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Pakistan exits FATF Grey list

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Pakistan exited the Financial Action Task Force's (FATF) list of Jurisdictions under Increased Monitoring, colloquially known as the "Grey list", on 21 October 2022[1]. China welcomed the decision[2], while India stated that Pakistan must "continue to take credible action" to curb terror financing[3]. Minister of State for Foreign Affairs Hina Rabbani Khar, who attended the meeting in Paris, acknowledged that it was a result of Pakistan's consistent efforts and demonstrated Pakistan's commitment to improve its domestic laws and systems to counter money laundering and financing of terrorism, "Pakistan has come a long way in improving our domestic AML and CFT framework and bringing it at par with the global standards".[4]

FATF, the Paris-based money laundering and terrorism financing watchdog first admitted Pakistan onto their grey list in 2008, then again in 2012 and most recently in 2018[5]. FATF said that the reason for Pakistan's re-admittance in 2018 was "strategic deficiencies" in Pakistan's anti-money laundering and counter-terrorism financing (AML/CFT) system[6]. FATF provided 40 recommendations[7] and a 27-point action plan[8] to Pakistan to address shortcomings in government and non-government agencies, inter-agency coordination, financial institutions and the judicial system. The recommendations were expected to bolster Pakistan's capabilities to effectively combat money laundering and terror financing (ML/TF) through legislation, including the ability to identify, sanction and seize the assets of terrorists and of "those acting on their behalf"[9]. This has been a point of criticism from the United States, the United Kingdom, France and other member states towards Pakistan and cited as a reason to prolong Pakistan's presence on the grey list[10].

Pakistan's technical compliance towards FATF's recommendations was monitored by FATF and its associate member, APG, the Asia Pacific Group, for four years and detailed in four follow-up reports published by the APG[11]. In June 2021, the watchdog found Pakistan compliant with 26 out of 27 action plan points during one of the tri-annual plenaries held in Paris[12] . While the FATF praised Pakistan's commitment to tackling TF, an additional 7-point action plan was identified for Pakistan by the APG which former Minister for Energy Hammad Azhar vowed to complete within 12 months[13]. This effort succeeded and all FATF and APG recommendations and action plan points were implemented in June 2022[14].

Typically countries are cleared from the grey list after demonstrating a standard of 80% compliance with provided conditions. However, Pakistan was pushed to pursue 100% compliance[15] and faced rigorous and politically-motivated demands by the FATF and APG. The arrests and sentencing of two suspected terrorists are also seen as key contributing reasons that prompted a re-evaluation of Pakistan by FATF as believed by Michael Kugelman[16], Director of the South Asia Institute at the Wilson Centre. Kugelman's suggestion indicates that the increased sentences convinced FATF that the implementation of AML/CFT laws and standards in Pakistan was being taken seriously.

> ***"The economic strangulation Pakistan felt as the danger of default inched ever closer, now seems to have given way and allowed Pakistan room to breathe."***

The FATF's decision to keep Pakistan on the grey list in June 2021 prompted the people of Pakistan to question the supposed apolitical disposition of the organization[17]. Statements by former Foreign Minister Shah Mahmood Qureshi[18] and former Minister of State and Chairman Board of Investment Haroon Sharif[19] suggested political motivation behind the continued monitoring of Pakistan. There was a widely held belief in Pakistan that the US and India[20] played a crucial role in the perception of Pakistan's economic plight at the plenary. The timing of FATF's June 2021 decision to demand an additional 7-point action plan as well as 100% compliancy is believed to be influenced by the US and India[21]. India's Minister of External Affairs S. Jaishankar vindicated these concerns when he confirmed that India had exhausted a great deal of effort to keep Pakistan on the grey list[22]. India specifically lobbied to have Pakistan's blacklisted and economically exiled.

Moreover, a Reuter's special report found that India was among five countries that utilized the FATF recommendations to pass legislation that authorized investigations of "journalists, NGO workers, and lawyers"[23] but it was not held accountable. The Reuters report thus questioned the double standards applied by FATF.

The compliance of Pakistan as compared to FATF-member states reveals a double standard from the FATF, thus suggesting that the watchdog is not immune to political influence and interference. While Pakistan has sought to combat terror networks in erstwhile FATA, Waziristan and Swat, the FATF's responses adopted "the [demoralizing] U.S. rhetoric of '*do more*'"[24].

Being placed on the grey list has allowed Pakistan the opportunity to strengthen existing structures and add legislation to combat ML/FT[25]**.** The existing oversight mechanisms and supervision have been improved and Pakistan has subsequently entered the league of responsible countries where AML/CFT laws holds people responsible[26]**.**

The impact of being on the FATF's grey list for a country such as Pakistan with a struggling economy has been significant. The economic situation causes significant concern as foreign exchange reserves continue to run low, the currency weakens, and inflation rises to levels not seen for decades[27]. Continued grey listing had become a much bigger concern for the entire country as it would have further damaged Pakistan's prospects for direly needed financial assistance from international financial institutions[28]. Additionally, floods in August 2022 is estimated to have affected 33 million people, killed 1718, damaged 410 bridges and destroyed 9.4 million acres of crops[29], therefore requiring further foreign assistance and loans to recover.

Removal of Pakistan from the FATF grey list will not directly help to alleviate Pakistan's economic woes. It would, however, help to boost the country's economic reputation, its borrowing capabilities and provide a clean bill of health to wary global investors[30]. After an onsite visit was deemed necessary, the IMF and Pakistan agreed to resume a $1.2 billion loan programme[31]. The news caused the currency and stocks to rise as it increased the prospect of a bailout and paves the way for further foreign investment in the future. Similarly, the World Bank stated they would supply $2 billion in aid for "reconstruction and rehabilitation", and ADB will begin the provision of $1.5 billion in funds to Pakistan[32]. The economic strangulation Pakistan felt as the danger of default inched ever closer, now seems to have given way and allowed Pakistan room to breathe.

However, while the dire economic situation in Pakistan may appear to have found a silver lining, the increasing debt burden would require Pakistan's best diplomatic efforts to convince donor countries to defer or reschedule debt servicing.

Pakistan currently enjoys strong diplomatic ties with Saudi Arabia, China, Türkiye, and Malaysia and these countries have assisted Pakistan through grave economic hardships. Pakistan may continue to cultivate its relations with these countries in case the West's political expediency decides to apply economic coercion against Pakistan once again.[33]. In addition, Pakistan must reach out and establish links with a greater number of FATF-member states to ensure its charm offensive is effective.

Nevertheless, the circumstances of Pakistan's journey to exiting the grey list poses a question; does the FATF base its assessment on a uniform compliance criteria for countries under scrutiny, regardless of their economic position and influence? Despite having a high standard of AML/CFT standards in place according to the FATF, various reports have revealed a worryingly consistent influx of embezzled funds from developing countries, such as Nigeria, into developed countries such as the United Kingdom[34]. The Chatham House has also revealed failures in investigations by UK's financial state agencies which have led to the ineffectual regulation of rampant international kleptocracy[35].

Considering how difficult it is to regulate ML/FT, Pakistan was subjected to a much harsher scrutiny and compliance standards that betrays geopolitical intent by countries that pull the strings. Despite the apolitical adage the FATF adheres to, there are very few exceptions to political power. When engaging with more powerful states, Pakistan would benefit from widening the scope of allies and establish ties with stable countries. Though 'blank cheque' ties do not exist in diplomacy, a broad scope of new diplomatic relations allows for the opportunity to fund infrastructural and societal development programmes without increasing the negative balance of payments further.

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