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**AN EXPLORATORY STUDY OF  
TERRORISM FINANCING IN  
PAKISTAN**

**MAQSOOD AHMED**

DBA

2021

**AN EXPLORATORY STUDY OF  
TERRORISM FINANCING IN  
PAKISTAN**

**MAQSOOD AHMED**

A thesis submitted in fulfilment of the  
requirements of the University of Northumbria at  
Newcastle, UK for the Degree of

**Doctor of Business Administration – DBA**

December 2021

## Abstract

*Purpose:* This study aims to discover significant determinants that influence the current anti-terrorism policy in Pakistan by understanding the relationship between terrorism financing, stakeholder' activities, and public policy. Several measures have been taken by Pakistan over the years to control the financing of terrorism. Various modifications and new systems have been adopted by successive governments to deal effectively with the ever-growing threat of terrorism. This thesis highlights essential areas within the domain of terrorism financing, including barriers in the framing of effective counter-terrorism policies and the problems and issues in the implementation of existing counter-terrorism laws in Pakistan.

*Design/methodology/approach:* This research adopts a constructivist approach. Twenty interviews were conducted with professionals at different level working in various departments and dealing with counter-terrorism in various positions in the police, judiciary, prosecution, and intelligence, counter-terrorism departments (CTDs) and technocrats selected for their practical knowledge and expertise as crime prevention experts. The respondents were asked to share their experiences and the details of existing effective laws on terrorism financing, barriers in their implementation, and hurdles in making effective laws and policies. Their responses were subjected to qualitative data analysis.

*Findings:* The interviews revealed the issues of terrorism financing through the financial service industries and different informal channels. The research outcomes indicate that compliance mechanisms aimed at preventing terrorism financing could be circumvented.

*Practical implications:* The identification of gaps in the current prevention mechanisms is meant to provide legislators, compliance officers, law enforcement agencies, and intelligence offices with insights into how criminals finance terrorism and operate within the current legislative and operational system.

*Originality/Value:* The existing literature focuses on simply naming areas that could play a part in the financing of terrorism, whereas this study covers the subject comprehensively, taking both prevention and criminal perspectives into account. The research addresses an on-ground practical approach to fight against terrorism and it's financing in a developing country, i.e. Pakistan, by adding the views and perspectives of the respondents who are currently serving at critical posts of law enforcement in Pakistan. Pakistan has been a hotbed of proxy wars and has paid a heavy price in terms of its economic progress and loss of human lives.

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## Acronyms

Abbreviation	Meaning
AMLA	Anti-Money Laundering Act 2010 (and amendments)
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
ANF	Anti-Narcotics Force
APG	Asia Pacific Group
ATA	Anti-Terrorism Act 1997
ATC	Anti-Terrorism Court
CDD	Customer Due Diligence
CDNS	Central Directorate of National Savings
CDU	Currency Declaration Unit
CFT	Countering the Financing of Terrorism
CNIC	Computerised National Identification Card
CNSA	Control of Narcotic Substances Act 1997
CrPC	Code of Criminal Procedure 1898
CT	Counter-Terrorism
CTD	Counter-Terrorism Department
CTR	Currency Transaction Report
DFI	Development Finance Institution
DNFBPs	Designated Non-Financial Businesses and Professions
ECs	Exchange Companies
EDD	Enhanced Due Diligence
FATA	Federally Administered Tribal Areas
FATF	Financial Action Task Force
FBR	Federal Board of Revenue
FERA	Foreign Exchange Regulations Act
FI	Financial Institution
FIA	Federal Investigating Agency
FIF	Falah-e-Insaniat Foundation
FIR	First Incident Report
FIU	Financial Intelligence Unit
FMU	Financial Monitoring Unit
GC	General Committee
GDP	Gross Domestic Product
IB	Intelligence Bureau
IO	Immediate Outcome (of the FATF Standards)
JeM	Jaish-e-Muhammed
JIT	Joint Investigation Team
JuD	Jamaat-ud-Dawa
KP	Khyber Pakhtunkhwa
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
LeJ	Lashkar-e-Jhangvi
LeT	Lashkar-e-Taiba
MER	Mutual Evaluation Report
ML	Money Laundering
MLA	Mutual Legal Assistance

<b>Abbreviation</b>	<b>Meaning</b>
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoI	Ministry of Interior
MoU	Memorandum of Understanding
MVTS	Money Value Transfer Services
NACTA	National Counter Terrorism Authority
NADRA	National Database and Registration Authority
NAP	National Action Plan
NAO	National Accountability Ordinance
NBFIs	Non-Bank Financial Institutions
NEC	National Executive Committee
NGOs	Non-Government Organisations
NPOs	Non-Profit Organisations
NRA	National Risk Assessment
PP	Pakistan Post
PPC	Pakistan Penal Code 1860
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SOP	Standard Operating Procedure
SSP	Sipah-e-Sahaba Pakistan
STR	Suspicious Transaction Report
TF	Terrorist Financing
UN	United Nations
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolution
USD	United States Dollar

## Glossary

Term	Definition
Jamiat-e-Ulema Islam (JUI)	Jamiat-e-Ulema Islam (JUI) is a religious political party of Pakistan belonging to Sunni Muslim sect.
Lashkar-e-Taiba (LeT)	Lashkar-e-Taiba (LeT), also known as Army of the Pure is an Islamic militant organisation based in Pakistan.
Tablighi Jamaat	Tablighi Jamaat is an international non-political Sunni Muslim Islamic missionary movement that focuses on urging Muslims to return to Sunni Islam.
Inter-Services Intelligence (ISI)	The ISI is tasked with collection of foreign and domestic intelligence; co-ordination of intelligence functions of the three military services; surveillance over its cadre, foreigners, the media, politically active segments of Pakistani society, diplomats of other countries accredited to Pakistan and Pakistani diplomats serving outside the country; the interception and monitoring of communications; and the conduct of covert offensive operations.
Hizb-ul-Mujahideen	Hizb-ul-Mujahideen is a Kashmiri separatist group which is labelled as a terrorist organisation by the European Union and the United States.
Jamaat-ud-Dawa	Jamaat-ud-Dawa is a banned outfit which was initiated as the political wing of banned organisation Lashkar e Taiba.
Ramadan	Ramadan is the ninth month of the Islamic calendar. During days of this month, Muslims of the world fast during the day time.
Zakat	The Zakat is a form of giving money or equivalent to the less fortunate. It is mandatory on all Muslims to annually give 2.5 % of their wealth and belongings to the poor.
Fitra	Fitra is a religious tax/donation paid by the Muslims at the end of the holy month of Ramadan.
Skin of Sacrificial Animals	The skin of the animals sacrificed during Eid al-Adha or "the Festival of the Sacrifice", is one of the biggest Muslim festivals celebrated worldwide each year. These skins are sold to leather manufacturing companies to generate money.
Al Qaeda	Al Qaeda is a militant Sunni Islamist multi-national organisation created by Osama bin

Term	Definition
	Ladin and his ally volunteers as a network of Islamic extremist jihadists. It has been labeled as a terrorist group by the United Nations Security Council, the European Union, the North Atlantic Treaty Organisation (NATO), the United States, Russia and other countries.
Operation Zarb-e-Azab	Operation Zarb-e-Azab is a joint military exercise conducted by the Armed Forces of Pakistan against different radical groups.
Madrasah	Religious Seminary/School
Madrasahs	Plural of Madrasah

## Acknowledgements

I would like to start by thanking Almighty Allah, who strengthened me to accomplish this major mile stone of my life. Pursuing the research for doctorate has been a transformative experience for me and it would not have been possible to accomplish without the support of many pure souls.

I would like to take this opportunity to express my sincere gratitude and extend my profound thanks to Professor Jackie Harvey, principal supervisor of my DBA research. I acknowledge her guidance and support in this research. I am also thankful to Dr. Peter Sproat and all the support staff of Northumbria university for their cooperation. Besides this, I would like to acknowledge the contributions of the Northumbria University Library for allowing access to books and articles related to terrorism financing and money laundering, which helped me during the preparation of my thesis. I also appreciate the environment of high motivation and encouragement throughout the learning process which the administration of Northumbria University has offered.

Further, I would also like to appreciate my seniors, acquaintances, friends and colleagues who aided me by providing their valuable feedback during my research. The Counter Terrorism Financing is a taboo subject in Pakistan, especially among intelligentsia. Despite many hurdles, my responders held their ground in guiding and supporting me. My research associates, Mr Tariq Mustafa, Danish Qureshi and Umair Siddiqui, who assisted me in the collection of material and typing endless drafts also deserve a special mention in my gratitude.

Former President of Pakistan H.E. Mr Asif Ali Zardari has been instrumental in enabling me to create Pakistan's first ISO Certified Counter Terrorism & Security Police Organisation in Sindh. My deep appreciation for him, as this doctorate research will go a long way in further enhancing policing, at par with the finest international practices. My lovely wife Shazia and my adorable children Marvi, Mishaal & Aarish deserve my heartiest appreciation for their support, encouragement and cooperation in this extended journey of being a doctorate student.

Finally, I dedicate this achievement to my parents, whose prayers, endeavours and sacrifices enabled me to reach this position. I took the inspiration of academic pursuit from my late father Mr Abdul Jalil Memon, who had dedicated his life for the spread of education. My dream and vision are to present my work at a national level and represent my country on International Platforms, with a mission to make a difference and contribute positively towards law enforcement for the safety and security of citizens.

## Declaration

I declare that the work contained in this thesis has not been submitted for any other award and that it is all my own work. I also confirm that this work fully acknowledges opinions, ideas and contributions from the work of others.

Any ethical clearance for the work presented in this thesis has been approved. Approval has been sought and granted by the University Ethics Committee on 27.02.2018.

I declare that the word count of this thesis is 66,511 words.

Name: Maqsood Ahmed

Signature: .....

Date: 02.02.2020

## Chapter 01:

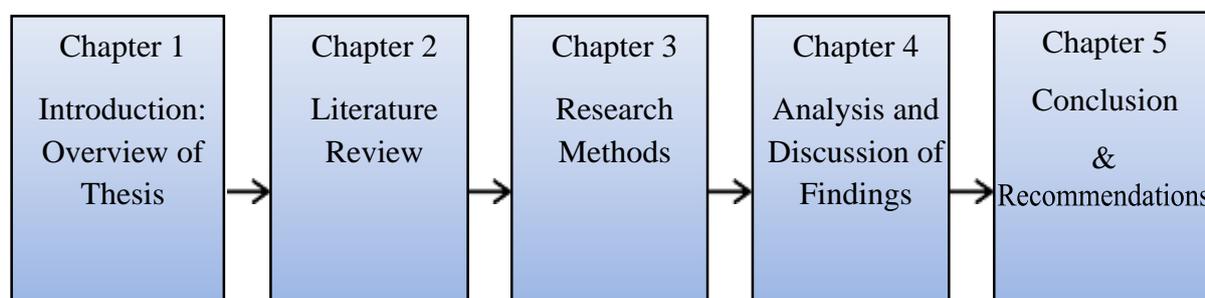
## Overview of Thesis

### 1.1 Overview

This research aims to ascertain the factors influencing the effectiveness of Counter-Terrorism Financing (CTF) policies and their implementation in Pakistan and to suggest a way forward for their successful implementation. The fundamental background to the terrorism financing concept and the potential contributors or factors that influence terrorist financing (TF) policy are discussed specifically post 9/11 incident. This exploratory study provides an understanding of the root causes that influence CTF in Pakistan. The qualitative research explores assumptions, opinions, and experiences of key stakeholders within the CTF framework of Pakistan. A study of prior empirical work on the subject was carried out to identify the gap in existing knowledge. This original research study provides a contribution to knowledge in the CTF arena in Pakistan. This study not only aims to analyse the pragmatism of the policies of the agencies in Pakistan dealing with the prevention of terrorism financing but also puts forward recommendations that it is hoped might support the countering of terrorism financing in Pakistan.

Furthermore, it is hoped that the results of the study will help policymakers in addressing the issues of effective policymaking of CTF and its implementation in Pakistan. This suggests a focus on policies which are action oriented towards explicitly achieving an objective and that are clear, unambiguous and flexible enough to deal with a particular problem. A map depicting the chapters of the thesis is provided in Figure 1.1.

**Figure 1.1. Thesis map**



**Chapter 1** is divided into four parts i.e., Context of Study, Problem Statement, International and National efforts to counter Terrorism Financing and Significance of the Study. The first part ‘Context of study’ includes background of research, objectives of study, rationale of location of the study, and position of the researcher. The second part ‘Problem Statement’ covers terrorism in Pakistan, terrorism financing in Pakistan, and barriers in countering terrorism financing in Pakistan. The third part ‘International and National efforts to counter Terrorism Financing’ comprises international efforts to counter Terrorism Financing and National efforts to counter terrorism financing. The fourth part ‘Significance of the Study’ encompasses Academic Contribution, Practical Contribution and Conclusion.

**Chapter 2** is categorised into eight sections comprising Overview, the International Standards/ Best Practices in Combating Terrorism Financing, the AML and CFT Regime in Pakistan, Internal Areas of Concern to Tackle Terrorism Financing in Pakistan, Bordering Countries, Financial Regulatory Bodies and Designated Law Enforcement Agencies, Legislative Weaknesses and Gaps in Implementation and Conclusion.

The first section ‘Overview’ discusses Terrorism, Terrorism Financing, Characteristics of Terrorism Financing, Organised Crime and Terrorism Financing, Money Laundering, Stages of Money Laundering, Nexus of Money Laundering and Terrorist Financing, Terrorism Financing Perspectives, Internal Factors of Terrorism Financing in Pakistan and National Institutions to Counter Terrorist Financing.

The second section, ‘The International Standards/ Best Practices in Combating Terrorism Financing’ covers the United Nations, the Security Council Resolution 1333, the Security Council Resolution 1373, the Security Council Resolution 1267, the Security Council Resolution 2253, the Vienna Convention, United Nations Convention against Transnational Organised Crime (the Palermo Convention), International Convention for the Suppression of the Financing of Terrorism, International Convention against Corruption, Financial Action Task Force (FATF), the FATF Recommendations and Progress of Pakistan and National Risk Assessment.

The third section, ‘The AML and CFT Regime in Pakistan’ encompasses Pakistan’s Approach to Counter Terrorism, Anti- Terrorism Act – ATA, Anti-Money Laundering Act – AMLA, Foreign Exchange Regulation Act – FERA 1947, The Investigation of Fair Trial Act 2013, National Counter Terrorism Authority – NACTA and National Action Plan – NAP.

The next section, ‘Internal Areas of Concern to Tackle Terrorism Financing in Pakistan’ covers Capacities of Law Enforcement Agencies, Madrasahs (Islamic Religious Seminaries), Religious Organisations related with TF in Pakistan, NGOs and INGOs, Military Operations and their impacts and Lack of Public Awareness. Another section entitled ‘Bordering Countries’ discusses in detail India and Terrorism in Pakistan, Afghanistan, Iran and China.

The sixth section, ‘Financial Regulatory Bodies and Designated Law Enforcement Agencies’ discusses Financial Monitoring Unit – FMU, State Bank of Pakistan – SBP, Securities and Exchange Commission of Pakistan – SECP, Federal Investigation Agency – FIA, Police, Intelligence Agencies, Ministry of Foreign Affairs – MoFA, and Ministry of Interior – MoI.

The seventh section, ‘Legislative Weaknesses and Gaps in Implementation’ provides Short Comings of Anti-Terrorism Act (ATA), Shortcomings of Anti Money laundering Act (AMLA), Gap in Implementation of NACTA & NAP and Research Gap which is further summed up in the last section i.e., Conclusion of the chapter.

**Chapter 3** discusses Overview, Research Design, Ethical Consideration, Limitations, Ontology, Epistemology, Constructivism, Qualitative Research Method, Pilot Study, Main Study, Interviews, Data Collection, Data Analysis, Connection of Literature Reviewed to Interview Questions, Main Research Questions and Themes and Conclusion.

**Chapter 4** contains Overview, Gap in Knowledge, Presentation of the findings and Results. The chapter further covers four themes i.e., Changes in terrorism in Pakistan Since 9/11, Geostrategic importance and relationships to bordering countries, The role and significance of Alternative Remittance System and Effectiveness of existing framework. Conclusion of chapter is at the end.

**Chapter 5** includes Overview, Contribution of the thesis, Contribution to Knowledge, Contribution to Practice, Recommendations for Policy Making, Reflection, Conclusion of the Chapter and Conclusion of the thesis.

## 1.2 Context of the Study

After 9/11, many countries designed policies to combat the financing of terrorism (Congress, 2015). However, it is important to see whether these policies produce the desired results in restraint and prevention of the financial crimes leading to terrorism financing. Similarly, as a response to international anti-terrorism legislation, Pakistan has taken numerous steps, developed various laws and regulations to reinforce its counter-terrorism initiative and CTF legislative and regulatory framework (ICG, 2015). The threat of terrorism has negatively impacted on economic activity as the associated chaos and uncertain conditions have resulted in lower Foreign Direct Investments along with negative effects on agriculture, manufacturing, and tourism (Ali, 2014). After being instrumental in deterring Soviet expansion, Pakistan faced and is still facing the wave of terrorism (Hyder, Akram, & Padda, 2015). The poor economic conditions, poverty, unemployment and lack of educational services provided by the government have also contributed to an environment that has enabled terrorists to exploit the country's vulnerable economic situation. As economic opportunities are very scarce in the country, especially in the most affected areas of Federally Administered Tribal Areas (FATA), It is this area that has become the hub of terrorist activity (Khawaja, 2016).

A long-term solution to countering terrorism efforts in Pakistan requires a multi-dimensional approach that indicates existing flaws, shortcomings, and gaps if it is to address the root causes of terrorist funding activities. That is why it is an important step in counter-terrorism to reduce the militant economy of such organisations or individuals in all possible ways (Aftab, 2015), bringing a halt to the functioning of terrorist organisations and, moreover, supporting the non-violent police investigations that can uncover the major names associated with the sponsors and with the militant organisations (Babakhel, 2015a).

This study is fundamentally concerned with assessing the barriers faced within the CTF regime in Pakistan. Moreover, it covers different segments of the Pakistan government/administration and society that affect its legal and regulatory framework dealing with the financing of terrorism. It also highlights the way Pakistan ensures compliance with global standards following international agencies like the Financial Action Task Force (FATF) and the United Nations Security Council (UNSC) in combating terrorist financing.

### **1.2.1 Background of Research**

Misperceptions of religious sanctions, political support, sectarianism, and extremist ideologies have made Pakistan a target of terrorism (Shah, 2017). Due to terrorism, Pakistan has suffered huge economic, social and human losses (Daraz, et al., 2012). Pakistan acquired independence in 1947 and is the first Muslim country with an atomic arsenal, becoming a nuclear power in 1998. Pakistan shares borders with Afghanistan and Iran to its west, India to its east, China to its north and the Arabian Sea and the Persian Gulf, which is one of the biggest sources of oil in the world to its south. Pakistan has an estimated population of about 220 million, making it the fifth most populous country in the world (Worldometer, 2020). According to the census of 2017, the population comprises; Punjabis (44.7%), Pashtuns (15.4%), Sindhis (14.1%), Seraikis (8.4%), Muhajirs (7.6%), Baluchis (3.6%), and Others (6.3%) (Mundi, 2018).

Pakistan is a federation of different ethnicities, cultures, and languages. However, people with strong ethnic identities, distinct political ideologies and diverse religious communities can be an incendiary mix. Groups are divided into the factions of society on the basis of religion, ethnicities and political affiliations igniting terrorist threats for one another.

Pakistan has four provinces: Punjab, Sindh, Khyber Pakhtunkhwa (KPK), and Balochistan. A capital territory (Islamabad) and the disputed area of Azad Jammu and Kashmir. The provinces are governed by the federal government, but all have their own governments headed by the Governors and Chief Ministers, respectively. The Islamabad Capital Territory (ICT) and technically Gilgit Baltistan fall under the administrative control of the federal government (Nationsonline.org, 2020).

Figure 1.2 Map of Pakistan (Atlas, 2020)



Kashmir is a region of conflict between Pakistan and India, a part of it named as Azad Jammu and Kashmir is controlled by Pakistan. In contrast, the bigger part controlled by India is called Occupied Jammu and Kashmir. Azad Jammu and Kashmir have their own president and prime minister, but its foreign policy, defence, and currency are controlled by the federal government of Pakistan. A major part of the Pakistani population is comprised of Muslims and religion has a significant role in the social makeup of the country (Britannica, 2010). Pakistan has 96.4% Muslims (Sunni 85-90%, Shia 10-15%) and 3.6% other (includes Christian and Hindu) (Mundi I. , 2019). The second-largest Shia population of the world

resides in Pakistan (Rehman, 2019). The Shia-Sunni rift has created an environment of polarisation and unrest in the country (Mahsood, 2017). The people of Pakistan are deeply religious; however, they have little knowledge about the basic principles and teachings, often following the religious leaders of their respective sects with blind faith. Some of these leaders propagate the religion as per their interpretation of the teachings of that religion and thus give rise to extremism and intolerance resulting in terrorism activities including attacks on religious places, i.e., mosques or imam bargahs, attacks on vital installations, targeting important personalities, etc. or other criminal activities (PIPS, 2010). Religious leaders of different sects receive funds in the shape of religious donations or funds of Zakat, Fitra, Sadaqa, etc. arising from domestic and international sources (Butt, 2015). These funds are used to establish the religious seminaries, also known as Madrasahs, are established and run where national and international students study. There is a possibility that such funds may be used for terrorist activities as there is no accountability of these funds (Ahmed, 2009).

