

Pakistan's FATF Woes: A Tough Gauntlet to Run?

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Summary

The Financial Action Task Force is mandated to ensure that countries comply and implement its recommendations on money-laundering and terrorist financing. Pakistan is on its 'grey list', and to avoid a downgrade to its 'black list', the country must satisfy certain conditions by June 2020. A failure on the part of Islamabad will greatly exacerbate its economic hardship in the future.

Introduction to the FATF

The Financial Action Task Force (FATF) was created in 1989 following the G-7 Summit in Paris. Its mandate was to assist nations address strategic deficiencies in their regimes to mainly counter two issues: money laundering and terrorist financing. The goal was to enable 'capacity building' of the concerned governments to combat these issues, rather than subjecting them to any punishment. However, when placed under increased monitoring, the country or 'jurisdiction' was required to commit itself swiftly to resolve the identified strategic deficiencies within agreed time-frames or subject itself to yet stricter monitoring. Hence the terms 'grey-list' and 'black-list' are used to describe the performance of jurisdictions under its monitor. At the time of its founding, FATF comprised 16 members, which has today risen to 39, including 37 member jurisdictions and two regional organisations.

The FATF works in close cooperation with a number of international and regional bodies, involved in combating money laundering and terrorist financing. Importantly, the task force is backed by the United Nations Security Council (UNSC), and in case of persistent deficiencies, the Council can impose sanctions.

Power-Politics in the Body

However, given the nature of global politics, international institutions can hardly remain immune to power-play. Those who can, and are able to, tend to use such bodies as an extension of their foreign policy tools to achieve their perceived national self-interest. Allegations are often made that sometimes the FATF takes a selective approach by targeting some countries while ignoring others with worse records. For example, the Cayman Islands have remained unscathed despite many negative reviews by the body. In another instance, Denmark escaped opprobrium despite the Danske Bank scandal. Also, the fact that the European Union has a parallel 'black- list' comprising jurisdictions like Saudi Arabia and four US territories while the FATF does not, adds to this criticism.

Pakistan, which is currently on the FATF 'grey list' has complained of such politicisation, pointing not only to India, but also the US when bilateral relations between the two became

strained. But this complaint cuts both ways. The US has aided Pakistan in the FATF when relations between the two were good. Lately the support of China, Malaysia, and Turkey, which has prevented Pakistan from slipping into the 'black-list', was mainly due to political considerations.

Pakistan's Politics and Policies regarding FATF

As was to be expected, Pakistan's goal in the February plenary of the FATF in Paris was to try and exit the 'grey list'. For that to happen, it needed the support of 15 members. Full-scale diplomacy was unleashed to obtain that. In addition, its achievement under a 20-point National Action Plan (NAP) was emphasised. In January, Pakistan submitted a 650-page review report in response to 150 questions raised by the FATF on money-laundering. It updated its terror-financing and money-laundering risk-assessment framework, established an inter-agency coordinating mechanism and compiled suspicious transaction reports. It undertook 700 terror-financing investigations and mapped more than 64,000 non-profit organisations. In a high-profile action prior to the plenary, Pakistan apprehended Hafiz Saeed, the head of the terror-group Jamat-ud-Dawa (JuD) winning plaudits in many quarters, including the US. At the end of the plenary, Pakistan was declared as being compliant on 14 points out of a required 27. It was insufficient to graduate out of the 'grey-list' but sufficient to avoid placement in the 'black-list'. By the next FATF plenary in June, Pakistan must comply with the remaining 13 points to come out of the FATF 'grey list'.¹

It was the best of a bad bargain, a trifle disappointing for Prime Minister Imran Khan, who won kudos for some 'forward movement, but is still left with a lot on his plate. Significantly in early March, a team of UNSC and FATF members visited the JuD headquarters in Muridke, Pakistan, and found the government's actions to be 'satisfactory', a plus-point as Pakistan heads for the next FATF plenary in June. While a recent report by the Pakistan Institute for Peace Studies (PIPS) has stated that terrorism in the country has declined by more than 85 per cent, and no militant group controls any territory, Pakistan still faces a number of challenges.

Its *first* challenge is to clear the perception in some international quarters that though Pakistan has the proven capacity to act against militant groups, it only targets those that are obvious threats to its own government and not those that are said to be useful foreign policy tools. A *second* is the continuing flow of resources to some seminaries (*madrassas*) of dubious reputation which are not only on the 'suspicious list' of the FATF, but also potential threats to Pakistan itself (which, incidentally, was one of the key goals of its National Action Plan (NAP)). *Third*, is the lack of technical wherewithal to address some negative elements in the 'informal sector', for which Pakistan can seek FATF technical support, in consonance with the original mandate of the body.

