AML and CFT enforcement.

The paper underscores the fragmented nature of Pakistan's AML and CFT enforcement, where key regulatory bodies such as the FMU, the SBP, and the SECP operate in silos. This lack of integration results in delayed investigations, weak asset tracing, and ineffective prosecution of financial crimes. The high volume of STRs was 30,000 in 2023, which illustrates the scale of the problem, with a small proportion progressing to prosecution due to weak institutional linkages and inefficiencies in handling cases. These findings reinforce the point that while legal frameworks exist, they are not fully operationalized, thus weakening their effectiveness.

A central issue is Pakistan's large informal economy, which contributes up to 50% of the GDP and operates largely outside the formal regulatory oversight. Informal value transfer systems, such as hawala and unregistered money changers, remain significant channels for illicit financial flows, often escaping detection. This gap highlights the difficulty in bridging the formal and informal economies within the AML and CFT framework. The lack of specialized mechanisms to address informal sectors compounded by cash-heavy transactions and limited financial literacy, makes it difficult to monitor and regulate illicit financial activities effectively.

The paper also discusses the impact of Pakistan's fragmented judicial and enforcement systems, which create jurisdictional challenges and inefficiencies in prosecuting financial crimes. The absence of specialized financial crime courts means that ML and TF cases are often dealt with by general criminal courts, which lack the expertise required to handle complex financial investigations. Additionally, the lack of coordination between federal and provincial agencies, particularly in the investigation of terrorism financing cases, remains a critical bottleneck. The absence of a unified national framework for AML and CFT enforcement further complicates the effective prosecution of these crimes.

Despite these challenges, the paper recognizes significant strides made by Pakistan in complying with FATF's 27-point action plan, particularly between 2019 and 2022. Reforms have led to improved technical compliance, as evidenced by Pakistan's re-rating in the FATF's 2022 report, which showed significant progress in 38 out of 40 recommendations. However, as FATF emphasizes, the challenge lies not just in enacting laws but in demonstrating their effectiveness through tangible outcomes, such as successful prosecutions and effective financial crime prevention. The continued external pressure from FATF has spurred legal reforms but the question remains whether these will result in long-term, substantive change.

In sum, the findings of this study indicate that while Pakistan's legal and regulatory framework has evolved considerably, while the cumulative impact of fragmented legal system, the growing informal economy, and institutional capacity gaps has led to persistent inefficiencies in Pakistan's AML and CFT system. The inability to address these core challenges has prevented the country from fully aligning with global standards for combating financial crimes, leaving it vulnerable to international sanctions, as evidenced by its repeated placement on the FATF grey list. Furthermore, the increasing sophistication of financial crimes, including cybercrime and the use of digital assets, presents new challenges that existing regulations have not fully addressed.

6. Conclusion and Future Directions

This study critically examined Pakistan's AML and CFT frameworks, identifying key challenges and opportunities for strengthening the country's response to financial crimes. A detailed review of existing legal frameworks, institutional arrangements, and international pressures, particularly from the FATF, was undertaken. Based on above key findings and discussion underscore that in order to closegaps and avoid the risk of blacklisting, this study underline three essential areas for further strengthening Pakistan's AML and CFT response.

First, the implementation of legal reforms must be reinforced through substantial improvements in judicial and prosecutorial capacity. Specialized training for investigators and financial crime prosecutors, alongside the enhancement of institutional resources within agencies like the FMU, is vital to ensure that legal reforms translate into effective enforcement. Second, private-sector engagement is crucial to address vulnerabilities in sectors like Designated Non-Financial Businesses and Professions (DNFBPs) and the informal economy. Strengthening these sectors through targeted outreach, safe harbor provisions, and digitalization of transactions will help reduce opportunities for illicit financial flows. Third, leveraging modern technology to enhance real-time transaction monitoring is essential for tackling sophisticated money laundering schemes, including trade-based money laundering (TBML), and improving the efficiency of enforcement efforts. Artificial intelligence and blockchain technologies offer significant promise for enhancing the detection and tracking of illicit financial activities.

Pakistan has made substantial progress since exiting the FATF grey list in October 2022, but persistent gaps in enforcement and capacity remain. The proposed policies are designed to build on existing efforts, fostering greater coordination between government agencies and enhancing operational capabilities. By taking a proactive role in implementing these reforms, Pakistan can not only improve its compliance with FATF standards but also solidify its position in the global fight against financial crimes. The findings of this study underscore the importance of continued international engagement and support in strengthening Pakistan's AML and CFT efforts. These recommendations are aimed at the Government of Pakistan, but the study also identifies a gap in research concerning the integration of AML and CFT efforts with broader governance reforms in Pakistan. Future research should explore the role of political will and institutional reforms in ensuring that AML and CFT frameworks are not merely symbolic but substantively effective.

About the author: Mr. Ghulam Mujtaba Malik is currently a PhD candidate of Professor Dr. KrisztinaKarsai and Dr. AndorGal at the Department of Criminal Law and Criminal Justice, Faculty of Law and Political Science University of Szeged. His PhD is on the topic of "A Critical Analysis of the Legislative Framework Against Money Laundering and Terrorist Financing on

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