Being a federation consisting of people from diverse ethnicities, cultures, sects, etc., Pakistan is susceptible to different forms of terrorism, from both inside and outside the country. Moreover, people with different language backgrounds compete to gain control of political, social and economic powers. This language issue creates a serious threat to the integrity of the country (Majeed, 2000).

Funds are essential for terrorism activities (Parvez & Rani, 2015). Terrorists transfer funds, usually in small amounts, through charities or individuals. Most of the proceeds of crime are generated from corruption, weapons and drug trafficking (particularly from its Afghan border), smuggling, and illegal gambling. The Government of Pakistan is aware of these predicate offences related to Money Laundering and Terrorism Financing, but to date insufficient actions have been taken to address them (Qureshi, 2017). Islamic State in Iraq and the Levant (ISIL) generates revenue from bank looting, extortion, oil refineries, robberies, illicit taxation, kidnapping for ransom, donations by Non-Profit Organisations (NPOs) and fundraising through modern communication networks (FATF, 2015).

Pakistan first passed legislation against terrorism through the Suppression of Terrorist Activities (Special Courts) Act 1975, that sought to quash terrorism through provisions for quick disposal of such cases (Fayyaz, 2008). In keeping abreast with the rest of the world on counter-terrorism legislation, the main law for countering terrorism and its financing was enacted in the form of the Anti-Terrorism Act (ATA) in 1997. This law has been updated

several times to make it more effective and to remove confusion. The broad definition of the term ‘terrorism’ in ATA includes crimes of a heinous nature, i.e., violent crimes of homicide, murder, robbery, etc. bearing little or no connection with terrorism per se. This increased the volume of cases to be dealt with by the Anti-Terrorism courts other than the real cases of terrorism. However, this flaw has been addressed by the Chief Justice of Pakistan recently by defining ‘terrorism’ as discussed in detail in Sections 2.1.1 Terrorism and 2.3.3 Anti-terrorism Act.

In 2007, the government of Pakistan, in continuation of its initiatives to restrain financing of terrorism and money laundering, organised a Financial Monitoring Unit (FMU) to share financial information with law enforcement agencies (LEAs) and the regulators of the financial sector. FMU is also mandated to ratify all relevant conventions of the United Nations and to abide with international standards i.e., UNSC Resolutions and recommendations of FATF to counter CTF/AML. The publication of Anti-Money Laundering Regulations 2008 and later 2015 (under the Anti-Money Laundering Act 2010), together with the formation of the General Committee and National Executive Committee, serves as an important step under AMLA 2010 to control the offences.

However, despite the policies adopted by the government of Pakistan to counter terrorism and its financing, meaningful results have not been achieved. Even though certain shortcomings are mentioned in the literature, a consolidated document which covers all root causes and flaws is not available. This research is undertaken to cover the gap in knowledge about the topic and to address the lack of availability of consolidated and cohesive professional and academic research work on terrorism financing in Pakistan. The research will also address different influences that are directly or indirectly intervening in the effective policymaking and implementation of the existing laws in the true sense in the above-mentioned social factors and fabric of Pakistan.

## **1.2.2 Objectives of the Study**

This research is conducted to explore the barriers to making effective counter-terrorism financing policies and their implementation in Pakistan, considerable changes in terrorism witnessed in Pakistan after the incident of 9/11 and how the neighbouring countries of Pakistan impact terrorism financing. The study on these critical issues, which are very

sensitive, diversified and exploratory, will be helpful in reaching meaningful strategies and making effective policies to counter terrorism financing in Pakistan. The thesis highlights the underlying causes of terrorism financing and the barriers in countering it within Pakistan.

Deficiencies in law enforcement encourage terrorists to openly carry out their activities. The provisions of sections of laws to counter terrorism financing of the Anti-terrorism act of Pakistan are not implemented because of institutional weaknesses (discussed in Section 5.2 of this thesis), leaving them meaningless. The objectives of this thesis are to:

- Assess the effectiveness of the measures adopted by the Government in Countering Terrorism Financing.
- Evaluate the effectiveness of national institutions in regulating terror financing pursuits with other governmental and non-governmental offices and stakeholders.
- Highlight practical approaches to help policymakers in making sound decisions for combating terrorism financing effectively.

This study attempts to highlight issues in an informative manner with recommendations that, if followed, would be helpful to the disruption of terrorism financing in Pakistan.

### **1.2.3 Rationale for Location of the Study**

The study has been carried out in Karachi, which is the biggest metropolitan area of Pakistan having both cultural diversity and unique characteristics in terms of its social, economic, and political aspects. It is a city of Pakistan where people from every corner of the country come and reside. It would, therefore, not be wrong to say that Karachi city is equally and fairly representative of the Pakistani population as a whole, where Law Enforcement Agencies have to deal with different sorts of crime, foremost being terrorism (Perito & Parvez, 2014). It is the most secular and liberal city of Pakistan (Gayer, 2003). On the other hand, it is also considered as one of the World's most terrorism affected cities (Sohail, 2013). Having sectarianism and political conflicts, Karachi is well known for its high rates of crime and terrorism (Iqbal & Hussain, 2015). In recent years, Karachi has made headlines in all kinds of media regarding various types of terrorist activities including murders of important personalities committed by different sects, targeted killings, sectarianism, kidnapping for ransom, violence of jihadi groups, forced land grabbing, sex slavery, bank robberies and

frauds which negatively affect the reputation of Pakistan in the eyes of the international communities (Yusuf, 2012). Karachi was, therefore, selected as the geographic location for this study. Although, efforts have been made by Pakistan to counter terrorism and its financing, a more robust and holistic approach is required to halt terror financing from other parts of the country. Despite these headlines, Karachi is a relatively peaceful city due in large to the efforts of the Law Enforcement Agencies (LEAs), especially the police, who as well as curbing crime, maintain the order of the city.

#### **1.2.4 Position of the Researcher**

I joined the Police Service of Pakistan in 2001 as Assistant Superintendent of Police. During my professional career, I have been involved in solving a wide range of criminal cases. After the decentralisation of the Security Police Headquarters, I assumed the charge of Assistant Inspector General of Police, Security Sindh, and Karachi. At this assignment, I was allowed to establish the Special Security Unit (SSU) in 2011, it is an ISO Certified Counter-terrorism Commando Unit of Police. After that, I became the Commandant, Special Security Unit (SSU), Karachi, and introduced a modern training curriculum incorporating contemporary concepts, ideologies, and techniques of combating organised crime, particularly terrorism. I also introduced Pakistan's first Special Weapons and Tactics (SWAT) Team in line with the modern counter-terrorism and law enforcement challenges in urban areas of Sindh, which are playing a leading role in security and counter-terrorism operations particularly against Tehreek-e-Taliban Pakistan (TTP) and other terrorists. I led the SSU SWAT team during an anti-terrorism operation at Karachi Airport, cleared all terrorists, and recovered a huge number of weapons and explosives. Currently, I am serving as the Deputy Inspector General of Police (Operations) of Sindh Province. I am also serving as a Project Director of the Promise of Peace Project, which is a plan to provide security and policing services to the citizens of Sindh Province. This mega project comprises three sub-projects with varying responsibilities, which are Police Emergency Services, Police Facilitation Centres, and the Institute of Peace and Policing Studies.

My participation in the FBI National Academy and attendance at conferences and seminars in the UK and Singapore has given me additional insight. A new dimension of seeing law enforcement challenges from the western and global perspective has been added to my experience and knowledge. I would like to reflect on this in my research.

### **1.3 Problem Statement**

Criminals exploit financial system to carry out the terrorism acts. They use a variety of methods like money laundering and alternative remittance system (hawala/hundi) to transfer funds generated from various legitimate sources like charities and donations, NGOs, NPOs, Madrasahs (Islamic Religious Seminaries) or illegitimate sources of funds like gambling, robbery, drug trafficking, kidnapping for ransom and other organised crimes. It is essential to explore the dynamics of terrorism since 9/11 and the role of neighbouring countries with respect to terrorism financing in Pakistan. This study further identifies the factors responsible for ineffectiveness of counter terrorism financing policies and barriers in implementing existing counter terrorism financing policies in Pakistan.

#### **1.3.1 Terrorism in Pakistan**

Terrorism in the world at large and Pakistan in particular, depends on many sources of funding and there is a plethora of methods for movement of funds, often carried out with relative impunity and little risk of detection (Bhattacharya, 2014). Most of the terrorist funding is derived from criminality, i.e., corruption, weapons, and drug trafficking (particularly from its Afghan border and other countries), smuggling, illegal gambling, and other criminal activities.

#### **1.3.2 Terrorism Financing in Pakistan**

Global Terrorism Index (2018) indicates that Pakistan is ranked fifth among the ten countries worst hit by terrorism. The Tehrik-i-Taliban Pakistan (TTP) was behind 233 casualties and 56 attacks in the country in 2017. Pakistan has three prominent terrorist groups which are known as Tehrik-i-Taliban Pakistan (TTP), Lashkar-e-Jhangvi and the Khorasan Chapter of the Islamic state. Jointly they were blamed for 67% of terrorism-related casualties in Pakistan in 2017 (GTI, 2018). The phenomenon of terrorism in Pakistan is multi-dimensional, i.e., ethnic, political, religious, racial, etc. Extensive efforts in terms of the Pakistani legislative framework and policy reforms have been made to limit this menace.

Still, the government remains relatively limited in its effectiveness to counter terror financing and to stop terrorism in Pakistan. It is essential to highlight and understand that deficiencies in conventional monetary systems still provide avenues for terrorists to transfer finances.

### **1.3.3 Barriers in Countering Terrorism Financing in Pakistan**

Pakistan is a country fighting terrorism without a coherent strategy (Basit, 2012). The primary source of defence, i.e., the Provincial Police forces, are under-resourced, inadequately trained, and politicised (i.e., vulnerable to influence by politicians) having outdated infrastructure, inappropriate funds, and inadequate means to perform their role, creating hurdles in countering terrorism financing in Pakistan (Warraich, 2020). Even after the establishment of National Counter-terrorism Authority (NACTA) which was initially set up in 2009 but was given financial and administrative autonomy in 2013 (NACTA, 2020a) to act as the umbrella organisation to deal with terrorism in the country, no sound inter-agency coordination was seen. NACTA remained dysfunctional due to a variety of reasons, i.e., lack of resources, the quality of the workforce, institutional politics, favouritism etc. Besides this, institutional politics create barriers in granting authority to provincial police in counter-terrorism. It is a fact that the police are primarily responsible for countering terrorism financing as armed forces are meant and are trained to secure territories (Quratulain & Cheema, 2016). The geostrategic location of Pakistan is quite vulnerable as Pakistan is sandwiched between a traditional ally, India, and Afghanistan. Owing to its porous border, a huge force is needed to ensure strict vigilance on borders, which, in practical terms, is a considerable problem for a developing nation. In order to secure the border with Afghanistan fencing is being erected which is expected to be completed in 2020 (Gul, 2019). Further, the interference of hostile neighbours in the domestic and political affairs of Pakistan serves as a barrier to effective policy making against terrorism financing (APP, 2020). Moreover, unregulated Madrasahs and other informal channels like charity organisations and Hawala/Hundi system are the major facilitators in financing terrorism. While, the unstable political environment and lack of political will are the major barriers in devising the effective policies for countering terrorist financing. Keeping in view the above barriers, it is essential to discuss about the efforts made at International and National level to combat terrorism financing.

## **1.4 International and National efforts to Counter Terrorism Financing**

Various efforts have been made at International and National level to counter terrorism financing since 9/11. These efforts are in the form of different laws, conventions, resolutions and acts briefly discussed as under:

### **1.4.1 International Efforts to Counter Terrorism Financing**

International terrorism is experiencing rapid expansion, the introduction of advanced lethal weapons deployed to produce wider destruction and casualties. In consequence, terrorism has gained substantial national and international attention. The on-going technological advancements have given a viable tool for terrorists to convey, join, and design platforms to effectively execute their operations. The FATF has augmented the UN's endeavours in fighting terrorism financing through the FATF Recommendations which were first introduced in 1990, modified in 2001 and recently updated in 2012. These recommendations are aimed at helping countries in the implementation of pertinent UN conventions, including United Nations Security Council Resolutions 1333, 1373, 1267 and 2253 along with the international agreements of Vienna Convention, Palermo Convention, International Convention for the Suppression of the Financing of Terrorism and International Convention against Corruption. The financial provisions of these applicable UN resolutions are incorporated in the FATF Recommendations number 5, 6, 7, 9, 26 and 29, setting out a series of initiatives focused on obstructing terrorism financing besides ensuring that terrorism acts are efficiently investigated and prosecuted.

Another robust mechanism is the FATF's strong mutual evaluation process, which appraises the application of the FATF Recommendations within national jurisdictions, inclusive of those directed at tackling terrorism financing (FATF, 2019a). The mutual evaluation provides an opportunity to augment coordination and liaison among national, regional, and international organisations.

### **1.4.2 National Efforts to Counter Terrorism Financing**

Terrorism financing is an issue that has failed to receive adequate attention in Pakistan due to various factors, e.g., insufficient expertise in financial crime and weak legislation. etc. There is a need for the government to work in consultation with the citizens

to jointly counter terrorism and its financing (Zubair, 2013). Money laundering has been utilised to aid terrorism. The increase in the number of terrorism financing crimes, by using different techniques, is multiplying despite the increasing attempts to prevent it. This expansion stresses the necessity to curb these criminal activities globally by joint coordination among states and through policy reforms. There is a need to explore the efficiency of the existing system currently being operationalised in Pakistan and the actual sources of funding. As a result, Pakistan has taken various initiatives to counter these crimes. Pakistan has remained engaged in various treaties to counter money laundering and terrorism financing, as explained in Sections 2.2.6 to 2.2.9 of Chapter 02 of this thesis.

Effective counter-terrorism policies become an essential pre-requisite to a financial war on terrorism. Altogether, these are the factors that led to establishing the following research questions:

1. *What considerable changes in terrorism were witnessed in Pakistan after the incident of 9/11?*
2. *How do the neighbouring countries of Pakistan impact terrorism financing?*
3. *Which factors lead to ineffectiveness amongst the counter-terrorism financing policies in Pakistan?*
4. *What are the major barriers in the implementation of existing counter-terrorism financing policies in Pakistan?*

During my course of study, it was found that there have been multiple types of research conducted in Pakistan on money laundering and terrorist financing – some focusing on the causes of terrorism financing in Pakistan while others have concentrated on the types of financing of terrorism in Pakistan. Under the umbrella of the Anti-Terrorism Act (ATA), the National Counter Terrorism Authority (NACTA) has been founded (NACTA, 2020a) with the objective of conforming with the set international standards, as set out by the FATF and the UN Security Council resolutions. Terrorism in Pakistan has grabbed substantial attention locally and internationally. This has resulted in the publication of wide-ranging literature on the causes of terrorism in Pakistan; Jihad culture in Pakistan, Madrasah culture, sectarian terrorism, efforts of Pakistan in counter-terrorism, Pakistan as the sponsor of terrorism, and the performance of Pakistan as an ally of the US in its war against terrorism (Hussain, 2010). However, a synoptic analysis of terrorism financing in Pakistan is not

available, which limits the ability to frame and assess hypotheses, carry out operational groundwork effectively and to evolve counter-terrorism policy.

Several steps have been taken to formulate an institutional framework for countering terrorism financing. The government of Pakistan has formulated its Anti-Terrorism Laws in the Anti-Terrorism Act, 1997. That act led to the apprehension and prosecution of terrorists as a means to obstruct terrorism financing and to develop interventions targeted at minimising the influx of terrorism. Countering terrorism is not achievable through the efforts of a single agency or by any single piece of legislation. Unexpectedly, progress on various targets of the National Action Plan-NAP (NAP, 2014) has been limited. Inadequate steps for regulations and reforms and obstructions created by Madrasah organisations are of grave concerns. In fact, Madrasahs are not accountable to any regulatory body of government and are registered under the Societies Act which is an indication of seriousness of the government (Dogar, 2010).

However, the Government of Pakistan using the powers conferred in section 11B (1) read with Schedule-I of the Anti-Terrorism Act 1997 after approval from the cabinet placed the following groups in the first schedule of ATA as shown in Table 1.1:

- a) Al Anfal Trust Lahore
- b) Idara e Khidmat-e-Khalq Lahore
- c) Al-Dawat-ul-Irshad Lahore
- d) Al-Hamad Trust Lahore/Faisalabad
- e) Mosques and Welfare Trust Lahore
- f) Al-Medina Foundation
- g) Maaz Bin Jabal Education Trust Lahore all affiliated with Jamaat-ud-Dawa
- h) Al-Fazal Foundation/Trust Lahore
- i) Al-Easar Foundation Lahore affiliated with Falah-e-Insaniat Foundation
- j) Al-Rehmat Trust Bahawalpur
- k) Al-Furqan Trust Karachi affiliated with Jaish-e-Muhammad and others

These organisations are mentioned because there are reasons to believe that they directly or indirectly act on directives of proscribed organisations or individuals who control such banned organisations (Notification of Government of Pakistan, Ministry of Interior). Pakistan started to clamp down on such organisations from August 2001, and up to July

2019, 73 organisations have been banned, whereas four are under watch, and two organisations enlisted under Security Council resolution 1267, Al-Akhtar Trust and Al-Rashid Trust have been banned. A complete list of 73 organisations banned by the government of Pakistan is as follows:

**Table 1.1 Organisations banned by the Ministry of Interior, Pakistan**



**GOVERNMENT OF PAKISTAN NATIONAL  
COUNTER TERRORISM AUTHORITY  
ISLAMABAD**

<https://www.nacta.gov.pk>

**78 Organisations Proscribed by Ministry of Interior u/s 11-B-(1) r/w Schedule-I, ATA 1997**

S#	Name of Organisation	Date of Notification	S#	Name of Organisation	Date of Notification
1	Lashkar-e-Jhangvi (LeJ)	14 Aug, 2001	45	Jaish-e- Islam	04 Aug, 2012
2	Sipah-i-Muhammad Pakistan (SMP)	14 Aug, 2001	46	Balochistan National Liberation Army	04 Aug, 2012
3	Jaish-e-Muhammad (JeM) Affiliated Organisations: Al-Rehmat Trust, Bahawalpur Al-Furqan Trust, Karachi	14 Jan, 2002  10 May, 2019	47	Khana-E-Hikmat Gilgit Baltistan, Gilgit	13 March, 2013
			48	Tehrik-e- Taliban Swat (TTS)	15 March, 2013
			49	Tehrik-e- Taliban Mohmand (TTM)	15 March, 2013
			50	Tariq Geedar Group (TGG)	15 March, 2013
			51	Abdullah Azam Brigade	15 March, 2013
4	Laskar-e-Tayyiba (LeT)	14 Jan, 2002	52	East Turkmenistan Islamic Movement (ETIM)	15 March, 2013
5	Sipah-i -Sahaba Pakistan (SSP)	14 Jan, 2002	53	Islamic Movement of Uzbekistan (IMU)	15 March, 2013
6	Tehrik-e-Jaffria Pakistan (TJP)	28 Jan, 2002	54	Islamic Jihad Union (IJU)	15 March, 2013
7	Tehrik-e-Nifaz-e-Shariat-e-Muhammad (TNSM)	14 Jan, 2002	55	313 Brigade	15 March, 2013
8	Tehreek-e-Islami	14 Jan, 2002	56	Tehrik-e- Taliban Bajaur (TTB)	15 March, 2013
9	Al-Qa'ida	17 Mar, 2003	57	Amar bil Maroof Wa Nahi Anil Munkir (Haji Namdaar Group)	15 March, 2013
10	Millat-e-Islamia Pakistan (Ex SSP)	15 Nov, 2003	58	Baloch Student Organisation Azad (BSO-A)	15 March, 2013
11	Khuddam-ul-Islam (Ex JeM)	15 Nov, 2003	59	United Baloch Army (UBA)	15 March, 2013
12	Islami Tehreek Pakistan (Ex TJP)	15 Nov, 2003	60	Jeay Sindh Muttahida Mahaz (JSMM)	15 March, 2013
13	Jameet-ul-Ansar	20 Nov, 2003	61	Daish/ISIL/IS/ISIS	15 July, 2015
14	Jamat-ul-Furqan	20 Nov, 2003	62	Jamat Ul Ahrar (JuA)	11 Nov, 2016