The decision of the government to establish an 'autonomous secretariat' for FATF compliance is a step in the right direction. It will provide the requisite coordination between

¹ 'Pakistan must comply with 13 points to come out of FATF grey list', *International: The News*, 16 March 2020, <https://www.thenews.com.pk/print/629673-pakistan-must-comply-with-13-points-to-come-out-of-fatf-grey-list>

the Centre, its provinces, and different institutions including the civil administration, police and the all-important military.

For Pakistan, time is of the essence and Islamabad has its work cut out. By 15 April, the government will have to submit a progress report on the remaining 13 points to the Joint Working Group (JWG) of the FATF. This progress report will require to be defended in a face-to-face meeting in the second week of May. Thereafter the Plenary is scheduled to meet in June in Paris where a crucial decision on the country would be expected to be taken.

Role of Key Players: The US, China and India

In his early days of Presidency, President Donald Trump of the US opted for a tough position against Pakistan for allegedly providing a safe haven to terrorists, and consequently impeding US plans and policies in Afghanistan. Indeed, Pakistan's placement in the 'grey list' in June 2018 came at US behest, supported by its allies, the United Kingdom, France and Germany. As a result Pakistan was being monitored by the FATF's International Cooperation Review Group responsible for overseeing high-risk jurisdictions and its Asia Pacific Group focussed on money-laundering.

The mellowing of the US position accompanied the Trump administration's increasing reliance on Pakistan to clinch a peace deal with the Taliban in Afghanistan. To that was added a personal rapport built between Donald Trump and Imran Khan over several interactions, and Trump is said to be often motivated by his predilections for personalities. Actions by Islamabad against Hafiz Saeed was praised by Washington at two levels: one for holding militants accountable for crimes; and the other, for meeting the international commitment for combating terrorism. So, neither is the US fully persuaded that Pakistan should be removed from the 'grey list', nor is it of the view that Pakistan should be in the 'black-list'.

Under normal circumstances, China's unstinted support for Pakistan, its all-weather strategic cooperative partner would have been a given. But this relationship becomes complex as China also wants Pakistan to genuinely curb militancy particularly in the province of Balochistan where it has critical assets as part of the China Pakistan Economic Corridor (CPEC). Hence, China is also keen that Pakistan remains serious in its commitments against terrorism. At the same time, Beijing was quick to deny any weakening of support to Islamabad at a public level and officially praised its "enormous efforts" at FATF compliance.² China also officially takes the position that the aim of the FATF is not to cause distress to monitored jurisdiction, but to support countries' efforts to strengthen institutions against money laundering and terror-financing while also safeguarding the international financial system. A political translation is that China would rally against punitive measures vis-à-vis Pakistan.

² 'FATF meeting: China says Pakistan made 'visible progress' to curb terror financing', Press Trust of India, 23 January 2020, <https://economictimes.indiatimes.com/news/defence/fatf-meeting-china-says-pakistan.../31/3/2020>.

India continues to maintain that Pakistan extends regular support to terror groups such as Lashkar-e-Taiba, Jaish-e-Muhammed and Hisbul Mujahideen. It claims that the primary target of all these organisations is India. It believes that not only is the government avoiding action against them, but these militants are also recipients of Pakistan's official endorsement. New Delhi, therefore, regularly urges the FATF to take action against Islamabad and would actually like to see Pakistan 'black-listed'. India's position is that strong punitive action rather than gentle persuasion will only actuate Pakistan to act meaningfully.

Conclusion with Extrapolations

For Pakistan, there could actually be a silver lining in what otherwise appears to be a dark cloud with regard to its FATF experience. This should be seen and grasped as an opportunity for its civilian political and military leaderships to bury any differences – there have been some in the past - and come together to craft a counter-terrorism strategy taking on board not only the interests of all the stakeholders in the country but also the perceptions held abroad. Pressure from without has also been known at times to be a driver of positive policy actions within. If the result of such a consensual and coordinated policy in Pakistan does help curb militancy, it would not only bring domestic stability and facilitate developmental activities, but also please foreign protagonists - friends like China, transactional partners like the US, and even current adversaries as India, who could be encouraged to see this as a stepping stone for a much-needed détente. Already the common scourge of the Coronavirus pandemic is seen by many in the region as an invitation to a collaborative and coordinated response.

Should Pakistan perchance fail to satisfy the FATF plenary come June, the result would be the urging by this important body upon *“all jurisdictions to advise their financial institutions to give special attention to business relations and transactions with Pakistan”*.³ This would render it extremely difficult for Pakistan to access financial resources not only from the FATF member countries but also from the Bretton Woods institutions, the Asian Development Bank and the European Union. All types of investments could also be hurt by an accompanying reduction in risk rating by Moody's, S&P and Fitch. Between now and the next FATF plenary in June, Islamabad will have a tough gauntlet to run. The pressure and the incentive to act would be buttressed by the fact that the alternative, with all its negative consequences, is not an option.

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³ Documents-Financial Action Task Force (FATF). <https://www.fatf-gafi.org/publications/fatfgeneral/documents/outcomes-fatf-plenary-february...31/3/2020>.