S#	Name of Organisation	Date of Notification	S#	Name of Organisation	Date of Notification
15	Hizb-ul-Tahreer	20 Nov, 2003	63	Lashkar-e-Jhangvi Al-Almi (LeJA)	11 Nov, 2016
16	Khair-un-Naas International Trust (Splinter Gp. of Jamat-ul-Da'awa (JuD))	27 Oct, 2004	64	Ansar-ul-Hussain	30 Dec, 2016
17	Balochistan Liberation Army (BLA)	07 Apr, 2006	65	Tehreek-eAzadi-Jammu & Kashmir (TAJK)	08 June, 2017
18	Islamic Students Movement of Pakistan	21 Aug, 2006	66	Jundullah	31 Jan, 2018
19	Lashkar-e-Islami	30 June, 2008	67	Al Rahmah Welfare Trust Organisation	13 Dec, 2018
20	Ansar-ul-Islam	30 June, 2008	68	Balawaristan National Front (Abdul Hameed Khan Group)	26 Feb, 2019
21	Haji Namdaar Group	30 June, 2008	69	Jamaat-ul-Da'awa (JuD)  Affiliated Organisations: Al-Anfaal Trust, Lahore Idara-e-Khidmat-e-Khalaq, Lahore Al Dawat-ul-Irshad, Pakistan, Lahore Al-Hamad Trust, Lahore/Faisalabad Mosques & Welfare Trust, Lahore Al Madina Foundation, Lahore Maaz Bin Jabal Educational Trust, Lahore	05 March, 2019
22	Tehrik-e-Taliban Pakistan (TTP)	25 Aug, 2008			10 May, 2019
23	Balochistan Republican Army (BRA)	08 Sep, 2010			
24	Balochistan Liberation Front (BLF)	08 Sep, 2010			
25	Lashkar-e-Balochistan (LeB)	08 Sep, 2010			
26	Balochistan Liberation United Front (BLUF)	08 Sep, 2010			
27	Balochistan Musalla Defah Tanzeem (BMDT)	08 Sep, 2010			
28	Shia Tulaba Action Committee, Gilgit	10 Oct, 2011			
29	Markaz Sabeel Organisation, Gilgit	10 Oct, 2011			
30	Tanzeem Naujawana-e-Ahle Sunnat (TNA), Gilgit	10 Oct, 2011	70	Falah-e-Insaniat Foundation (FIF)  Affiliated organisations: Al-Fazal Foundation/Trust, Lahore Al-Easar Foundation, Lahore	05 March, 2019
31	Peoples Aman Committee (Layari)	10 Oct, 2011			10 May, 2019
32	Ahle Sunnat Wal Jamat (ASWJ) Ex-SSP	15 Feb, 2012			
33	Al Harmain Foundation	06 March, 2012			
34	Rabita Trust	06 March, 2012			
35	Anjuman-e- Imamia Gilgit Baltistan	24 April, 2012	71	Pak Turk International CAG Education Foundation	18 April, 2019
36	Muslim Students Organisation (MSO) Gilgit	24 April, 2012	72	Hizb-ul-Ahrar (HuA)	26 July, 2019
37	Tanzeem Ahle Sunnat Wal Jamat, Gilgit	05 June, 2012	73	Balochistan RaajiAjoyi-R-Sangar (BRAS)	26 July, 2019

S#	Name of Organisation	Date of Notification	S#	Name of Organisation	Date of Notification
38	Balochistan Bunyad Parast Army	04 Aug, 2012	74	Jeay Sindh Quami Mahaz-Aresar Group (JSQM-A)	07 May, 2020
39	Tehreek Nafaz-e-Aman	04 Aug, 2012	75	Sindhu Desh Revolutionary Army (SRA)	07 May, 2020
40	Tahafuz Hadudullah	04 Aug, 2012	76	Sindhu Desh Liberation Army (SLA)	07 May, 2020
41	Balochisan Waja Liberation Army	04 Aug, 2012	77	Khatam-ul-Ambia	19 Aug, 2020
42	Baloch Republican Party Azad	04 Aug, 2012	78	Ghazi Force	25 Aug, 2020
43	Balochistan United Army	04 Aug, 2012			
44	Islam Mujahidin	04 Aug, 2012			

**04 Organisations U/Watch by Ministry of Interior u/s 11-D-(1) r/w Schedule-II, ATA 1997**

1	Ghulaman-e-Sahaba (GS)	30 May, 2017	2	Maymar Trust	29 March, 2017
3	Sachal Sarmast Welfare Trust, Karachi	13 June, 2019	4	Al-Jaza Patient Welfare Society, Karachi	13 June, 019

**02 Organisations enlisted under UN Security Council Resolution No. 1267**

1	Al-Akhtar Trust	01 Dec, 2005	2	Al-Rashid Trust	01 Dec, 2005
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NOTE:

This list is updated as of 25<sup>th</sup> August, 2020 and prepared by NACTA based on the Notifications issued Ministry of Interior. This list is not a legal document and cannot be presented in any Court of Law.

## 1.5 Significance of the Study

Terrorists require funds for their different activities, and without funds, none of the activities can be performed. Hence this study highlights the importance of identifying the collection of funds for terrorist activities through a variety of methods like charities, donations, etc. The flexibility and pragmatism depicted by terrorist organisations suggests that all practices that are available to transfer money globally are at risk to some extent. This study also identifies the loopholes and flaws within the system of Pakistan in the implementation of provisions provided in laws for countering terrorism financing. It will aid law enforcement agencies to detect and interrogate terrorism financing activities, especially when intelligence and financial information are corroborated.

The study identifies the areas of counter-terrorism, including the relevant laws, their implementation issues, government capacities and availability of information to the private sector. It aims to help in building mutual understanding across the public and private sectors

besides augmenting financial intelligence to utilise financial investigation as a practical tool in dealing with terrorism financing cases.

### **1.5.1 Academic Contribution**

Numerous widespread, conceptual, and methodological problems often describe the academic study of terrorism (ICCT, 2013). The development of this field is strongly influenced by the persistent definitional debate of terrorism. Secondly, the over-reliance on secondary sources and the resulting prevalence of the literature review process has impeded the development of analytical knowledge and the ability to critically challenge the various potential terrorism theories put forward (Shuurman, 2018). Hundreds of articles have been published in various journals, and leading academics have started questioning the dominant negativity that surrounds terrorism studies (Silke & Petersen, 2015). The extent to which these critiques are still relevant to the modern scholarship on terrorism is going to be the major premise of this study.

### **1.5.2 Practical Contribution**

Terrorism does not have any religion and boundaries. The domain of terrorism is undefined and unlimited. Terrorism has infiltrated the world in a way that no region or country is in peace. Terrorism affects the region, whether it is in the form of political competition or rivalry, liberation movement, tribal enmity, sectarian issue, or cross border conflict. It impacts disproportionately on underdeveloped countries and hinders the already declining pace of progress. Unity of stakeholders' collaborative efforts and persistent will of governments in maintaining standards of counter-terrorism financing is required. An authorised, equipped police force and concerned LEAs persist as the most reliable and sustainable tools for the implementation of a long-lasting and victorious counter-terrorism strategy.

Besides outlawing the banned organisations, efforts for revamping the Madrasah sector, suppressing hate speeches, and literature, along with halting terrorist financing, are quite unsystematic. Required objectives may be achieved by the help of a reformed and strengthened criminal justice system. It is time to modernise the counter-terrorism strategy, and the government should take it as a challenge to exchange an overly militarised reaction

with a reformed and well directed counter-terrorism financing strategy, headed by civilian institutions, particularly the police. This research could help in contributing practically by highlighting the much talked about taboos of Pakistan politics vis-à-vis tearing down terrorist networks, apprehending and prosecuting terrorist leaders and foot soldiers, obstructing terrorism financing and hampering radicalisation through hate speech and literature; all by obstructing the financing required for operating these activities. This urgently requires building and strengthening the capabilities of police forces at the provincial level. Inadequate resources and capacity building, lack of accountability, and autonomy have resulted in the erosion of efficiency and efficacy day by day. A well-equipped and empowered police department serves as the most reliable and effective instrument for implementing a sustainable and successful counter-terrorism strategy. This research will also help in strengthening laws, i.e., the Anti-Money Laundering Act and Anti-Terrorism Act, which requires review, amendment, updating and to be enforced in letter and spirit.

Current focus on vengeance, retaliation, and emasculation of fundamental rights and the rule of law threatens citizens' trust in the state in its execution of justice. This flawed strategy also fuels tensions that support the NAP's targeted battle against violent extremists. This exploratory study is designed to identify flaws, deficiencies, and the absence of a holistic approach that is needed to counter terrorism in Pakistan.

### **1.5.3 Conclusion**

This chapter has provided an overview of the thesis and briefly described what each chapter would cover. The context of the study was provided; it is explained that terrorism is considered as a national as well as an international phenomenon. The background of the research and its objectives were discussed. The position of the researcher was discussed, and the problem statement was given briefly describing terrorism and terrorism financing in Pakistan and the existing barriers in countering terrorism financing in Pakistan. Further national and international efforts in countering terrorism financing were discussed, followed by the significance of the study, and the academic and practical contributions it will make. The following chapter will extensively elaborate on the concerned areas of terrorism and its financing in Pakistan in detail.

## **Chapter 02:**

## **Literature Review**

### **2.1 Overview**

This chapter discusses the meanings of terrorism, terrorist financing, its characteristics and its link with organised crime. Further it encompasses money laundering, its nexus with terrorist financing, and terrorism financing perspectives besides factors responsible for terrorism financing in Pakistan and national institutions to counter terrorist financing. The chapter further explains the United Nations, its different resolutions and conventions pertaining to terrorism financing and Financial Action Task Force (FATF), its recommendations and progress of Pakistan.

The next section of this chapter 'The International Standards/ Best Practices in Combating Terrorism Financing' begins with National Risk Assessment and Pakistan's approach to counter terrorism by defining further Anti-Terrorism Act (ATA), Anti-Money Laundering Act (AMLA), Foreign Exchange Regulation Act (FERA) 1947, The Investigation of Fair Trial Act (2013), National Counter Terrorism Authority (NACTA) and National Action Plan (NAP) leading to another section 'The AML and CFT Regime in Pakistan' which discusses the capacities of law enforcement agencies, Madrasahs (Islamic Religious Seminaries), Religious Organisations related with TF in Pakistan, NGOs and INGOs, Military Operations and their impacts and Lack of Public Awareness. The next section 'Internal Areas of Concern to Tackle Terrorism Financing in Pakistan' highlights in detail India and terrorism in Pakistan, Afghanistan, Iran and China.

The chapter further states about 'Financial Regulatory Bodies and Designated Law Enforcement Agencies' like Financial Monitoring Unit (FMU), State Bank of Pakistan (SBP), Securities and Exchange Commission of Pakistan (SECP), Federal Investigation Agency (FIA), Police, Intelligence Agencies, Ministry of Foreign Affairs – MoFA, and Ministry of Interior – MoI. It is further expanded to the section, 'Legislative Weaknesses and Gaps in Implementation' that provides Short Comings of Anti-Terrorism Act (ATA), Shortcomings

of Anti Money laundering Act, Gap in Implementation of NACTA & NAP and Research Gap. Conclusion of chapter is given at the end.

## **Introduction**

Terrorism in Pakistan has negatively impacted almost all aspects of the economy including closure of industries, reduction in agricultural production, currency depreciation, increasing debt, and loss of human lives in terrorist incidents. It has not only created chaos in society but also caused damage to the social fabric of society and standard of living (Babar, Sattar, Shah, & Laeque, 2017). It is difficult to prevent terrorist financing due to the multitude of processes involved to finance terrorism acts (Ryder, 2018). Within Pakistan, military operations have resulted in the displacement of many families from Khyber Pakhtunkhwa (KPK) and the Federally Administered Tribal Areas (FATA). Terrorism has tarnished the image of Pakistani society globally and endangered the peace and prosperity of Pakistani society. A large segment of Pakistan's economy is based on agriculture. According to Khan (2013) terrorism incidents have caused poverty, unemployment, and a decline in Foreign Direct Investment (FDI) (Khan, 2013). For example, the assassination of the former premier, Benazir Bhutto, caused a decline in the stock market. Terrorists have destroyed not only public properties and caused civilian and military casualties but have also attacked several schools in the northern areas. It is a fact that education is the key to success, so the militants have tried to embed their ideology in the youth. Society in general and women and children in particular have faced psychological traumas and upset. The fear of death has caused a feeling of helplessness in the lives of many. Terrorism has resulted in psychological depression and mental illness among the masses, including tension, stress, mental diseases, phobias, and vulnerabilities. The effects of terrorism can lead the masses towards suicidal tendencies and cause havoc in society (Daraz et al., 2012). The country has suffered from adverse economic implications with a decline in all essential sectors and has not only declined globally but has also lost its market share in trade (Ministry of Finance, 2019).

In the aftermath of 9/11, state-sponsored terrorism was reduced, with terrorists moving their source of funds to private patrons, which enhanced the terrorists' self-reliance (Ryder, 2018). The association between economic progress and terrorism activities in

Pakistan is inverse as terrorist activities remain low when economic growth is high and vice versa.

Pakistan national institutions have not shown enough progress in countering TF, and therefore Pakistan has been placed in the grey list of the Financial Action Task Force whereas Afghanistan and India enjoy a different support in FATF due to backing of USA (Chohan, 2020). As explained in the Mutual Evaluation Report (MER) of Pakistan drafted by the Asia Pacific Group (APG) in October 2019, in the National Risk Assessment (NRA) conducted by Pakistan in February 2017 the sources of TF identified in the country are drug trafficking, foreign funding, extortion, kidnapping for ransom, robbery and vehicle snatching (APG-MER, 2019).

One of the largest sources of terrorist funding is Money Laundering (ML). Money Laundering is one of the largest illegal businesses in the world, wherein black money is changed into white money (Ryder, 2018). Similarly, the involvement of ML in the TF activities of Pakistan cannot be overruled. As there is a connection between ML and TF, understanding ML is imperative, which is explained in Section 2.1.5 of this thesis. As the menace of ML and TF is a global problem, there are numerous efforts made at the global level to control it. These are followed by the 40 Recommendations of FATF in 2001 and nine special recommendations to fight TF (Camacho, 2013). The FATF requires the risk-based approach to include the identification of the presence of risk, assessing those risks, and planning for remedies to mitigate such risks (Duyne, Harvey, & Gelemerova, 2018). To consider how Pakistan has assessed the risks of ML and TF with the above-mentioned international standards, the first-ever National Risk Assessment was conducted in 2017 in which both ML and TF were assigned average risk rating (Recorder, 2019). The risks of ML and TF are also believed to be associated with the capacities of Law Enforcement Agencies in identifying the areas of concern and conducting investigations (Zaidi, 2016) more specifically, the financial investigations. Other areas of concern are Madrasahs, Non-Governmental Organisations (NGOs) awareness in public about TF risks, and religious organisations accused of being linked with TF in Pakistan, among others. There is also an important role played by the hostile neighbours India and Afghanistan in spreading terrorism in Pakistan. To fight against terrorism, Pakistan has passed legislations in the form of the Anti-Terrorism Act (ATA) Anti-Money Laundering Act (AMLA) Foreign Exchange Regulation Act (FERA) and National Action Plan (NAP) whereas, National Counter-

terrorism Authority (NACTA) was established specially to counter-terrorism and its financing in Pakistan. There are financial regulatory bodies, i.e., State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP), Law Enforcing Agencies to fight against TF, and relevant ministries to supervise the overall CTF regime. To expand the discussion further, first we need to understand the meaning and definition of terrorism.

### 2.1.1 Terrorism

It is essential to mention that the word “Terrorism” does not in itself have a defined scope.

*Terrorism is commonly understood to refer to acts of violence that target civilians in the pursuit of political or ideological aims. In legal terms, although the international community has yet to adopt a comprehensive definition of terrorism, existing declarations, resolutions, and universal “sectoral” treaties relating to specific aspects of it define certain acts and core elements. In 1994, the General Assembly’s Declaration on Measures to Eliminate International Terrorism, set out in its resolution 49/60, stated that terrorism includes “criminal acts intended or calculated to provoke a state of terror in the general public, a group of persons or particular persons for political purposes” and that such acts “are in any circumstances unjustifiable, whatever the considerations of a political, philosophical, ideological, racial, ethnic, religious or other nature that may be invoked to justify them.” (UNHCR, 2008, pp. 5-6)*

The definition of terrorism as defined in the Anti-Terrorism Act of Pakistan and adopted as a guideline in this thesis is as follows:

*Section 6 of the Anti-Terrorism Act, 1997 of Pakistan has been amended from time to time and in its present shape it provides as follows*

*Terrorism. –*

- (1) In this Act, “terrorism” means the use or threat of action where: -*
- (a) the action falls within the meaning of sub-section (2); and*

- (b) *the use or threat is designed to coerce and intimidate or overawe the Government or the public or a section of the public or community or sect or a foreign government or population or an international organisation or create a sense of fear or insecurity in society; or*
- (c) *the use or threat is made to advance a religious, sectarian, or ethnic cause or intimidate and terrorizing the public, social sectors, media persons, business community or attacking the civilians, including damaging property by ransacking, looting, arson, or by any other means, government officials, installations, security forces or law enforcement agencies:*

It is still an argument among experts that terrorism has a set definition. Terrorism has always remained a contested term (Ward, 2018). Pakistan's arch rival India calls Kashmir's freedom movement as terrorism and Israel has been accusing Palestine for the same. Kashmir and Palestine issues are the prolonged unresolved issues on the UN's schedule (World, 2018). Nelson Mandela was a hero to his countrymen and a terrorist for the then South African government. Israeli leaders Menachem Begin and Yitzhak Shamir are heroes to Israel and terrorists for the Palestinians.

As there is no consensual definition of terrorism, different people have defined it differently. The international community has been arguing about terrorism, its prevention, and elimination, but no precise definition came out as to what constitutes terrorism (Zaki, 2002). International terrorism is defined as violent or criminal actions committed by persons or groups inspired/associated with declared terrorist entities or states. Domestic terrorism is explained as violent criminal acts committed to achieving ideological objectives originating from domestic, political, social, racial, or environmental concerns (FBI, 2020a). Terrorism is the use of violence against civilians to attain specific political objectives (Bruce, 2013). Terrorism has affected almost all parts of the world since the 20th century (Brenda & James, 2015). As per the advice by the Supreme Court of Pakistan vide its judgement in 2019, the parliament was requested to incorporate the definition of acts of terrorism. The guideline provided by the Supreme Court is now taken as definition of terrorism for all practical purposes.

We do not know where the segregation between terrorists and freedom fighters lies as many nations in the world acquired freedom after prolonged struggles (Bolt, 2001). Terrorism

is defined as acts urged by some political or social agenda. It dates to the French revolution and has evolved continuously (EKU, 2020). Even after paying the substantial cost in the war against terror, Pakistan is endeavouring to continue its efforts to curb the menace of terrorism. Keeping in view the broader scope of terrorism in Pakistan, it is significant to explore it further in the study (Feyyaz, 2013).

### **2.1.2 Terrorism Financing**

Funds/Property acquired from legitimate or illegitimate sources may be exploited for terrorism (ADB, 2017). FATF explains that terrorism requires money or assets to build capacity, acquire logistics, and establish an organisation to execute its plans and activities. Access to finance is a prerequisite to carry out terrorist activities (FATF, 2019b). TF is also defined as the provision of money for terrorists, their acts, and organisations (APG, 2020). The United Nations Security Council Counter-Terrorism Committee declares terrorism financing as a global phenomenon that endangers the security of member states hence undermining economic and financial stability. Therefore, the prime importance is to obstruct the proceeds of finance to terrorists and their organisations (UNSC, 2020). As per the training manual for LEAs designed by the UNODC in collaboration with NACTA the Anti-Terrorism Act 1997 of Pakistan explains terrorism financing as the finance or property used for the intentions of terrorism, or in possession to be used by someone or tentatively to be suspected of terrorist activities (UNODC, 2019a). Article 2 of ‘International Convention for the Suppression of the Financing of Terrorism’ defined financing of terrorism as:

*“An act of providing a person funds by any means (directly or indirectly), deliberately and knowingly that the funds so will be used in full or part to carry out a terrorist act by a terrorist or a terrorist organisation.”*

It is a fact that “money is the lifeblood of terrorist operations,” as said by Mr. George Bush, President of the USA, in his executive order 13224 on 24<sup>th</sup> September 2001 following the 9/11 attacks. After the Al-Qaeda attacks in the USA, terrorist financing gained importance. This is evident from the numerous CTF initiatives taken by many countries of the world, the United Nations, and the Financial Action Task Force. Tackling terrorist financing is important because it is crucial to deprive terrorists of resources required to survive and to commit the acts which require money and to create deterrence so that other

people think before supporting such groups. The United States took the lead, and many countries followed it in the campaign to prevent TF and ML. Following this, the FATF added nine recommendations to reinforce the earlier 40 recommendations making it a total of 49. The nine additional recommendations were focused on TF. The case of 9/11 highlighted the cross-border financial transactions used for training, livelihood, transportation, and similar needs of the terrorists (Hesterman, 2013). Terrorists and their organisations seek finance to support themselves for executing their activities and operations. They acquire funds from a wide range of sources (ICAP, 2018).

Terrorist activities do not require huge amounts of money. Later, it was realised that the 9/11 attacks took just 450,000 US dollars, and Al-Qaeda received approximately 30 to 50 million US dollars per year. Of this amount, approximately 10% were used on terrorist activities and 90% on maintaining a living, recruiting, training, transportation, etc. There is a plethora of sources available to terrorists for fund generation. Among the cleanest sources of TF are donations and personal support of members of groups. These sources are difficult to trace. Charities also remain essential as a TF generator as is difficult to identify the source of the funds as there is no money trail and charities can hide within religious organisations globally. Another important source of income is tithing by religiously inclined people where legal and illegal money may be gathered. Almost all the terrorist groups are involved in the drug trade (Hesterman, 2013). It has been stated that “*if something has occurred recently, perception of it occurring again is attached a higher probability*” (Harvey & Ashton, 2015, p. 292) and new policies are required to mitigate it. Though the United Nations Office on Drugs and Crime (UNODC) is working hard to address the gap of coordination and cohesiveness among the federation and the provinces in the shape of PACT – Pakistan Action to Counter Terrorism (a programme funded by the European Union) (PACT, 2019a) – or may it be the efforts of UNODCs, NACTA Federal-Provincial Coordination Framework, the Government of Pakistan has to work on developing a robust and transformed criminal justice system. There is a need to revamp NACTA so that it plays a role in counter-terrorism financing that is expected of it and the role it should be playing (Rumi, 2015) as recommended in Section 5.5 of this thesis. However, to understand more about terrorism financing, we must follow the characteristics of TF.

### 2.1.3 Characteristics of Terrorism Financing

According to FATF, for acts of terrorism, funds are required, and for this reason, sources of funds, means of laundering such funds, and means of using such funds are required to execute terrorist activities.

**Table 2.1 Financial Sources of terrorists**

The lawful and unlawful financial sources of terrorists	Origin of sources	Financial support	Revenue generating activities
	Lawful funding	State sponsorship, Individual and institutional sponsorship, Fundraising initiatives	Legitimate business
	Unlawful funding		Criminal activities

As indicated in Table 2.1, State sponsorship and private sponsorship are two sources of funding terrorists. In state-sponsored terrorism, logistics and finance are provided to terrorists by the states. Sources of funds may be state-provided in state-sponsored terrorism, whereas other sources may be individually based, as in the case of Osama Bin Ladin. The latter contributed his wealth to the creation of the Al-Qaida network. Terrorists acquire funds by kidnapping for ransom, narco-trafficking, robbery, forging, and trading conflict diamonds (Ryder, 2018). Funding may also be obtained from legitimate sources or a combination of legitimate or illegitimate sources. Community fundraisings for charity or relief work may also be another source. Efforts to address this issue are in progress. Sindh Government has drafted law with the name ‘Charity Act 2019’ to curb TF in line with the FATF, according to this Sindh Charity Commission, a Charity Registration Authority would be formed and authorised to revoke the registration of Non-Government Organisations (NGOs) or Non-Profit Organisations (NPOs) if they contravene the law. It is proposed that any grant/fund above PKR. 50, 000 would be deposited in banks.

Moreover, fines of PKR 1 million would be imposed on charitable institutions and trusts in case of violating the law (Rao, 2019). Terrorists launder money procured through legitimate or illegitimate sources to hide from the eyes of the authorities. Such laundering is done through cash smuggling, structured deposits, and withdrawals from banks, instruments like money orders, pay orders or cheques, etc. (FATF, 2002).

The anatomy of terrorist financing revealed that terrorism financing is classified into functional and non-functional pursuits. Functional actions involve monitoring, inspection, practice, and execution of the final plan of terrorist activity. However, non-functional activities involve publicity, indoctrination, human resourcing, fund collection, procurement, conveyance, hideouts, camouflaging, coordination, and training. These activities need finance and subsequently, lead terrorist groups to look for funding sources. Terrorist financing has two distinct kinds. The first type expresses the primary stage of huge funds collection. However, the second type refers to the perspective that uses the collected finance to aid a terrorist group or entity (Toledo, 2018).

Despite the indisputable certainty that terrorists need money to support their terrorist activities and power structure, preventing the financing of terrorism was not necessary for the United States until September 11th. Besides, no comprehensive legal system has been put in place to refuse grants to terrorists (Gurulé, 2010). The decline in terrorist funding including a legal response to global terrorist financing concerns the legal structure, which evolved rapidly after the 9/11 terrorist attacks. Relevant legal parts of this process include freezing the local and universal assets of terrorists, terrorist groups, and their supporters, take administrative measures to prevent terrorists from using the monetary framework as a conduit for working with terrorist financing, developing global standards to prevent terrorist financing, criminal activity against terrorist financiers and their frontline elements; and common private reasons for action against financial assistants and terrorist traffickers (Gurulé, 2010).

Various countries, including North Korea, Cuba, and Libya, have also reportedly offered financial support to terrorists and helped them organize their work. Though, it is now widely recognised that access to this flow of terrorist subsidies has steadily declined. The death of government-sponsored terrorism was recorded by Hardouin, who has stated that the government sponsorship has declined as terrorist groups believe it is more difficult to get government support and claim it is not linked to global principles of terrorist financing which are less able to do so and are open to extreme global support (Ryder, 2018). Also, it has been suggested that another major contributor to the collapse of state-sponsored terrorism was the end of the Cold War, which led terrorists to ponder election funding flows. Terrorists have many sources of subsidy at their disposal, which means they can control the growing number of devices to protect their wealth, regardless of global lines. For instance, some reporters

have claimed that terrorists can get funding from individuals and gifts, non-profits, government projects, and crime (Ryder, 2018).

Detection of financial activities is a critical exercise in tackling terrorism financing cases. Technical analysis and networking may expose the magnitude of a terrorist group/organisation and its characteristics. The spectrum of financial networks extends from legitimate to illegitimate, i.e., cellular networks, banks, real estate, charities to narco-trafficking, arms smuggling, fraud, etc. Meagre amounts are usually impossible to detect (Normark & Ranstorp, 2015). The UN in its declaration to knock out global terrorism in 1994 adopted the term 'Terrorist Financing'. Terrorist financing is difficult to prevent and detect because terrorists are capable enough to utilise a wider range of funding operations (Ryder, 2018). There is an association between organised crime and terrorism financing which is discussed in the next section.

#### **2.1.4 Organised Crime and Terrorism Financing**

*Those self-perpetuating associations of individuals who operate transnationally to obtain power, influence, and monetary and/or commercial gains, wholly or in part by illegal means, while protecting their activities through a pattern of corruption and/or violence, or while protecting their illegal activities through a transnational organisational structure and the exploitation of transnational commerce or communication mechanisms* (FBI, 2020b). Terrorists require money to carry out their business of terrorism. Such funds may be acquired through criminal activities (UNSC, 2020). Organised crime is conducted through a group of criminals with the particular purpose of generating funds (UNODC, 2018a). Organised criminals are highly disciplined with a defined hierarchical structure. They employ enhanced use of force or violence in the conduct of their activities, restricted membership to maintain secrecy, corrupt the system to continue their businesses, and creation of illegal enterprises to cover their illegal activities. Organised criminals and terrorists, despite having different motives, usually work together. The interests of both converge over finances driven by accelerated communication and interaction as both are tech-savvy. The terrorists, remaining camouflaged, buy weapons and ammunition from organised criminals. Money transactions using technology also act as a catalyst between the two. In states where the writ of

government is weak, the nexus between organised criminals and terrorists gets stronger (Zahid, 2018).

UN Security Council Resolution 1373 was adopted soon after the 9/11 incident to prevent terrorism by multinational organised criminals. It has specifically highlighted the nexus between organised crime and terrorism financing. In the last two decades, terrorism has gained international attention, and the fast pace spread in terrorism activities is supported by fast communication using technology and cheaper transportation. Similarly, organised crime has reached international recognition as similar factors supporting it are working together (Sari, 2015). Though their connection is vague, it is a commonly accepted relationship and cannot be overlooked as a source of terrorism financing. Without understanding the relationship between organised crime and terrorism financing, it would not be possible to formulate effective policies and effective policies are those which are action-oriented and explicit towards a specific problem. It is also considered to be a gap of having a lack of understanding about the threats one is going to deal with. Therefore, it is essential to highlight how terrorists move funds which is mostly done by money laundering.

### **2.1.5 Money Laundering**

Money Laundering is a process of hiding the illegitimate origins of money by transforming them into other currencies or assets, which can then be legitimately utilised i.e., conversion of dirty money into clean money (Bain, 2004). Money laundering is claimed to be one of the largest global industries. Measuring the actual scope of money laundering is not possible (Ryder, 2018). Money laundering poses an international global threat undermining the integrity of the financial system (McDowell & Novis, 2001). Such money is usually transferred across borders without paying taxes. Such unlawful money is also, at times, used mostly for terrorist financing (Qureshi, 2017). To give the laundered money the colour of legitimacy, criminals use different techniques. *“The emphasis of government legislation on money laundering has been based on the assumption that reporting institutions can spot deviant customer behaviour and that implicitly such behaviour is criminal”* (Harvey & Lau, 2008). Technological advancements like online banking and crypto currencies have made it easier for criminals to carry out money laundering processes (Chen, 2019). Usually, money laundering is done for tax evasion (round-tripping or tax evasion in which one company sells its assets to another company and, at the same time, buys it at the same price. The assets are

liquefied into cash and then sent abroad as foreign direct investment; thereby, the tax on the assets is saved), bribery, and corruption with the backdrop of weak financial regulations, unmanned borders, or failure of banks to detect ML. Similarly, money laundering is done through cash-oriented businesses, real estate, foreign exchange, etc. (Qureshi, 2017). Money laundering is considered an international threat by policymakers. It not only promotes organised crime but also undermines the credibility of the financial system (Sittlington & Harvey, 2018). Prevention of ML is not a top priority for financial institutions as far as ML regulations are concerned. (Harvey & Ashton, 2015). In today's world, the fight against money laundering can be achieved only by international cooperation (Doyle, 2002).

The connection between money laundering and terrorism financing is inevitable, and its understanding is essential. To understand the process of money laundering and its connection with terrorism financing, we need to explore its modus operandi, i.e., stages of money laundering.

### **2.1.6 Stages of Money Laundering**

A typical money laundering scheme involves the three steps of placement, layering, and integration.

**Placement:** This is the first process in money laundering in which dirty money is introduced into the legal financial system by depositing money in foreign banks.

**Layering:** This process involves repeated cash deposits and withdrawals, funds transfers, wire transfers, and processes to hide the origin of laundered money. This process is called layering because the transactions of laundered money are done many times.

**Integration:** This is the last phase of money laundering, where the layered money is used to buy assets or is invested in legal businesses. In this stage, it is comparatively difficult for the investigators to track the sources of funds as compared to the first and second steps.

### **2.1.7 Nexus of Money Laundering and Terrorist Financing**

Money Laundering and Terrorism Financing are concatenated words used frequently together and “*terrorist financing is often regarded as ‘reverse money laundering’*” (Duyne et al., 2018, p. 15). Terrorist financing reshapes legal money into illegal channelled to sponsor terrorism acts (Ryder, 2018). Money laundering is the concealment of the origin of the proceeds of crime into legal and legitimate money to make sure that the crime becomes untraceable. Money laundering undertaken by terrorists or terrorist organisations can have adverse effects on society (OECD, 2019). For terrorism financing, the funds used can also be generated from legitimate means, and hence it is not necessary to conceal the origin of money. Still, the important thing is to conceal the funding activity to remain undercover (IMF, 2019). Money is laundered through fronts, shells, and offshore companies by terrorists and organised criminals. For example, Bin Ladin used ‘honey house’ and a bakery business in Yemen to store and keep clean money before 9/11 (Hesterman, 2013). The procedures adopted in money laundering are similar to those used to hide the sources of and uses for, terrorist financing. Money used in terrorism may have originated from legitimate sources or crime. If the source of funding is concealed, it remains available for prospective terror financing. Therefore, terrorists need to disguise the use of the funds to keep the financing undetected (Policy on Anti-Fraud, Corruption, Money Laundering and Terrorism Financing, and Domiciliation of BSTDB Counterparties, 2019). Terrorism financing is not absolutely but widely associated with money laundering and curbing the menace of money laundering is therefore essential as recommended in Section 5.5 of this thesis. To better understand the above discussion, we need to understand the conceptual framework of terrorism financing.

### **2.1.8 Terrorism Financing Perspectives**

Since 9/11, the global efforts in countering the financing of terrorism have gained currency owing to the dynamic gravity of this problem. Terrorism financing has not only threatened global security but also questioned the integrity and efficiency of financial institutions (Calari, Léautier, & Ingves, 2002). Obstructing terrorists’ access to finance is the key to success in countering the menace of terrorism (Amador, 2009). Unfortunately, Pakistan is among those countries identified as understaffed and weak in detecting and investigating terrorism financing cases (APG-MER, 2019).

### **2.1.9 Internal Factors of Terrorism Financing in Pakistan**

In the context of Pakistan, the chief causes of terrorism remain poverty, foreign involvement, and unemployment. Corruption, ethnic strife, illiteracy, Pakistan's involvement in the war on terror, lack of law enforcement and unemployment are also considered as the causes of terrorism in Pakistan (Haider, Heredero, Ahmed, & Dustgeer, 2015). It is assumed that terrorism has a strong relationship with poverty. Still, in the international context, many individuals are involved in the extreme form of terrorism, e.g., suicide bombers who were not financially deprived or uneducated people. The expense of making a suicide bomb may be as low as \$5, although the whole mechanism can cost as little as \$200 (Ryder, 2018). If we talk specifically in the context of Pakistan, the episode of terrorism started with the transmigration of militants from tribal areas of Pakistan once they had much control over the Swat area, and it was unprecedented. To counter terrorism, there are the LEAs and financial regulatory institutions in Pakistan. For a better understanding, it is necessary to identify National Institutions to Counter-Terrorist Financing in Pakistan

### **2.1.10 National Institutions to Counter-Terrorist Financing**

The central designated law enforcement agencies for Anti-Money Laundering and Countering Terrorist Financing are Federal Investigation Agency (FIA) at the state level and Counter-Terrorism Departments (CTDs) at the provincial level besides other agencies. Supervisory and Regulatory bodies are the State Bank of Pakistan (SBP), the Security and Exchange Commission of Pakistan (SECP), and the Financial Monitoring Unit (FMU). The other agencies dealing with AML are National Accountability Bureau (NAB), Pakistan Customs, and Anti-Narcotics Force (ANF). Moreover, the policies, directives are issued by the National Counter Terrorism Authority (NACTA), Ministry of Interior (MoI), Ministry of Foreign Affairs (MoFA), and Ministry of Finance. Designated Intelligence Agencies for AML/CFT are Intelligence Bureau (IB), Military Intelligence (MI), and Inter-Services Intelligence (ISI). A detailed discussion on the financial regulatory authorities and LEAs in Pakistan are given in Section 2.6 of this chapter.

## **2.2 International Standards/Best Practices in Combating Terrorism Financing**

To stop the damage caused by terrorism, its financing must be stopped from its origin. For this purpose, there are international standards set out in the form of UN Security Council Resolutions and recommendations of the FATF, which are specially made to counter TF. By following these standards, Pakistan can put in place practical steps to counter-terrorism financing.

### **2.2.1 The United Nations**

To address the global issues of international peace, security and to promote friendly relations among countries, and make this world a better place to live, the United Nations was established in 1945 initially by 51 countries. Later more countries joined, and now 193 countries are members of this international organisation. The International Community was ill-equipped in tackling terrorism financing and its effects before the deadly incident of 9/11 (Ryder, 2015). To address practical issues, there is a General Assembly, the Security Council, the Economic and Social Council, and other bodies and committees within the United Nations system (UN, 2015). The United Nations system has different sub-offices working under its auspices, the most renowned being the International Monetary Fund (IMF), World Health Organisation (WHO), World Bank Group, United Nations Development Programme (UNDP), United Nations Office on Drugs and Crime (UNODC), United Nations Children Funds (UNICEF), World Food Programme (WFP) among others (United Nations, 2020). To address the issues mentioned above, the Security Council passed the resolutions to calling for economic sanctions to stop aggression, military action against an aggressor, maintain peace, address disputes, recommend new members, etc. (UNSC, 2019).

### **2.2.2 Security Council Resolution 1333**

Keeping in view the deteriorating humanitarian situation in Afghanistan, the United Nations Security Council adopted Resolution 1333 in December 2000, reaffirming previous resolutions in general, and resolution 1267, about Afghanistan. The resolution banned military support and cooperation with the Taliban regime (UNSCR 1333, 2000). UNSC

resolutions banned arms trade/supply against Afghanistan governed by the Taliban (Fruchart, Holtom, & Wezeman, 2007). Following resolution 1333 another UNSC resolution 1371 was passed after 9/11 to counter acts of terrorism globally.

### **2.2.3 Security Council Resolution 1373**

The UN Security Council adopted resolution 1373 in its 4385<sup>th</sup> meeting on September 28<sup>th</sup>, 2001 soon after the terrorist attacks in New York, Washington, DC, and Pennsylvania on 11 September 2001, and called upon the world to deter and prevent such acts in the future to sustain peace and security in the world. The resolution expressed its concern over increased terrorism acts throughout the world backed by extremism and intolerance. It required countries to work in collaboration to implement international conventions to suppress terrorism. It recognised the need for international cooperation to use all legitimate ways to suppress acts of terrorism financing. It also restrains all countries from the involvement of any sort of terror activities in other countries within their territories directed towards the commission of that act (UNSCR 1373, 2001).

This resolution focused on suppressing terrorist financing and criminalising the wilful dealing of any kind of funds for terrorist activities. It also focused on freezing all sorts of economic resources of persons/entities possessed or administered by individuals or functioning on behalf of individuals involved in terrorism or its facilitation on time. It also barred the member states from prohibiting their nationals in supporting financially or otherwise and support of any form (including suppressing recruitment in terrorist groups and supply of arms and ammo) from benefiting the persons involved in any sort of acts about terrorism. It states that all states should exchange information, deny safe-havens, and prevent financing thereby averting the commissioning of terrorism and should include terrorism acts as critical criminal offences under local laws and regulations with proportionate punishment. All states should assist each other in investigations relating to TF. It also focused on stopping the movement of terrorists through imposition of controls on borders and issuance of identity/travel documents (UNSCR 1373, 2001).

The resolution demanded its full implementation in letter and spirit by exchanging information on the use of communication technologies, trafficking of arms, and threats posed by explosives or weapons of mass destruction by terrorists. It also desired the member states

to ratify the international conventions against terrorism financing. It also focused on assuring the status of asylum seekers before giving refuge (UNSCR 1373, 2001). The resolution notes with concern the direct link between global terrorism and cross-border organised crime, money laundering, illegal drugs, and arms trafficking, in addition to the unlawful movement of chemical, nuclear, or other lethal substances. Considering this, it emphasises the necessity to increase coordination of efforts at local, regional, national, and global levels for the sake of strengthening the international response to this critical challenge and risk to global security (UNSCR 1373, 2001). After resolutions 1333 and 1373, other related resolutions were passed to supervise the sanctions on Al Qaida.

#### **2.2.4 Security Council Resolution 1267**

United Nations Security Council Resolution 1267 was adopted on October 15, 1999, to oversee the sanction measures against Osama Bin Ladin and the Taliban. The provisions of the resolution are reinforced by other resolutions passed in response to the evolving dynamics of terrorism.

Accordingly, the resolution provides for the restraint on the movement, seizure, and confiscation of assets and financial resources. UNSC 1267 allows the government of a country where the listed person resides, to take all appropriate actions against them (UNSC, Resolution 1267, 1999). The UNSC's sanction monitoring team for Pakistan has undertaken measures to comply with resolution 1267. India has accused Pakistan of sheltering Hafiz Saeed accused of being involved in the Mumbai attacks, however, India had failed to establish such allegations through provisions of any evidence. Pakistan had already released a list of proscribed organisations, including Lashkar-e-Taiba and Jamaat-ud-Dawa, including others (as set out in Table 1.1 of this thesis). It would appear that Pakistan is doing its best in acting against organisations suspected of being involved in terrorist activities. Pakistan is determined to comply with UNSC resolution 1267 as the Ministry of Foreign Affairs has released Statutory Regulatory Orders (SROs) for legalising the implementation of sanctions against proscribed individuals/groups/organisations. Moreover, the State Bank of Pakistan is strongly advised to disseminate instructions to its subject bodies for taking actions and reporting promptly to ensure compliance with the relevant notifications (Asghar, 2018). In 2015, UNSC resolution 2253 was adopted, which focused on terrorism as the main problem for world security.

### **2.2.5 Security Council Resolution 2253**

This resolution was passed by the United Nations Security Council on 17th December 2015. It focused on terrorism as the main threat towards international peace and security, including any act of terrorism no matter where it is committed and who is involved in it. It also condemned the Islamic State of Iraq and the Levant (ISIL (Da'esh)) and Al-Qaida for conducting terrorist activities, killing innocent people, property destruction, and affecting stability. It also emphasised that international cooperation is necessary in this regard and that no state, religion, and society should be associated with terrorism. It showed concern over the presence of ISIL in the Middle East and Northern Africa. It desired the need to treat terrorism and reiterated that all countries should prevent and suppress the financing of terrorism and they should not provide any sort of support to entities or individuals involved in terrorism. It stressed imposing sanctions (on anyone supporting ISIL or Al-Qaida) as an essential tool under the charter of the United Nations to counter-terrorism and to include it in the sanctions list.

The resolution also focused on the capacity building of the member states to counter terrorism and its financing. It appreciated the efforts of the INTERPOL and UNODC in technical assistance and capacity enhancement of the member states. It also appreciated moves by other bodies of the UN, primarily the United Nations Counter-Terrorism Implementation Task Force (CTITF) to ensure overall consistency and coordination in the counter-terrorism determinations of the United Nations system. It especially mentioned not to entertain kidnapping for ransom and hostage-taking either for political concessions or to raise funds using applicable laws for the safe release of hostages/captives. It emphasised that member states should prevent terror financing, terrorist organisations, and individuals and take measures against them even in the absence of a specific link to terrorist activities including the funds generated through organised crime and transnational organised crime vis-à-vis trafficking of artefacts, arms, gold, drugs, precious metals and stones, oil, charcoal, wildlife, minerals, extortion, bank robberies, and other crime.

The resolution also recognised the prevention of abuse of charitable organisations, NGOs, and NPOs for terrorism purposes. It also called on member countries to accelerate their efforts on the exchange of information regarding cross-border movements of arms and to enhance the same nationally, regionally, and internationally. It also reiterated the necessity to suppress and

prevent terrorist recruitment, transportation, preparing foreign terrorist fighters, and travel financing internationally. It reiterated that member countries should prevent entry or transit in respective countries for suspects involved in foreign terrorist fighter activities. It also stressed that any kind of trade activity with ISIL and their associates should be halted. It also condemned the exploitation and abuse of women and children by ISIL and associated members (UNSCR, 2253, 2015). Pakistan has also signed international conventions to counter the illicit trade of drugs, organised crime, suppression of TF, and corruption.

Pakistan has taken many steps towards improving its Anti-Money Laundering and Counter Financing of Terrorism regime. A National Risk Assessment (NRA) was conducted in 2017 for the implementation of a cohesive action plan. Making its integrated database for currency declaration regime operational (FATF, 2019c), the National Security Committee of Pakistan has proscribed Falah-e-Insaniat Foundation and Jamaat-ud-Dawa and authorised speedy action against terrorist groups within the country (Khan, 2019). Pakistan has also positively reacted to targeted monetary sanctions and asset confiscation of proscribed organisations and taken steps to obstruct the flow of funds to banned/proscribed organisations like Lashkar-e-Taiba, Jaish-e-Muhammad, Falah-e-Insaniat Foundation under the UN resolutions. A list of suspected accused persons as required under UN resolutions has been prepared by Pakistan, and under ATA, different cases have been registered against them. As per international standards, airports and border regulatory facilities were developed to restrain cash smuggling and money laundering. Lists have also been prepared about financial service providers, and an updated list of proscribed organisations has been provided to the relevant national and international stakeholders (Kiani, 2019a).

## **2.2.6 The Vienna Convention**

The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances took place in Vienna in December 1988. It was the first international tool to consider the issue of criminal proceeds besides demanding that countries declare money laundering as a criminal offence (UNODC, 2017). The massive amount of funds acquired from the illegal drug trade and psychotropic substances and the tendency to launder these proceeds damages the economy (FATF, 2011). As discussed in Section 2.2.2 of this thesis, organised crime is linked with TF, and Pakistan is also a signatory of the UN convention against Transnational Organised Crime.

### **2.2.7 United Nations Convention against Transnational Organised Crime (the Palermo Convention)**

The convention was ratified by the UN General Assembly on 15 November 2000. It is the primary global tool in countering transnational organised crime. It was signed in Palermo, Italy, in December 2000 and came into force on 29 September 2003. Member states welcomed it as a significant measure in fighting against organised crime. The development of the convention followed an improved understanding during the last few decades that the hazards of organised crime were no longer merely a domestic one but had grown internationally. The cognizance that an international risk requires an international response became a necessary driving force. The convention is augmented by obligations targeting specific areas of organised crime, i.e., elimination, suppression, and the imposition of penalties for human smuggling especially of women and children, smuggling of migrants, and illegal production and supply of weapons and ammunition (UNTOC, 2018). Pakistan is a signatory to the Palermo Convention (UNTC, 2010). Identifying that blocking financing for terrorism can eliminate terrorism acts; an international convention was signed for the suppression of the financing of terrorism.

### **2.2.8 International Convention for the Suppression of the Financing of Terrorism**

Drafted on 9th December 1999 and made effective on 10th April 2002, the International Convention for the Suppression of the Financing of Terrorism was made to sustain international peace and security and elimination of terrorism from the world (UN, 1999). The collection/distribution of finance to support terrorism acts was criminalised in the International Convention for the Suppression of the Financing of Terrorism 1999 (Ryder, 2018). It condemned terrorism as unjustifiable whosoever commits it. It also encourages the member countries to aim for a detailed legal framework covering all aspects of counter-terrorism. It was focused on the prevention of financing of terrorists, including the funding through charitable organisations or criminal activities by adopting regulatory measures to seize movement of funds for suspected TF and to accelerate the exchange of information about the movement and transactions of such funds. It intended the adoption of effective measures for the suppression of TF through the punishment of perpetrators. All signatories should criminalise offenses of TF in their domestic laws. As per Article 5 of the convention,

all signatories should enable a legal entity that has to be held liable even if the person responsible for that legal entity commits the offence of TF. All signatory countries are also to freeze funds related to TF. State parties should take necessary action against the perpetrators involved in TF. All state parties cooperate in assistance in the investigation, prosecution, and prevention of TF (UN, 1999). As corruption is considered the mother of all evils, the international convention against corruption was also signed by Pakistan (Ryder, 2018).

### **2.2.9 International Convention Against Corruption**

The United Nations Convention against Corruption (UNCAC) came into force in 2003 with measures against corruption offences, including local and international bribery, funds embezzlement, money laundering, etc. The convention obliges member states to take adequate anti-corruption measures by establishing bodies and enhancing public-private partnerships in accountability. It encourages member states to criminalise funds embezzlement, bribery, and concealment of laundered proceeds besides promoting international cooperation by the provision of mutual legal assistance to collect data information to be used in courts. Moreover, illegal, and corrupt proceeds are required to be traced, seized, and confiscated, respectively. It concludes with the final step of the asset recovery principle that ensures the objective to return assets to the victim country (United Nations, 2003). Many UN member states are signatories to the convention.

Compliance with this convention by Pakistan is substantial because corruption can provide funds for terrorism. Although Pakistan follows the above international conventions, absolute compliance is missing due to institutional weaknesses which are identified further by the interview responses in Section 4.2 Results supported by Section 2.6 Financial Regulatory Bodies and Designated Law Enforcement Agencies. Other important benchmarks to deal with international terrorism, terrorism financing, and money laundering are FATF 40 recommendations with an additional nine recommendations.

### **2.2.10 Financial Action Task Force (FATF)**

Established in 1989, the FATF was created during the G7 summit in France. FATF is an inter-governmental organisation created by member countries. The main objective of this organisation is to tackle money laundering, terrorist financing, and other threats posed to the

world by fixing parameters for the application of all sorts of measures to combat such threats. It provides guidelines and monitors the implementation of the set parameters by highlighting to the member states their legislative and regulatory status (FATF, 2019d).

FATF is playing an essential role in the global commitment to combatting ML and TF. FATF has made it difficult for criminals to gain from the proceeds of crime and for terrorists to gain easy access to finances. In this connection, FATF made 40 recommendations in April 1990. Later, the FATF issued Eight Special Recommendations to combat terrorist financing in October 2001, which were modified further in October 2004 to nine Special Recommendations and resulted in the 40+9 Recommendations. These Recommendations have a specific set of standards and compelled all member states to comply with them to have a safer world order. The revisions in the recommendations included refining and revision of standards for blocking the finances for terrorism and proliferation of weapons of mass destruction (FATF, 2019e). FATF recommendations sketch out a variety of preventive measures to deal with anti-money laundering. There are nine FATF-style regional bodies across the world to look after the work on combatting ML and TF under the recommendations of FATF.

There are some general standards and objectives that oversee joint FATF assessments as well as “Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT” assessments by the “FATF-style Regional Bodies (FSRB), the IMF, or the World Bank”. It was anticipated that the methodology should ideally, produce reliable and accurate reports of unique expectations, ensuring a level playing field as per the “Mutual Evaluation Report (MER)”, including key summaries, are reliable, particularly regarding results, proposals, and evaluations, ensuring the simplicity and consistency of treatment in relation to the evaluation interaction for all evaluated nations, trying to ensure that the assessment and evaluation practices of all major associations and organisations that is “FATF, IMF, World Bank, FSRB” are the same and are only subject to expectations, it must be clear and direct in terms of promoting the fulfilment of better expectations, identifying and promoting good practice and preparing governments and the private sector for zones that need consolidation, and become adequately clear and knowledgeable to ensure that there are no constant unnecessary delays or overlaps and that resources are being utilized efficiently (APG-MER, 2019).

As a powerful cycle, and the present work within the FATF can take advantage of supplementary alterations in recommendations, interpretation notes, or methods. All nations must be assessed according to the FATF's proposals, interpretative notes, and methodology applicable on the day of the local visit to the country. Hence, it was clarified that whether the assessment was based on the recently revised standards. To ensure suitability for treatment and to obtain an overall monetary picture, the correspondence with the relevant progress components can be relaxed as a characteristic of the next cycle if they have not been evaluated or as a common assessment component (APG-MER, 2019).

### **Asia Pacific Group on Money Laundering - APG:**

It is the most significant FATF style regional body having 41 member countries focused on ensuring the compliance of FATF recommendations on combatting the ML and TF. Its 11 members are also members of the FATF (APG, 2020). Pakistan joined the APG in May 2000 and APG conducted the first mutual evaluation of Pakistan on ML and TF in the year 2004 (FMU, 2004) followed by a second mutual evaluation in June 2009 and the third in October 2019 (APG-MER, 2019). Pakistan was placed on a grey list in 2008 and from 2012 to 2015 for not addressing the structural deficiencies to combat ML and TF (Karim & Hayat, 2019). The study of recent developments of FATF and its subsequent placement of Pakistan on the grey list is imperative for this study.

#### **2.2.11 The FATF Recommendations and Progress of Pakistan**

The Mutual Evaluation Report (MER) of FATF's Asia Pacific Group (APG) has found Pakistan non-compliant (NC) on four recommendations, largely compliant (LC) on nine, compliant (C) on one, and partially compliant (PC) on twenty-six out of total 40 recommendations. The FATF 40 recommendations are summarised into four parts (Ryder, 2015):

- The criminalisation and the confiscation of property laundered
- Steps to be undertaken by financial authorities to curb Terrorism Financing
- Measures to combat money laundering
- Measures to mitigate terrorism financing and promote International Cooperation

Pakistan was placed on the ‘Grey List’ in 2018 due to structural deficiencies in its legislation. In the meeting of October 2019, Pakistan showed progress that was acknowledged by the international community but it remained on the grey list as Pakistan was found Largely compliant on only 5 points out of 27 targeted points.

The FATF had declared Pakistan “fully compliant” on 14 points in February 2020 and set a deadline to ensure compliance to the remaining 13 points – ending originally in June 2020, which was later extended to October 2020 due to the COVID-19 pandemic. The Financial Action Task Force (FATF) has found that Pakistan has successfully complied with 21 out of 27 points of action and decided to keep the country on its 'grey list' until February 2021.

Understanding of the recommendations of the FATF is essential and therefore, the observations of APG for Pakistan in the assessment of ML and TF Risks in the Mutual Evaluation Report of October 2019 are imperative for this study. The rating of the effective and technical compliance as mentioned in the Mutual Evaluation Report of Pakistan, 2019 by the APG is reproduced in Table 2.2.

**Table 2.2 Effectiveness and Technical Compliance Ratings- Pakistan 2019**

**Effectiveness Ratings**

**IO (Immediate Outcome)**

<b>IO.1</b> Risk, policy, and coordination	<b>IO.2</b> International cooperation	<b>IO.3</b> Supervision	<b>IO.4</b> Preventive measures	<b>IO.5</b> Legal persons and arrangements	<b>IO.6</b> Financial intelligence
<b>Low</b>	<b>Moderate</b>	<b>Low</b>	<b>Low</b>	<b>Low</b>	<b>Low</b>
<b>IO.7</b> ML investigation and prosecution	<b>IO.8</b> Confiscation	<b>IO.9</b> TF investigation and prosecution	<b>IO.10</b> TF preventive measures and financial sanctions	<b>IO.11</b> PF financial sanctions	

Low	Low	Low	Low	Low
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**Technical Compliance Ratings (C- compliant, LC- largely compliant, PC- partially compliant, NC- non-compliant)**

<b>R.1</b> Assessing risk & applying a risk-based approach	<b>R.2</b> National cooperation and coordination	<b>R.3</b> Money laundering offence	<b>R.4</b> Confiscation & provisional measures	<b>R.5</b> Terrorist financing offence	<b>R.6</b> Targeted financial sanctions – terrorism & terrorist financing
PC	LC	LC	LC	LC	PC
<b>R.7</b> Targeted financial sanctions-proliferation	<b>R.8</b> Non-profit organisations	<b>R.9</b> Financial institution secrecy laws	<b>R.10</b> Customer due diligence	<b>R.11</b> Record keeping	<b>R.12</b> Politically exposed persons
PC	PC	C	PC	LC	PC
<b>R.13</b> Correspondent banking	<b>R.14</b> Money or value transfer services	<b>R.15</b> New technologies	<b>R.16</b> Wire transfers	<b>R.17</b> Reliance on third parties	<b>R.18 -</b> Internal controls and foreign branches and subsidiaries
LC	PC	PC	LC	PC	PC
<b>R.19</b> Higher-risk countries	<b>R.20</b> Reporting of suspicious transactions	<b>R.21</b> Tipping-off and confidentiality	<b>R.22</b> DNFBPs: Customer due diligence	<b>R.23</b> DNFBPs: Other measures	<b>R.24</b> Transparency & BO of legal persons
PC	PC	PC	NC	PC	PC
<b>R.25</b> Transparency & BO of legal arrangements	<b>R.26</b> Regulation and supervision of financial institutions	<b>R.27</b> Powers of supervision	<b>R.28</b> Regulation and supervision of DNFBPs	<b>R.29</b> Financial intelligence units	<b>R.30</b> Responsibilities of law enforcement and investigative authorities
NC	PC	PC	NC	PC	PC
<b>R.31</b> Powers of law enforcement and	<b>R.32</b> Cash couriers	<b>R.33</b> Statistics	<b>R.34</b> Guidance and feedback	<b>R.35</b> Sanctions	<b>R.36</b> International instruments

investigative authorities					
PC	PC	PC	PC	PC	LC
<b>R.37</b> Mutual legal assistance	<b>R.38</b> Mutual legal assistance: freezing and confiscation	<b>R.39</b> Extradition	<b>R.40</b> Other forms of international cooperation		
PC	NC	LC	PC		

The crucial points identified by the FATF in early 2020, wherein Pakistan needs to work, included the demonstration of (Haider, 2020):

1. Effectiveness of sanctions with remedial actions to curb terrorism financing in Pakistan.
2. To ensure improved effectiveness in curbing financing of banned outfits.
3. Action against illegal Money Value Transfer System – MVTS like Hundi Hawala.
4. Put in place a sanctions regime against cash couriers.
5. Ensure logical conclusions of TF investigations of cases against banned persons and organisations.
6. To ensure international cooperation in investigations and convictions against banned organisations and proscribed persons.
7. To ensure effective domestic cooperation between FMU and LEAs in TF investigations.
8. Prosecution of banned outfits and proscribed persons.
9. Demonstrate convictions from a court of law of banned organisations and proscribed persons.
10. Seizures of properties of banned organisations and proscribed persons.
11. Conversion of Madrasahs into official schools.
12. To halt funding of banned organisations and proscribed persons.
13. To place a permanent mechanism for management of properties and assets owned by banned organisations and proscribed persons.

Pakistan has tried to address the observations of the APG to get itself removed from the grey list of the FATF and the Government of Pakistan, to be in line with the FATF observations, have taken numerous steps including the introductions of new bills and amendments in the already existing Acts. These are discussed in the line with FATF recommendations as following:

### **The Status of Compliance of 40 Recommendations of FATF as of October-2020**

It is pertinent to mention that before the assessment of Pakistan by the Asia Pacific Group there was no parameter for assessment of terrorism financing risks. The MER provided the first in depth assessment of the financial regulations against international standards in the form of FATF Recommendations. It is very important to discuss the status of compliance because these recommendations played a vital in prevention of the TF. The FATF Recommendations set out a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction.

#### **1. Assessing risks and applying a risk-based Approach**

The risk-based approach serves as a backbone in the effective implementation of the FATF recommendations. Applying a risk-based approach means identification, assessment, and understanding of ML/TF risks in a country and taking appropriate measures, devising a co-ordinated strategy and mechanism for mitigating risks by exploiting maximum possible resources. States are required to ensure compliance of actions following the identified risks as low, medium, or high. Moreover, they are also required to streamline their financial and non-financial institutions and stakeholders to identify, evaluate and execute effective action to lower the threats of money laundering and terrorist financing (FATF, 2019g).

According to the Mutual Evaluation Report of Pakistan by the APG the National Risk Assessment 2017, Pakistan was assigned a moderate rating for ML and TF. The Committee concluded that it is deficient in the detailed analysis of risks and threats. There are diversified levels of understanding of Pakistan's ML/TF risks among relevant authorities, although the private sector and DNFBP were ignored while sharing NRA. DNFBPs are comprised of accountants, lawyers, real estate agents, notaries, and precious stones dealers. DNFBPs are not good at screening customers to identify whether a customer belongs to any proscribed

entity or acting on behalf of any proscribed body. DNFBPs are not supervised for AML/CFT compliance and have inadequate understanding of ML/TF risks. Moreover, no Suspicious Transaction Report (STR) reporting have yet been made by DNFBPs yet. It is also important to highlight here that the State Bank of Pakistan (SBP) serves as a specified supervisor for banks and financial institutions but there is no AML/CFT supervision on DNFBP sector and registration requirements and obligations for precious stone dealers, real estate brokers, accountants and notaries. There is also a communication gap among DNFBPs and financial institutions and no funds have been frozen by DNFBPs as per UNSCR 1267 and 1373. Pakistan is unable to incorporate a comprehensive and co-ordinated risk-based approach in combating ML and TF even after establishing a multi-disciplinary perspective to enforce AML/CTF regime. Pakistan has partially complied with this recommendation (APG-MER, 2019).

## **2. National Co-operation and Co-ordination**

As per the identified risks, which should be reviewed regularly, countries are required to make national policies for AML/CFT besides designating a co-ordinating authority or making a centralised mechanism for such procedures. The effective mechanisms need to be ensured by all stakeholders, especially the financial intelligence unit (FIU), including law enforcement agencies and competent authorities at operational and policy-making levels. It should be efficient enough to extend co-operation, coordination, and exchange of information and data (keeping in view the data protection and privacy rules and provisions) at the domestic level regarding development. Also, implementation of combating money laundering, terrorism financing, and weapons of mass destruction proliferation activities is another area where greater level of co-ordination is needed at the national level (FATF, 2019g).

Pakistan lacks risk identification, and specific measures have not been taken. Operational risk-based focus is missing, and TF is dealt with generally whereas there is a need for specific strategy in this regard. Besides this, there is a gap in policy-making in crucial areas like Hawala/Hundi and Real Estate. Pakistan has largely complied with this recommendation (APG-MER, 2019).

The National Counter Terrorism Authority (Amendment) Act, 2020 is associated with the changes in hierarchy and streamlining coordination. As per Section 5(1), the Minister of

Interior will serve as head of the Board of Governors convening NACTA rather than Prime Minister. This section has also included Inspector- Generals of all provinces and Home Secretaries as members in the Board of Governors. Section 8 provides the membership of Additional Secretaries of relevant ministries to attend the meetings of Executive Committee. This amendment is particularly in compliance with Recommendation 2 and extends to Immediate Outcome 1 (Risk, Policy and Coordination) under technical compliance (NACTA, 2020).

Secondly, the Anti-terrorism (Amendment) Act, 2020 addresses insufficient penalties for violations of asset seizure provided in Section 11-O in ATA, 1997. Section 2 adds to the definition of the person, amendments were made in sub-section (2) of 11-O and sub-section 3 with addition of a new Section 11-OOO for compliance on the decisions of UNSC resolutions. This legislation also reinforces Immediate Outcome 1 (Risk, Policy and Coordination), Immediate Outcome 5 (Legal persons and arrangements) and Immediate Outcome 10 (TF preventive measures and financial sanctions) for effective compliance and Recommendation 2 under technical compliance (ATA-I, 2020).

‘Mutual Legal Assistance (Criminal Matters) Act, 2020’ also adheres to this recommendation in ensuring national cooperation and coordination by the provision of mutual legal assistance to other countries in dealing with money laundering and TF investigations (MLA, 2020). Another amendment titled United Nations (Security Council) (Amendment) Act, 2020 has been made in UN Act, 1948 to ensure LEAs to cooperate and exchange information for concerning decisions directed by UNSC as well as implementation of policies in countering ML/TF (UNSC, 2020).

Anti-Money Laundering (Second Amendment) Act, 2020 clarifies and amends many definitions in Section 2. It clarifies National Accountability Bureau (NAB) as an investigating and prosecuting agency along with CTDs, FIA and others. It also outlines the powers/authorities of other regulatory authorities for AML/CFT. This amendment also ensures extensive collaboration and coordination among various agencies and stakeholders. Other than this recommendation, this law also contributes to Immediate Outcome 2 (International Cooperation), Immediate Outcome 3 (Supervision) and Immediate Outcome 7 (ML investigation and prosecution) for effective compliance (AMLA-II, 2020). Now the third recommendation of FATF is about the offences of money laundering.

### **3. Money laundering offences**

The Vienna Convention and Palermo Convention are set as standard to criminalise money laundering. Countries should apply the crime of money laundering to all severe crimes to cover the broadest range of predicate offences (FATF, 2019g). Pakistan is deficient in predicate offences scope of AMLA and sanctions for criminals, the imposition of adequate fines, and ML offence defined under CNSA. Pakistan has largely complied with this recommendation (APG-MER, 2019).

Anti-Money Laundering (Amendment) Act, 2020 was ratified in order to make current AML regime more effective with stringent provisions. Section 4 now clearly states that culprits are going to face more financial penalties ranging 1 to 5 million PKR with authorization to investigating officer for keeping the accused in detention for up to 180 days which was 90 days previously (Section 8, Sub-section 1). Imprisonment has also been extended from 2 to 10 years. The amendment complies with Recommendation 3 as well with Immediate Outcome 3 (Supervision) and Immediate Outcome 7 (ML investigation and prosecution) respectively (AMLA, 2020).

Control of Narcotics Substances Act 1997 has been amended as Control of Narcotics Substances (Amendment) Act, 2020 to rectify the deficiency highlighted by FATF about disguise by making false declaration. This amendment has added ML pursuits to this Act (CNSA, 2020).

Anti-Money Laundering (Second Amendment) Act, 2020 amends many definitions in Section 2 and defines functions and powers of AML/CFT regulatory bodies to issue licenses, regulate and perform functions to comply with the provisions of AMLA. The Amendment addresses the compliance with this recommendation and also adheres to Immediate Outcome 2 (International Cooperation), Immediate Outcome 3 (Supervision) and Immediate Outcome 7 (ML investigation and prosecution) for effective compliance (AMLA-II, 2020).

### **4. Confiscation and provisional measures**

Countries must implement steps similar to those laid down in the Vienna Convention, the Palermo Convention, and the Convention on Terrorist Financing. What it means is that LEAs must adopt measures and legislation is needed for confiscation of property laundered

and proceeds as per the domestic laws of countries when the money trail or ownership documents are not provided during investigations. Only AMLA and NAO encompass confiscation of property of corresponding value, but the CrPC has no such provision. Pakistan has largely complied with this recommendation (APG-MER, 2019).

## **5. Terrorist financing offence**

Terrorist financing in all its forms, whether an individual act or in a group, along with its organisations should be criminalised and countries are required to ensure that such offences are referred to as predicate offences for money laundering (FATF, 2019g). Penalties are not defined, and the smooth application of the TF offence requires laws to ban persons and organisations. Moreover, it is not explicitly criminalised to provide funding for travelling purposes of terrorists. Pakistan has largely complied with this recommendation (APG-MER, 2019).

## **6. Targeted financial sanctions related to terrorism and terrorist financing**

UNSC resolutions to prevent and suppress terrorism and terrorism financing require comprehensive implementation. Assets must be frozen without delay, and targeted financial sanctions should be implemented. Thus, there must be compliance with resolutions 1267 (1999) and 1373 (2001) (FATF, 2019g). Legal framework for terrorism financing in Pakistan requires some measures such as access to frozen funds and information collection by concerned agencies with lawful authority, but enforcement is missing for affected persons. Pakistan has partially complied with this recommendation (APG-MER, 2019).

In compliance with Recommendation 6, amendment has been made in the Anti-Terrorism Act, 1997 titled as Anti-Terrorism (Amendment) Act 2020. Section 2 adds up to the definition of Person, describing it as “any natural, legal person or body corporate”. The amount of fine has been increased from 10 million PKR to 25 million PKR by amending Subsection 2 of Section 11-O. In Sub-section 3, fine and punishment have been extended for officers and employees, if found guilty. A new Section has also been added for outlining penalties and punishments in case of non-compliance with UNSC resolutions (ATA-I, 2020).

There is another amendment in ATA in 2020 titled ‘Anti-Terrorism (Second Amendment) Act, 2020’ that modifies Section 11EE- 2 by prohibiting the issuance of

financial aid or loans to banned outfits and their associates. It directs all financial institutions including bank to avoid issuing credit cards to the persons in the proscribed list. It also revokes weapon licences of these persons and confiscation of their arms. This amendment contributes to Immediate Outcome 8 (Confiscation) and Immediate Outcome 10 (TF preventive measures and financial sanctions) for effective compliance and this recommendation for technical compliance (ATA-II, 2020).

## **7. Targeted financial sanctions related to proliferation**

Countries are required to impose targeted financial sanctions immediately to freeze funds and assets. Also, to deny the availability of assets/funds to the benefit of any designated person/entity by UNSC under Chapter VII of the UN charter related to the prevention of the financing of the expansion of mass destruction weapons (FATF, 2019g). Pakistan lacks enforcement prerequisites in freezing natural and legal persons besides protection for bona fide third parties and provision of delisting guidance. FIA and CTDs lack skills and capacity. Pakistan has partially complied with this recommendation (APG-MER, 2019).

‘Anti-Terrorism (Second Amendment) Act, 2020’ also encompasses this recommendation and modifies Section 11EE- 2 by outlawing the issuance of financial aid or loans to banned organisation and their associates. This amendment contributes to Immediate Outcome 8 (Confiscation) and Immediate Outcome 10 (TF preventive measures and financial sanctions) for effective compliance (ATA-II, 2020).

## **8. Non-profit organisations**

Vulnerable Laws regarding NPOs must be reviewed to restrain the TF threat. States are required to take adequate measures as per the risk-based approach to protect NPOs from terrorist financing (FATF, 2019g). Pakistan has pointed out some NPO risks and undertaken some measures to higher risk NPOs, but very restricted actions have been taken in compliance with this recommendation. Pakistan has partially complied with this recommendation (APG-MER, 2019).

## **9. Financial institution secrecy laws**

Secrecy laws of financial institutions must not hinder the implementation of FATF recommendations. Pakistan is rated as compliant with this recommendation (APG-MER, 2019).

## **10. Customer due diligence**

It restricts financial institutions from possessing unknown and bogus accounts. While doing business and transactions, Customer Due Diligence (CDD) measures should be taken. (FATF, 2019g). Pakistan remained partially compliant with this recommendation in 2009. Lack of coverage of some monetary institutions is highlighted with a limited scope of classification criteria for legal entities and arrangements. Moreover, there is a lack of commitment to perform CDD procedures for clients. Pakistan has partially complied with this recommendation (APG-MER, 2019).

In compliance with this recommendation, Pakistan has introduced amendments in ATA and titled it as ‘Anti-Terrorism (Second Amendment) Act, 2020’. It outlined Customer Due Diligence measures as well by ensuring strong surveillance and introduced many checks for preventing bogus accounts and identify the sources and flow of funds. This amendment is associated with Immediate Outcome 8 (Confiscation) and Immediate Outcome 10 (TF preventive measures and financial sanctions) for effective compliance (ATA-II, 2020).

Anti-Money Laundering (Second Amendment) Act, 2020 adds changes in Section 7, with Customer Due Diligence (CDD) mandated, including reliance on third parties to ensure CDD measures. The Amendment addresses this recommendation and also results in Immediate Outcome 2 (International Cooperation), Immediate Outcome 3 (Supervision) and Immediate Outcome 7 (ML investigation and prosecution) for effective compliance (AMLA-II, 2020).

## **11. Record-keeping**

Financial institutions ought to maintain five years of local and international transaction records for swift compliance with information requests from higher authorities. It may serve as a piece of evidence for the prosecution in criminal activities. A thorough record must be maintained by CDD measures, and this process must be made legal (FATF, 2019g). Although some anomalies are there, record-keeping obligations are being performed as per

prescribed criteria. Therefore, Pakistan is mostly compliant with this recommendation (APG-MER, 2019).

The Companies Act 2017 is amended as Companies (Amendment) Act, 2020 to ensure companies policies in compliance with FATF standards. Section 60A has been inducted which says “no company shall allot, issue, sell, transfer or assign any bearer shares, bearer share warrants or any other equity or debt security of a bearer nature, by whatever name called, and any allotment, issue, sale, transfer, assignment or other disposition of any such bearer shares or bearer share warrants or any other equity or debt security of a bearer nature, shall be void.” Section 123-A has made record keeping of beneficial owners’ mandatory for companies. This amendment has been done in compliance with Recommendation 11 (Record Keeping) and it also contributes to Immediate Outcome 5 (Legal Persons and Arrangements) for effective compliance (Companies Act, 2020).

Another important amendment has been introduced in line with this recommendation, the Limited Liability Partnership (Amendment) Act which is aimed to strengthen AML framework in Pakistan by outlining effective procedures to find out money trail and curbing ML offenders. This amendment also contributes to Immediate Outcome 5 (Limited Liability Partnership Act, 2020).

## **12. Politically exposed persons**

Financial institutions need to adopt customer due diligence in addition to following significant systems for risk management to identify whether the beneficiary or customer is a politically exposed person and seek higher authorities’ approval for proceeding business (FATF, 2019g). Pakistan remained partially compliant with this recommendation as there was no specification on PEPs for monetary institutions. The broader ranges of proceedings about PEPs do not apply to ECs. Pakistan has partially complied with this recommendation (APG-MER, 2019).

## **13. Correspondent banking**

Concerning extra-territorial banking and other dealings, it is essential for financial institutions to collect adequate knowledge about the subject institution, assess its AML/CFT benchmarks and standards besides taking approval from higher authorities before any

correspondence. (FATF, 2019g). Pakistan remained largely compliant with this recommendation (APG-MER, 2019).

Anti-Terrorism (Second Amendment) Act, 2020' modified Section 11EE-2 directing banks/ financial institutions to prohibit the issuance of financial aid or loans to banned outfits and their associates. It directs all financial institutions including bank to avoid issuing credit cards to the persons in the proscribed list. This amendment contributes to Immediate Outcome 8 (Confiscation) and Immediate Outcome 10 (TF preventive measures and financial sanctions) for effective compliance and this recommendation for technical compliance (ATA-II, 2020).

#### **14. Money or value transfer services**

Persons, whether natural or legal, who furnish money or value transfer services MVTS should be registered or licensed and are liable to be accessed by the competent authorities. Measures should be taken to ensure the inclusion of MVTS agents in AML/CFT programmes for compliance and active monitoring (FATF, 2019g). Pakistan is declared partially compliant with this recommendation due to the limited range of preventive measures taken for exchange companies, inadequate sanctions and a gap in classifying unregistered remittance providers. Pakistan has partially complied with this recommendation (APG-MER, 2019).

#### **15. New technologies**

New products, practices, and technologies must be incorporated into financial institutions after risk assessment. Virtual service/s providers should be regulated and registered for AML/CFT purposes (FATF, 2019g). Pakistan is identified as partially compliant with this recommendation. Financial Institutions have not identified ML/TF risks associated with new products and technologies (APG-MER, 2019).

#### **16. Wire transfers**

Accurate information of originator and beneficiary must be ensured on wire transfers throughout the payment chain. Countries are required to direct financial institutions to incorporate complete details and take adequate measures in this regard (FATF, 2019g). Pakistan attained a rating of largely compliant on this recommendation. However, there are

no specifications for batch files to carry the requisite information and no requisites for Pakistan Post and ECs to follow risk-based standards as beneficiary monetary institutions. Pakistan has largely complied with this recommendation (APG-MER, 2019).

#### **17. Reliance on third parties**

Countries can empower financial institutions to depend on third parties to carry out factors of CDD measures outlined in Recommendation 10. When reliance is allowed, the paramount liability for CDD measures lasts with the monetary institutions reckoning a third party (FATF, 2019g). Pakistan does not take into account the available information at the country risk level. SBP financial institutions are not subject to strict regulations on reliance on third parties. Besides this, the requirements of this recommendation do not extend to the CDNS and Pakistan Post. Pakistan is assessed as partially compliant with this recommendation (APG-MER, 2019).

#### **18. Internal controls and foreign branches and subsidiaries**

Financial institutions are required to introduce and implement AML/CFT programmes besides issuing SOPs for information sharing for the said purposes. Overseas branches and subsidiaries must comply with homeland standards in the implementation of FATF recommendations (FATF, 2019g). Pakistan Post and CDNS are still vulnerable to AML/CFT requirements. There are no defined prerequisites for FIs to enforce ML/TF programmes. Pakistan is rated as partially compliant with this recommendation.

#### **19. Higher-risk countries**

Effective and upgraded due diligence procedures for business relations and dealing with natural and legal persons are essential for financial institutions. Countermeasures must be applied by the countries independently as directed by the FATF. Identification and cognizance of other countries' AML/CFT weaknesses must be taken into account by the financial institutions (FATF, 2019g). MFBs, CDNS, Pakistan Post and ECs lack the criteria to apply enhanced EDD proportionately to the threat.

Pakistani authorities are deficient in executing countermeasures commensurate with the danger, except for SECP. Pakistan has partially complied with this recommendation (APG-MER, 2019).

## **20. Reporting of suspicious transactions**

If funds are suspicious and believed to be the proceeds of a terrorist/criminal activity, it is a lawful obligation for the financial institution to report to the Financial Intelligence Unit (FIU) without delay (FATF, 2019g). Although all reporting bodies are required to report STRs, there is no mechanism of immediate accountability. Pakistan is rated as partially compliant with this recommendation (APG-MER, 2019).

Anti-Money Laundering (Second Amendment) Act, 2020 has amended many definitions in Section 2. This amendment also ensures a wide range of coordination among authorities. Other than this recommendation, this law also contributes to Immediate Outcome 2 (International Cooperation), Immediate Outcome 3 (Supervision) and Immediate Outcome 7 (ML investigation and prosecution) for effective compliance (AMLA-II, 2020).

## **21. Tipping-off and confidentiality**

Officers and staff of financial institutions should be shielded from civil or criminal liabilities for violation of any limitation on the revelation of data/information especially if they share their suspicion in good faith to the Financial Intelligence Unit (FIU) and disclosing the fact that the STR or other relevant information submitted to FIU is prohibited (FATF, 2019g). Whereas FATF, in its MER October 2019, has reserved that protection of officers and staff of reporting entities is unclear in AMLA of Pakistan. Pakistan has partially complied with this recommendation (APG-MER, 2019).

## **22. Designated Non-Financial Businesses and Professions: Customer Due Diligence – CDD**

The CDD and record maintenance obligations set out in Recommendations 10, 11, 12, 15, and 17 are related to designated non-financial businesses and professions (DNFBPs), e.g., Casinos, when customers get involved in transactions equal to or above the certain denomination. Such businesses include buying and selling of property by real estate agents for their customers, dealers in inexpensive metals/stones, legal experts, notaries, other professionals and accountants for preparing/carrying out financial transactions for their client, trust and company service providers for financial transactions for clients (FATF, 2019g). FATF, in its MER October 2019, has mentioned that there is no definition of CDD in AMLA,

and there is no other provision to address this. Pakistan has not complied with this recommendation (APG-MER, 2019).

### **23. Designated Non-Financial Businesses and Professions - DNFBPs: Other measures**

The requirements defined in Recommendations 18 to 21 extend to all specific non-financial businesses and professions, subject to the mentioned qualifications. Lawyers, notaries, other independent legal professionals, and accountants are needed to report STRs for the financial transaction performed for their clients (FATF, 2019g). FATF, in its MER October 2019, has mentioned that there is no mechanism for prompt reporting of STRs, and there is no other provision to address this. Pakistan has partially complied with this recommendation (APG-MER, 2019).

### **24. Transparency and Beneficial Ownership of Legal persons**

Measures must be taken by countries to ensure availability of in-time-information regarding beneficial ownership of companies/legal persons and also to ensure that these companies/legal persons are not misused for ML and TF by financial institutions and DNFBPs (FATF, 2019g). It is identified in MER 2019 that there are deficiencies in policy-making regarding ML/TF risk mitigation measures in issuance/nominations of shares and warrants Pakistan has partially complied with this recommendation (APG-MER, 2019).

To ensure compliance with this recommendation, the Companies Act 2017 has been amended as Companies (Amendment) Act, 2020. It ensures the availability of timely information of companies' policies/legal persons in accordance with FATF standards. Section 60A has been inducted which says "no company shall allot, issue, sell, transfer or assign any bearer shares, bearer share warrants or any other equity or debt security of a bearer nature, by whatever name called, and any allotment, issue, sale, transfer, assignment or other disposition of any such bearer shares or bearer share warrants or any other equity or debt security of a bearer nature, shall be void." This amendment also contributes to Immediate Outcome 5 (Legal Persons and Arrangements) for effective compliance (Companies Act, 2020).

The Limited Liability Partnership (Amendment) Act aimed to reinforce AML framework in Pakistan is also a progressive step taken by Pakistan to effectively comply with

FATF standards in the light of this recommendation (Limited Liability Partnership Act, 2020).

## **25. Transparency and beneficial ownership of legal arrangements**

To prevent misuse of legal arrangements for ML and TF, there should be access to prompt information on express trusts, along with information on the settlor, trustee, and beneficiaries (FATF, 2019g). As per MER 2019, this recommendation is not complied with by Pakistan. It is mentioned that policy is deficient regarding the collection of information about trusts. Pakistan has not complied with this recommendation (APG-MER, 2019).

The Companies Act 2017 amended as Companies (Amendment) Act, 2020 encompasses transparency and beneficial ownership of legal arrangements. It provides timely information of companies' policies/legal persons in accordance with FATF standards. It also outlines provisions regarding transparency of ownership records, availability of money trail to the rightful owners and restraining the misuse of beneficial ownership. This amendment also contributes to Immediate Outcome 5 (Legal Persons and Arrangements) for effective compliance (Companies Act, 2020). In compliance with this recommendation, the Limited Liability Partnership (Amendment) Act has also been incorporated which has broadened the scope of AML framework in Pakistan (Limited Liability Partnership Act, 2020).

## **26. Regulation and supervision of financial institutions**

All Financial Institutions should regulate, supervise, and implement the FATF Recommendations. Supervisors should take legal or regulatory measures to prevent perpetrators or the beneficial owners of interest or management function in FIs. Shell banks are not to be allowed to operate. There should be an integrated group management for AML/CFT purposes. All FIs providing services of currency exchange or transfer of value should be registered or licensed and comply with national AML/CFT requirements (FATF, 2019g). It is identified that this recommendation is partially adhered to. There is a deficiency in policy and administration in supervision regarding risks in FIs, and there is no requirement to access beneficial ownership. Pakistan has partially complied with this recommendation (APG-MER, 2019).

The movement of foreign currency is regulated by the FERA Act (1947). In 2020, Foreign Exchange Regulations (Amendment) Act, 2020 has been ratified by the parliament and senate aimed to ensure technical compliance of recommendation 26 and contributed to Immediate Outcome 3 (supervision). The recent amendments were made in section 23 to strengthen the role of Tribunal with an addition of sub-section 3B which states that a Tribunal taking cognizance under subsection 1 will finish proceedings within 6 months and extensions may be sought in written (FERA, 2020).

Islamabad Capital Territory Trust Act, 2020 has been introduced in line with this recommendation to regulate registration, administration and monitoring trusts fall within the territory of capital city, Islamabad. This law adheres to Immediate Outcome 3 (Supervision) for effective compliance (ICTA, 2020). Anti-Money Laundering (Second Amendment) Act, 2020 also addresses this recommendation in particular as it strengthens definitions and regulations to ensure effective coordination (AMLA-II, 2020).

Another Act titled as Islamabad Capital Territory Waqf Procedure Act 2020 defines effective management, supervision and administration of waqf properties fall within the territorial limits of Islamabad. This act contributes to this recommendation under technical compliance and enhances supervision insight to the properties vulnerable to be misused for ML/TF purposes. Under effective compliance, it also contributes to Immediate Outcome 3 (Supervision) (ICT-Waqf, 2020).

## **27. Powers of supervisors**

There is a need for supervisors to be given enough powers to ensure compliance by FIs on requirements to deal with ML and TF and to conduct inspections. Supervisors should have enough authority to monitor, initiate disciplinary action, and impose sanctions, including suspension of license on non-complying FIs if required (FATF, 2019g). This recommendation is partially complied with, and there is a need for policy to give powers to the supervisors of SBP and SECP. Lack of supervision is also identified in the Central Directorate of National Savings and Pakistan Post. Pakistan has partially complied with this recommendation (APG-MER, 2019). Islamabad Capital Territory Trust Act, 2020 has been introduced to comply with this recommendation as well. The law also contributes to Immediate Outcome 3 (Supervision) for effective compliance (ICTA, 2020). Anti-Money Laundering (Second Amendment) Act, 2020 also adheres to this recommendation (AMLA-II,

2020). Islamabad Capital Territory Waqf Procedure Act 2020 also adheres to the same recommendation and outlines powers of supervisors as well in connection with properties susceptible to be misused for ML/TF offences. Under effective compliance, it also contributes to Immediate Outcome 3 (Supervision) (ICT-Waqf, 2020).

## **28. Regulation and supervision of Designated Non-Financial Businesses and Professions – DNFBPs**

This recommendation pertains to regulation and supervision of Designated Non-Financial Businesses and Professions such as tax advisors, auditors, external accountants, Company service providers, dealers in precious metals, dealers in precious stones, lawyers, notaries and other independent legal professionals, real estate agents, trusts, etc. for compliance of AML/CFT requirements. They may also be supervised by Self-Regulatory Bodies (SRBs) through “fit and proper” tests (FATF, 2019g). Pakistan has not complied with this recommendation (APG-MER, 2019).

## **29. Financial Intelligence Units**

As per this recommendation, all countries are required to have financial intelligence unit (FIU) as a national centre for the acknowledgment and analysis of STRs and information regarding ML and TF, including predicate offences (if any). Such a unit may obtain information from reporting bodies and quick access to all information, may it be administrative, financial, etc. to function appropriately (FATF, 2019g). Pakistan has the Financial Monitoring Unit (FMU) to serve the purpose, which was established under the AMLA Act 2010. It is an independent intelligence service department of Pakistan to analyse suspicious transactions and ML and TF cases and a financial crime under the commercial laws of Pakistan. This recommendation is partially complied with, and it was highlighted that coordination and policy are deficient with FMU. Further, there is no dissemination of information by FMU to the provincial CTDs. Pakistan has partially complied with this recommendation (APG-MER, 2019).

## **30. Responsibilities of law enforcement and investigative authorities**

As per this recommendation, all countries, as per their AML/CFT laws, designate LEAs with authority for ML and TF investigations. In the legislation of European countries, law enforcement can conduct parallel investigation of ML and predicate offence, and the established circumstantial evidence serves as sufficient proof that proceeds of crime are derived from ML (Sittlington & Harvey, 2018). The designated agencies to start parallel TF investigations in all cases related to major proceeds-generating offences of ML, TF, and predicate offences. It is also to be ensured that action is initiated against suspected assets that have reasons to believe that they are acquired through proceeds of crime to be frozen and seized. It is also stressed that investigations with authorities of other countries should be conducted if required (FATF, 2019g). Pakistan has partially complied with this recommendation as there is the Federal Investigation Agency and provincial Counter Terrorism Departments to deal with such investigations. But deficiency is highlighted in AMLA as there is no provision for the conduct of parallel investigations of TF in predicate offences. There is also a deficiency of policy in powers of designated LEAs in confiscations. (APG-MER, 2019).

‘Mutual Legal Assistance (Criminal Matters) Act, 2020’ also outlines the responsibilities of law enforcement and investigative authorities in dealing with money laundering and associated predicate offences along with TF investigations, prosecutions and other related proceedings. It enhances mutual cooperation and adhered to Immediate Outcome 2 (International Cooperation), Immediate Outcome 3 (Supervision), Immediate Outcome 5 (Legal Arrangements), Immediate Outcome 6 (Financial Intelligence), Immediate Outcome 7 (ML investigation and prosecution) and Immediate Outcome 9 (TF Investigation and Prosecution) and for technical compliance it is associated with Recommendation 30 as well (MLA, 2020).

The Anti-Terrorism (Third Amendment) Act, 2020 introduced Section 19-C that allows investigating officers to go under cover, intercept communications, assess personal computers to deal with TF cases. These techniques may be used with the prior permission of court. This amendment has contributed to Immediate Outcome 9 (TF Investigation and Prosecution) for effective compliance and this recommendation in particular (ATA-III, 2020).

Anti-Money Laundering (Second Amendment) Act, 2020 clarifies responsibilities of law enforcement and investigative authorities by defining them explicitly in this act. It also

ensures effective coordination among various stakeholders. The amendment was made in connection with this recommendation also (AMLA-II, 2020).

### **31. Powers of law enforcement and investigative authorities**

It is necessary to provide access to significant documents and data during investigations and prosecutions of ML and TF and related predicate offences. FIs, DFNBPs, legal or natural persons are to provide records for the search of persons and places, witness statements, confiscations, and acquiring evidence. Authorities are to utilise a wider variety of investigative tools; undercover operational activities, obstructing communications, accessing systems, and controlled delivery for investigations of ML, TF, and predicate offences. There should be a proper mechanism to promptly identify holding or controlling of accounts by natural or legal persons, process to identify assets without information to the owner, access to the information contained by FIU (FATF, 2019g). Pakistan has partially complied with this recommendation. The deficiency of coordination among FMU and investigative agencies is identified. There is an administrative deficiency in the identification of account holders by LEAs. A gap in policy is also recognised in limited investigative powers, undercover operations, etc., for timely investigations. (APG-MER, 2019).

Anti-Money Laundering (Amendment) Act, 2020 was passed by the National assembly and senate to strengthen the current AML regime in Pakistan with more strict provisions. Section 4 states that perpetrators will be subjected to more financial penalties from 1 million to 5 million PKR. The amended act now equips an investigation officer to detain a person in remand up to 6 months which was earlier 3 months as per Section 8, Subsection 1. The sentences would also be increased from 2 to 10 years imprisonment. Under effective compliance, this amendment accorded Immediate Outcome 3 (Supervision) and Immediate Outcome 7 (ML investigation and prosecution). It also complied with Recommendation 31 by augmenting the authority of investigating officer (AMLA, 2020).

The Anti-Terrorism (Third Amendment) Act, 2020 also serve as an effective step taken in compliance with this recommendation. It introduced Section 19-C that empowers law enforcement and investigating officers to adopt a variety of techniques and procedures by seeking the permission of courts in dealing with TF cases (ATA-III, 2020).

Anti-Money Laundering (Second Amendment) Act, 2020 outlines powers of law enforcement and investigative authorities as well by explaining them vividly. It also ensures effective coordination among different authorities and their powers. The amendment was made in connection with this recommendation also (AMLA-II, 2020).

### **32. Cash couriers**

There should be a mechanism of disclosure to detect the physical transfer of currency and negotiable instruments across the territories, cross-border exchange or movement of currency and bearer negotiable instruments and the same to be stopped if found suspected of involvement in ML, TF or predicate offence. Countries should ensure that their authoritative bodies have legal powers to restrain or cease currencies or bearer negotiable instruments suspected for probable connection with terrorism financing or predicate offences. It is also to be ensured that provisions of effective sanctions and confiscations are available for false declaration of such transfers (FATF, 2019g). Pakistan has partially complied with this recommendation. Deficiency in inter-agency coordination for the detection of cross border cash movement is identified. (APG-MER, 2019).

### **33. Statistics**

There should be a detailed record of statistics of STRs on terrorism financing and money laundering investigations, prosecutions, and further convictions, confiscations, MLAs, etc (FATF, 2019g). Pakistan has partially complied with this recommendation. Deficiency of administration in the maintenance of statistics that could provide meaningful evidence in cases was found in Pakistan (APG-MER, 2019).

### **34. Guidance and feedback**

There should be the provision of proper guidelines for establishments, supervisors, and SRBs for FIs and DNFBPs for combatting ML and TF and in detection and reporting of STRs (FATF, 2019g). Pakistan has partially complied with this recommendation. Deficiency in coordination is highlighted in MER 2019 of APG. (APG-MER, 2019).

### **35. Sanctions**

It is to be ensured by all member states that effective administrative, criminal, or civil sanctions are in place to deal with natural or legal persons for non-compliance of ML and TF regulations (FATF, 2019g). Pakistan has partially complied with this recommendation. Deficiency in limited sanctions on ML and TF cases outside the banking sector was noticed in MER 2019 of APG. (APG-MER, 2019).

Anti-Terrorism Act, 1997 has been amended as Anti-Terrorism (Amendment) Act, 2020 in compliance with this recommendation. Sanctions have been extended adding up to the definition of the Person in Section 2 and by increasing the penalties from 10 million PKR to 25 million PKR in Section 11-O, Sub-section 2. By amending Sub-Section 3, fine has been increased up to 25 million PKR or 10 years imprisonment or both for officers/employees, if guilty. Another Section 11-OOO is included to comply with UNSC Resolutions 1267 and 1373 and its non-compliance is a punishable offence leading to 10 years imprisonment or a fine of 25 million PKR or both (ATA-I, 2020).

In UN Act 1948, there was an absence of any indemnity clause to provide protection to persons implementing in good faith. Therefore, United Nations (Security Council) (Amendment) Act, 2020 has been made in order to provide remedy for the above. It also encompasses punishment to the offenders with defined mechanism. Section 3, 4 and 5 have been amended in this regard. This amendment sticks to Immediate Outcome 1 (Risk, Policy and Coordination) and Immediate Outcome 5 (Legal persons and arrangements) for effective compliance and for technical compliance it adheres to this one i.e., Recommendation 35 (UNSC, 2020).

Another amendment in ATA in 2020 titled 'Anti-Terrorism (Second Amendment) Act, 2020' modified Section 11EE- 2 by imposing different sanctions to financial institutions including banks. The purpose is to restrict financial institutions in facilitating persons in the proscribed list. This amendment contributes to Immediate Outcome 8 (Confiscation) and Immediate Outcome 10 (TF preventive measures and financial sanctions) for effective compliance and this recommendation for technical compliance (ATA-II, 2020).

### **36. International instruments**

All countries are required to follow and implement the Vienna Convention, 1988; the Terrorist Financing Convention, 1999, the subsequent Palermo Convention, 2000; furthermore, the United Nations Convention against Corruption, 2003 (FATF, 2019g). Pakistan has mostly complied with this recommendation. Deficiency in administration policy for the implementation of the above convention was noticed in MER 2019 of APG. (APG-MER, 2019).

‘Mutual Legal Assistance (Criminal Matters) Act, 2020’ is designed to outline international instruments as well in order to extend mutual cooperation and bridging gap in the providing and seeking legal help with other countries. For effective compliance, it is conformed to Immediate Outcome 2 (International Cooperation), Immediate Outcome 3 (Supervision), Immediate Outcome 5 (Legal Arrangements), Immediate Outcome 6 (Financial Intelligence), Immediate Outcome 7 (ML investigation and prosecution) and Immediate Outcome 9 (TF Investigation and Prosecution) and for technical compliance it is also associated with Recommendation 36 (MLA, 2020). The next recommendation helps understanding more about it and extends further assistance.

### **37. Mutual legal assistance**

Countries should have mutual legal assistance in connection with ML, TF, and related predicated offence investigation and proceedings. States are required to equip themselves with a legal basis for support, and there should be treaties for MLA for enhanced cooperation among countries (FATF, 2019g). In MER 2019 of APG, Pakistan has partially complied with this recommendation. Deficiency in policy to have MLAs with other countries was found. There is a lack of legal basis in law for the provision of MLA in such cases. LEAs lack powers to execute MLA requests. (APG-MER, 2019).

For Mutual legal assistance, ‘Mutual Legal Assistance (Criminal Matters) Act, 2020’ is promulgated to enhance cooperation and bridge gap among countries in providing and seeking legal aid in investigating criminal offences. This Act provides mechanisms for international cooperation by creating broadest possible range of mutual legal assistance in connection with money laundering, TF investigations and related proceedings. Section 3 outlines the procedure to be followed in case of absence of reciprocal agreement or

arrangements among countries. In terms of effective compliance, it is associated with Immediate Outcome 2 (International Cooperation), Immediate Outcome 3 (Supervision), Immediate Outcome 5 (Legal Arrangements), Immediate Outcome 6 (Financial Intelligence), Immediate Outcome 7 (ML investigation and prosecution) and Immediate Outcome 9 (TF Investigation and Prosecution) and for technical compliance it is also adhered to Recommendation 37 (MLA, 2020).

### **38. Mutual legal assistance: freezing and confiscation**

There should be rapid appropriate freezing and confiscation action on requisitions of foreign countries on the laundered property, ML, predicate offences, and TF cases. Such property or instruments of corresponding equivalent values should be effectively managed (FATF, 2019g). Pakistan has not complied with this recommendation. There is no provision of MLA in terrorism or predicate offence cases, as identified in MER 2019 of APG. (APG-MER, 2019).

‘Mutual Legal Assistance (Criminal Matters) Act, 2020’ also outlines this recommendation for providing mutual legal assistance in freezing and confiscation on the requests of other countries. In terms of effective compliance, it is associated with Immediate Outcome 2 (International Cooperation), Immediate Outcome 3 (Supervision), Immediate Outcome 5 (Legal Arrangements), Immediate Outcome 6 (Financial Intelligence), Immediate Outcome 7 (ML investigation and prosecution) and Immediate Outcome 9 (TF Investigation and Prosecution) and for technical compliance it is also adhered to Recommendation 38 (MLA, 2020).

### **39. Extradition**

There should be a mechanism for repatriation requests for perpetrators involved in ML and TF cases promptly. Safe havens should not be provided for terrorists or their financiers. It is to be ensured that ML and TF are extraditable offences, timely implementation on repatriation requests, case management system, no undue restrictions on executions of claims, and sufficient legal basis to support extradition. Countries must extend co-operation with each other in procedural and evidential dimensions for effective prosecutions of such cases. The officials mandated for extradition must be provided with sufficient human, financial, and technical logistics (FATF, 2019g). Pakistan has mostly complied with this

recommendation. Deficiency in administration policy is found in the case management system and simplified procedures as per MER 2019 of APG. (APG-MER, 2019).

#### **40. Other forms of international cooperation**

There should be a speedy and efficient provision of international co-operation with regards to TF, ML, and related predicate offences. All countries should have adequate laws to provide the basis for such co-operation. There should be MOUs for bilateral and multilateral agreements with maximum counterparts for assistance in this regard (FATF, 2019g). Pakistan has partially complied with this recommendation. Deficiency in coordination was noticed in MER 2019 of APG. (APG-MER, 2019).

In order to strengthen international cooperation, a law has been formulated entitled as ‘Mutual Legal Assistance (Criminal Matters) Act, 2020’. This act defines the procedure of providing and seeking legal aid from foreign countries/governments in investigating criminal offences. Section 3 outlines that in case of absence of reciprocal agreement or arrangements, the provisions of MLA act will be followed. This act was formulated to seek international cooperation in criminal matters by mutual legal assistance. In terms of technical compliance, it is associated with Recommendation 40 (MLA, 2020).

They have been recognised, endorsed, or adopted by many international bodies. The Recommendations are neither complex nor difficult, nor do they compromise the freedom to engage in legitimate transactions or threaten economic development. They set out the principles for action and allow countries a measure of flexibility in implementing these principles according to their particular circumstances and constitutional frameworks. Though not a binding international convention, many countries in the world have made a political commitment to combat money laundering by implementing the 40 Recommendations.

#### **FATF Nine Special Recommendations**

In 2001, as terrorism financing gained importance, FATF, in addition to its above mentioned 40 recommendations, included eight Special Recommendations on terrorist financing (FATF, 2019h). Subsequently, in 2004 one more recommendation was added to the eight special recommendations and made the number nine, therefore making the number 40+9 recommendations of FATF on ML and TF to strengthen the global financial system

with better tools for combating financial crime. Those additional nine special recommendations are discussed as follows:

#### **I. Ratification and implementation of UN instruments**

Countries are required to take steps for ratifying and implementing the UN convention for suppressing the finance of terrorism besides other pertinent resolutions, especially UNSC 1373. (FATF, 2012).

#### **II. Criminalising the financing of terrorism and associated money laundering**

Sponsoring terrorism, terrorism activities, and groups must be outlawed and declared as predicate offences under money laundering by all countries (FATF, 2012).

#### **III. Freezing and confiscating terrorist assets**

Assets and funds of terrorists must be frozen immediately by all countries as per UN resolutions for preventing and suppressing terrorist financing besides adopting concrete legislative measures for the confiscation of properties that facilitate terrorist financing (FATF, 2012).

#### **IV. Reporting suspicious transactions related to terrorism**

Suspected funds should be reported to the relevant authorities by financial institutions or other entitled bodies (FATF, 2012).

#### **V. International co-operation**

Mutual co-operation and legal assistance among countries must be enhanced to exchange information, assist in investigations, inquiries, and proceedings relating to terrorism financing. Safe havens must not be provided to any individual involved in any sort of TF activity, and procedures must be adopted for extradition (FATF, 2012).

## **VI. Alternative remittance**

Unregistered or unlicensed remittance entities, including agents, must get registered subject to the FATF recommendations for financial institutions. Sanctions should be imposed on the entities involved in the illegal transmission of funds (FATF, 2012).

## **VII. Wire transfers**

To ensure transparency and monitoring of suspicious activities, complete originator information on funds transfers must be guaranteed by financial institutions/remitters (FATF, 2012).

## **VIII. Non-profit organisations**

NPOs are vulnerable to be exploited for TF, and avoiding the exploitation of Non-profit organisations by terrorist entities must be ensured by every country by reviewing laws and regulations (FATF, 2012).

## **IX. Cash couriers**

Steps should be taken to identify cross-border transportation of currency/instruments. Countries must empower their authorities to check suspected currencies or instruments, especially regarding falsely declared and disclosed entities. Legislative measures in compliance with Recommendation 3 and Special Recommendation must be taken to confiscate prospective currency and financial instruments for ML and TF (FATF, 2012).

There was a regular practice of physically taking away Pakistani currency to UAE and other middle eastern countries by human couriers known as 'Khepias' in local language. These individuals would carry bundles of cash on flights mainly from Karachi and Lahore outside the country. The basic objective was to sell the currency on premium to huge Pakistani expatriate labour class working in middle east. The labour class would purchase this currency at premium for sending it to their families in Pakistan via their friends and colleagues visiting Pakistan on vacations. The friends/colleagues would hand deliver the cash

to the families of the senders. This arrangement was due to cultural reasons and were not meant for ML/TF. However, the possibility of its misuse cannot be ruled out.

The above stated nine special recommendations emerged as the issue of terrorism financing became important and drew world's attention. The objective was to fine tune the tools for combating financial crime and to strengthen the global financial system. The additional special recommendations made it mandatory that the relevant UN conventions are to be implemented or terrorism related activities to be outlawed, assets to be frozen. The countries were encouraged to enhance mutual cooperation, report suspicious transactions, ensure non-profit organisations are not misused for TF. All these efforts have resulted in discouraging terrorist financing and money laundering by establishing the writ of FATF to a certain extent. There is always a room for improvement but the foundation of a financial system free from the menace of terrorist financing and money laundering has been successfully laid down.

## **2.3 National Risk Assessment and Pakistan's mechanism to CTF**

### **Legislative Framework of Pakistan to Counter-Terrorism Financing**

Since the 1990s, Pakistan has been consistently struggling to protect itself from the growing threat of terrorism. To counter terrorism and its financing, the basic legal framework that is being followed in Pakistan is the Anti-Terrorism Act ATA (1997), which was last amended in February 2018. By considering the changing nature of the terrorist threat, the law has been amended several times. There are other laws as well that supplement the ATA to address those areas that are not covered in ATA, such as the Investigation for Fair Trial Act, 2013 and Anti-Money Laundering Act (Pervez & Rani, 2015).

#### **2.3.1 Pakistan's Approach to Counter-Terrorism**

The international crossings of the Western borders of Pakistan are not properly controlled and no record is maintained by the bordering agencies. (Isa, 2016). Border control is not strong and remains vulnerable to illegal activities. In addition to this, narcotics smuggling accelerates the insurgencies of terrorists as porous borders with inefficient and under-resourced administration pave the way to terrorist funding (Riecke, 2013). Pakistan's

approach towards Terrorism Financing seems to be ineffective concerning implementation (APG-MER, 2019). The effectiveness of existing laws formulated to stop terrorism financing in Pakistan has long been in debate (Mukhtar, 2018).

The annual report of the State Bank of Pakistan states that, apart from the immeasurable loss of human lives, the threat of terrorism and continuing incidents are severely hampering the economic and social development of Pakistan (SBP, 2015-2016). Foreign and domestic investors are resisting spending, and exports are interrupted or delayed, which is further leading to a slowdown in international trade. As a result, the country has suffered direct and indirect losses of approximately US\$ 118.3 billion from 2002 to 2016 from terrorism. The annual operating budget of terrorist organisations ranges from 5 million rupees (about \$48,000) to 25 million rupees (about \$240,000) (Gishkori, 2017). To address these issues, the main laws that are available in Pakistan, according to NACTA are the Anti-Money Laundering Act (AMLA), Anti-Terrorism Act (ATA), and Pakistan Penal Code (PPC) (NACTA, 2020b). Besides, there are regulations of the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan. Moreover, there is a federal umbrella organisation National Counter Terrorism Authority (NACTA), but still, it has not reached the optimum level of working and coordination between the federation and provinces. AMLA and ATA are discussed in detail in Sections 2.5.2 and 2.5.3 of the thesis.

In response to the APG mutual evaluation in 2009 Pakistan has enacted and implemented a wide range of reforms, i.e., legislative, and administrative, to enforce AML and some CFT obligations. For example, to address areas of priority, a National Action Plan was issued in 2011 which helped in the delisting of Pakistan from the grey list of FATF in 2015. As discussed, 2.3.12 previously, using the template of the World Bank, Pakistan completed its first National Risk Assessment in 2017 (APG-MER, 2019). Following are the key reforms:

- (i) Necessary amendments in Anti- Terrorism Act 1997 and Anti-Money Laundering Act 2010
- (ii) Area-specific regulations in AML/CFT
- (iii) Formation of a General Committee and a high-level National Committee on AML/CFT
- (iv) Ratification of a National Strategy on AML/CFT

To explore further, it is imperative to discuss National Risk Assessment in a bit detail.

### **2.3.2 National Risk Assessment**

To manage and control the risks, proportionate actions are required by the states through political and legislative developments. Similarly, a proportionate risk-based approach is essential for international AML or CTF. The National Risk Assessment is a government-sponsored activity to identify the money laundering and terrorism financing prevalent risks in a country. It is a detailed process to identify, assess and evaluate threats and susceptibilities associated with ML and TF to attempt to reduce the illegal flows of funds. The concept of risk management is not new and arose from the insurance sector where the risk is assessed based on the probability of certain events happening and the calculation of loss if such events take place (Duyne, Harvey, & Gelemerova, 2018). However, Duyne et al (2018) went on to discuss the challenges of applying a risk-based approach within the field of AML and TF. Other authors have also drawn attention to the deficiencies of the FATF framework. For example: Jeelani (2021) states that the FATF is known for policy innovation and flexibility. But as far as jurisdictions like Pakistan that offer cooperation in form but not in substance, its listing regime has remained ineffective. The categorization of white, grey and black is too rigid to address such risks effectively. The grey list has very low political or economic costs while black list has more which leads to a high threshold and barrier in taking effective action. There is a need for more gradations between the grey and black lists as it will enhance policy options and leverage. (Jeelani, 2021). Harvey (2002) states that the list of non-compliant countries and territories (NCCT) are mostly off shore economies who offer monetary regimes competing against the main global financial powers. The financial embargoes imposed by FATF will potentially damage the already fragile economies (Harvey, 2019). Another author Doyle (2002) states that the blacklisting and economic sanctions against countries who fail to follow and implement the forty recommendations violates article 2 of the UN charter (Doyle, 2002). FATF states that the NRA needs to discern the activities involving illicit proceeds, evaluate the vulnerabilities of the financial sector, and determine the strengths and deficiencies of the criminal justice system. It subsequently determines the potency of AML/CFT preventive procedures (FATF, 2019f).

Pakistan finished its first National Risk Assessment on ML and TF in 2017, assigning a medium risk rating. Although, as per Asia Pacific Group (APG) findings, the assessment lacked a detailed analysis (Dawn, 2019). The report added that the levels of understanding of ML/TF risks is deficient. In the MER of Pakistan, APG states that although Pakistan has formulated a multi-agency attitude to execute its AML/CFT regime, it has remained unsuccessful in pursuing a synchronised risk-based approach in combating ML and TF. It further added that internal, regional, and global risks are faced by Pakistan. Holistically, it was identified that in the National Risk Assessment-2017, Pakistan has eight predicate crimes as high-risk including corruption, smuggling, narco-trafficking, fraud especially tax evasion, kidnapping for ransom, extortion, illegal weapon trade, and misuse of hawala/hundi. There is a high-risk of illegal use of hawala/hundi, Alternative Remittance System through money laundering and terrorist financing (FATF, 2013) and two medium high-risk sectors, i.e., real estate and precious stones. Other medium-risk sectors include banking sector, securities and insurance agencies (APG-MER, 2019). Because of attempts by the FATF to tighten regulations for the Money Value Transfer Services (MVTS) providers, the access to these services may be reduced. With that being said, the consequences of such decision can be disastrous on the economy of Pakistan in the long run as alternative and more vulnerable forms of money transfer may take places such as pre-payment cards and transfer of money through more opaque areas (Harvey, 2018). Alternative Remittance System in Pakistan, i.e., Hawala/Hundi, provides a way to send money from one source to another without documentation. It is an old practice to exchange finances using this system, which is based on trust. This system has flourished since the Middle Ages. The characteristics of this system are easy to access and available everywhere in the world, cheaper than a formal banking system; identity is obscured and secret with zero paperwork. These factors attract money launderers as they are reluctant to expose their identities. There is no maintenance of record, and the launderers do not need to establish the source of earning or objective to transfer the money.

Moreover, no regulatory authorities may trace the transactions (Ahmed, Siddiqui, & Choudhry, 2013). However, FIA has been doing well in curbing Hundi/Hawala (Hawala/Hundi are illegal means of financial transactions and are often used to facilitate terrorists) as the statistics suggest that FIA has seized a significant amount of PKR 2.656 billion (USD 19.67M) from 2015 to 2018 (APG-MER, 2019). Identification of risks of ML and TF present in these sectors was important for a holistic approach to be adopted

accordingly. NRA identified corruption, drug trafficking, smuggling, kidnapping for ransom, and extortion as the problematic areas. The deteriorated security situation and informal financial system increased the activities of money laundering and illegal financial services. Broadly, corruption is the backbone of all evils and it is rampant here at all levels undermining the integrity of state institutions. Pakistan remained unsuccessful in preventing corruption although legislation has been made and is being continued. Unstable political governments and subsequent martial laws coupled with tax evasion, decline in the energy sector, less foreign investment due to security issues, and uncontrolled urbanisation resulted in a poor education system and healthcare facilities and dependence on foreign aid (Cammack, et al., 1993).

In conclusion, “Pakistan’s 2017 national risk assessment (NRA) identifies the largest risks associated with illicit finance as corruption, smuggling, drug trafficking, fraud, kidnapping for ransom, and extortion from businesses”. The NRA also found the proceeds generated from major crimes in Pakistan are transferred overseas.

### **2.3.3 Anti- Terrorism Act – ATA**

In response to the growing menace of terrorism inside its territories, Pakistan adopted the Anti-Terrorism Act in 1997. This law was designated and mandated to aid law enforcement agencies in combating terrorism. Technical complications in the law and procedural constraints in implementation have led to a significant number of acquittals. The language of the act is not focused (Parvez & Rani, 2015). Various terms are not defined, for example, ‘property,’ ‘funds, and many others that make the scope of Terrorism Financing limited or vague. Moreover, it is indicated that Law Enforcement Agencies lack the tools necessary for pursuing finance as a means of fighting terrorism. They also lack sufficient plotting of risks and modes of Terrorism Financing. Mentioning “use of threat or action” that “create a sense of fear and insecurity” makes it vague. Offenses that are not included in the realm of terrorism were included as terrorism cases, thereby diverting cases that could be dealt with by the normal courts towards the special purpose Anti-Terrorism Courts resulting in high rates of acquittal (Rizvi, 2019). The supreme court of Pakistan issued a judgment, in the end, October 2019 on Anti-Terrorism Act 1997 decreeing the term “terrorism” to be “too wide” and it recommended that the Pakistani parliament consider amending the current definition of terrorism with a more focused one, keeping in view its alignment with global perspectives of terrorism and directing on violent acts intended for accomplishing religious, political, or ideological motives.

Although the terminologies used in ATA require clarity, greater challenges with the law pertain to the implementation and application of its current provisions. Similarly, Anti-Money Laundering Act (AMLA) is also a law that mainly deals with Money Laundering and is interrelated with Terrorism Financing. There are also some flaws in AMLA, which are also highlighted by the FATF in MER on Pakistan in October 2019 (APG-MER, 2019). Procedures of law enforcement agencies in dealing with cases of terrorism result in the law's ineffectiveness. The continuance of the lack of efficient practices will pave the way for dependence on the military rather than civil institutions in combating terrorism. Thus, it has become mandatory to amend ATA's language with its application for reinforcing the legal structure in the implementation of the law (Parvez & Rani, 2015). Similarly, the Anti-Money Laundering Act was promulgated and enforced to counter money laundering and terrorist financing.

#### **2.3.4 Anti-Money Laundering Act – AMLA**

Pakistan took the first step of legislation for anti-money laundering in 2007 by promulgating the Anti-Money Laundering Ordinance to align with international standards set out by the Asia Pacific Group on Money Laundering (APG). The combatting the financing of terrorism, money laundering, and seizure of property involved in ML and TF is quite difficult due to various flaws in this ordinance (Ali, 2019). Existence of Hawala/Hundi is a problem which aids money laundering in Pakistan. This act provides the offence of money laundering but is lenient in its treatment of the accused. The investigation officer needs to seek permission from the court in order to arrest a culprit. Secondly, ML offences are not considered as a serious offence being treated more leniently than the predicate offences (Ali, 2019). The Anti-Money Laundering Act of Pakistan was enacted in 2010. The Anti-Money Laundering Act is the main law of Pakistan after the Anti-Terrorism Act (ATA) to deal with terrorism financing in Pakistan. In line with the recommendations of the FATF, the government of Pakistan has taken several steps to deal with ML and TF accordingly (Mukhtar, 2018). Initially, National Accountability Bureau, Federal Investigation Agency, and Anti-Narcotics Force were given authority to investigate ML cases whereas; later, the Federal Board of Revenue was also given those powers. Under AMLA, 98 sections of the Pakistan Penal Code (PPC) and 19 offences of Local and Special Laws are enlisted as predicate offences (Ali, 2019). Further, understanding the Foreign Exchange Regulation Act is also necessary as it involves the transfer of currency.

### **2.3.5 Foreign Exchange Regulation Act 1947**

Pakistan's foreign exchange regime is not understandable without the basic law relating to the movement of foreign exchange, which is available in the form of the Foreign Exchange Regulations Act (FERA, 1947). This act regulates the import/export of currency/bullion, foreign exchange, and securities. The foreign exchange policies and regulations are governed by this law in the financial and economic interest of Pakistan. Following the law, the State Bank of Pakistan issues directions to the authorised travel agents, dealers, stockbrokers, carriers, and other persons to operate their businesses. The State Bank of Pakistan is empowered to cancel the authorisation status of those covered by the regulation for conducting any unauthorised activity such as terrorist funding or money laundering. The State Bank can also impose monetary sanctions on dealers for violation of rules. Foreign exchange rules and regulations are periodically updated, and all authorised dealers have been directed to keep the updated manual with them for their guidance by the State Bank of Pakistan (SBP, 2019).

To regulate the domestic flow of foreign exchange funds by proscribed organisations in line with the recommendations of the FATF, the government proposed amendments in the FERA (Kiani, 2019b), and added a new section named section 8A: Movement of foreign currency within Pakistan, that “Any person shall be free to move or transfer foreign currency up to a maximum of ten thousand US dollars or equivalent in other currencies, physically or otherwise within Pakistan, whereas, limits for authorised dealers, exchange companies and money changers shall be prescribed by the State Bank” (Assembly, 2019).

In another circular of the State Bank of Pakistan issued in October 2019 to address trade-based ML and TF, all authorised dealers are advised to tell their clients and to ensure true declaration of information on given forms, utilisation of funds for the purpose for which they are acquired. In cases where such funds are misused, or information on the forms is omitted or suppressed by the clients of the authorised dealers and if there is under/over-invoicing found, penal action may be initiated under FERA 1947 (EPD, 2019). The actual benefit of amendment and its implications will emerge in due course as the amendment was made in October 2019.

### **2.3.6 The Investigation of Fair Trial Act 2013**

In December 2012, the National Assembly of Pakistan launched the Investigation for Fair Trial Bill 2012 that was later adopted as Investigation for Fair Trial Act 2013. This Act allows law enforcement and intelligence agencies, namely Inter-Services Intelligence, Military Intelligence, and the Police, to investigate terrorism and terrorist activities “utilising modern techniques and devices” like tapping e-mails, internet communication, SMS, phone calls, videos recording (Secretariat, 2013). This activity can only be conducted if a warrant from a high court judge is issued for a particular investigation of a suspect involved in terrorist activity. The validation of the warrant lasts for 60 days. This law was designed by to overcome the shortcomings of the ATA that did not enable investigation of counter-terrorism by using modern technology. This law helps in prosecuting cases and improves the police’s performance. However, it lacks various significant points. This law overlaps ATA when describing the offences of terrorism. The primary concern that has been raised on this Act is the violation of human rights like privacy and civil liberties issues and an ongoing risk of misuse of surveillance power (Bokhari, 2013). It also does not provide adequate protection to the person against whom the investigation warrant is pursued.

Moreover, it also violates the other articles of the constitution of Pakistan. For example, it violates article 10A of the constitution, which ensures a right of fair trial and due process, since no chance of a trial is provided to the accused, and one is consistently monitored. The Act also desecrates article 14 that is presumed to protect the respect of man and the sanctity of home (Adhi, 2013). Besides the availability of laws, the National Counter Terrorism Authority is established to coordinate on the matters of countering TF. The NACTA has been established for better coordination on all matters related to terrorism including CTF and to ensure that the relevant legislation or laws are implemented correctly. NACTA also gives its input to the government on the new development to fight terrorism.

A twenty (20) point National Action Plan (NAP) was jointly developed by Ministry of Interior and NACTA, in consultation with all the relevant stakeholders. The plan covers the areas which need focus and attention on issues related to areas of terrorism and their redressal.

### **2.3.7 National Counter Terrorism Authority – NACTA**

National Counter Terrorism Authority (NACTA) is a federal umbrella organisation that was formed in 2009 to counter the menace of terrorism from the country, becoming functional in 2013. Strengthening this authority was a requirement of the National Action Plan (Ahmed, 2016). The federal government has taken several steps to address the issues in the internal security of Pakistan, dealt with by 33 federal and provincial offices. There is a lack of coordination in the working of these different offices. If there is a combined effort to counter terrorism, effective results can be achieved. Hassan Abbas notes this lack of coordination among law enforcement agencies as creating an enormous hurdle in attempts to formulate a collective strategy against counter-terrorism and CTF in Pakistan. The Government of Pakistan is facing a challenge of inter-agency coordination mechanism in CT endeavours with the escalating insecurity in the country. Every province has its independent police force with no integration or mechanism for coordination (Abbas, 2011). Alongside other institutional shortcomings of Pakistani law enforcement agencies, this lack of inter-agency coordination also prevents accountability and transparency (Human Rights Watch, 2016). It is suggested that NACTA can play a crucial role as a hub of coordination for all such offices and to work as an umbrella agency to keep an eye on the working of all to avoid overlap and waste in order to deliver meaningful results (Tauseef, 2015).

The primary function of NACTA is the collection and assessment of information, data, and intelligence and to coordinate with respective stakeholders; secondly it is responsible for the threat assessment. However, without proper research work by experts, correct assessment is not possible and remains mere speculation (Zahid., 2018). International coordination, review of counter-terrorism laws, and advice from the government on CT matters are also under the domain of NACTA. There is a NACTA Act of 2013, which strengthens the organisation enabling it to appoint experts to enhance its manpower and capacity (Babakhel, 2015b). NACTA, along with the Ministry of Interior and other stakeholders of the government of Pakistan, outlined 20 points, which were named the ‘National Action Plan’.

### **2.3.8 National Action Plan – NAP**

To curb the terrorism activities in Pakistan after the sad event of the brutal killings of the children and teachers at Army Public School, Peshawar on 16 December 2014, a document was prepared with the name of National Action Plan or NAP in December 2014. NAP was focused on countering-terrorism involving various state institutions. A 20-point plan sketched out by NACTA and Ministry of Interior in collaboration with the stakeholders was developed.

The NAP is the corner stone for NACTA. NACTA ensures that NAP is implemented in its true spirit. The twenty (20) agenda items of NAP reflect its potency and the fact that it was developed in consultation with the stakeholders and its comprehensive in its outreach.

The 20 agenda items of National Action Plan 2014 are:

1. Implementation of death sentence of those convicted in cases of terrorism.
2. Special trial courts under the supervision of Army. The duration of these courts would be two years.
3. Militant outfits and armed gangs will not be allowed to operate in the country.
4. NACTA, the anti-terrorism institution will be strengthened.
5. Strict action against the literature, newspapers and magazines promoting hatred, extremism, sectarianism, and intolerance.
6. Choking financing for terrorist and terrorist organizations.
7. Ensuring against re-emergence of proscribed organizations.
8. Establishing and deploying a dedicated counter-terrorism force.
9. Taking effective steps against religious persecution.
10. Registration and regulation of religious seminaries.
11. Ban on glorification of terrorists and terrorist organizations through print and electronic media.
12. Administrative and development reforms in FATA with immediate focus on repatriation of IDPs.
13. Communication network of terrorists will be dismantled completely.
14. Measures against abuse of internet and social media for terrorism.
15. Zero tolerance for militancy in Punjab.
16. Ongoing operation in Karachi will be taken to its logical end.

17. Balochistan government to be fully empowered for political reconciliation with complete ownership by all stakeholders.
18. Dealing firmly with sectarian terrorists.
19. Formulation of a comprehensive policy to deal with the issue of Afghan refugees, beginning with registration of all refugees.
20. Revamping and reforming the criminal justice system.

The points covered the execution of the death sentence of perpetrators involved in terrorism cases, the formation of special courts supervised by the army, and measures to prevent the continued operation of militants in the country. It looks forward to strengthening NACTA, act against hate literature, obstruct terrorist financing and stop the resurfacing of proscribed organisations. Further, it aimed to create a vigorous counter-terrorism force to stop religious harassment, regulating Madrasahs (religious seminaries), ending admiration of terrorists, bringing reforms in FATA, and return of Internally Displaced Persons (IDPs). It is also intended to break terrorist communication completely, addressing the usage of cyberspace and digital socialisation for terrorism. NAP assures no tolerance for violent aggression, completing the operation in Karachi, strengthening of Balochistan government, high handedness with sectarian terrorists, policy formulation for Afghan refugees, and reviving the criminal justice system (Ahmed, 2016). This statement has also been backed up by Khattak (2015) in “Conflict and peace studies”.

The NAP is comprehensive, as stated earlier as it was developed in consultation with all stakeholders. There is no deficiency in NAP. On the other hand, it has greatly helped in setting the direction to counter terrorism and its off shoots. The complete implementation is yet to be achieved due to multiple factors mainly socioeconomic, cultural and capacity building issues. Pakistan as a country is rapidly adopting the best practices as per FATF. As a result, the NAP is also getting implemented successfully. The formal banking channel and informal money transfer mechanism are now totally transparent and computerised. As regards the other factors pointed out, they are ever changing and efforts are continuing to resolve them keeping in view the geostrategic challenges.

Countering terrorist funding has always been one of the top most priority in the implementation of the NAP. Even after the lapse of five years since the issuance of the NAP document, the issues of containment of terrorist financing by interrupting their funding

chains, among other issues, remain as the ongoing priority. Kamran (2019) states that for the complete success of NAP, serious efforts are required to be made on the propagation of hate speech, the Afghan refugee issue, sectarianism, strengthening Balochistan, religious extremism, Madrasah reforms, etc. (Kamran, 2019). “Out of the 20 core points, the most significant one which has also been raised by the Financial Action Task Force (FATF), is regarding the containment of the finances of terrorist networks by cracking down on their funding chains (Kamran, 2019).” Ehsan Ullah Ehsan of TTP escaped from custody in Peshawar in January 2020. He was allegedly behind the Army Public School (APS) brutal incident, and reportedly he confessed that he had worked for the Indian Research and Analysis Wing (RAW) (Daily Times, 2020), bringing into question mark on the effectiveness of NAP. The NAP was drafted to counter-terrorism incidents in Pakistan in the wake of the same APS incident. Besides the NAP, there are certain areas of concern including lack of capacities of law enforcement agencies, the vulnerable role of some religious organisations and NGOs/INGOs, lack of awareness among the masses, and the role of some bordering countries. These areas are mentioned and discussed below in detail and further mentioned in Section 5.5 ‘Recommendations for policy making’.

## **2.4 Internal Areas of Concern to Tackle Terrorism Financing in Pakistan**

The NRA identified a number of areas that are needed to be addressed including drug trafficking, corruption, kidnapping for ransom, extortion, and smuggling. These identified problems created hindrances in effective policy making and implementation as mentioned in Section 2.3.2. Similarly, there is a need to identify the possible internal and external factions which are supporting TF in Pakistan (Haider, et al., 2015). Some of the important areas of concern are discussed as follows:

### **2.4.1 Capacities of Law Enforcement Agencies**

It is a matter of fact that law enforcement agencies play a crucial role in the fight against terrorism and insurgency. There are several law enforcement agencies in Pakistan responsible for securing the fabric of society. Besides the Provincial Police Force, we have the Pakistan Rangers, Federal Investigation Agency (FIA), Intelligence Bureau (IB), National

Accountability Bureau (NAB), Frontier Constabulary (FC), Inter-Services Intelligence (ISI) and Military Intelligence (MI), etc. Structural weaknesses and inter organisation rivalries within the LEAs have made these institutions weak. This is one of the reasons which has encouraged military coups and the rise of non-state actors, militant groups, and welfare institutions with vested interests. Structural weaknesses are due to issues of capacity building, lack of coordination, different reporting lines, lack of trust, and communication gap. A nationwide survey by an independent body, the Pakistan Institute of Legislative Development and Transparency (PILDAT) was conducted in 2006 and revealed that the recognised rating of trust for armed forces among public is 76%. However, government officers, including civil servants and police officers, had scores of 29% and 25%, respectively (Kugelman & Husain, 2018). Efforts are being made to enhance the capacity of LEAs in general by upgrading investigators skills in terms of using technology during investigations with specific reference to tracing the financial flows in terrorism and predicate offences cases. Statistics show FIA, ANF, NAB, and FBR made only one conviction out of 161 cases in money laundering. FIA failed to achieve even a single conviction in 175 instances; ANF also remained unsuccessful in securing any conviction (Noor, 2019). FBR followed the same path and NAB convicted one out of four cases. Therefore, the progress on terrorism financing is unsatisfactory. The total registered cases on terrorism financing at the provincial level since 2015 were 228, and only 58 accused were convicted (Noor, 2019). To address the gap in the capacity of the workforce, UNODC is in the process of training the LEAs, especially the CTDs of provincial police on different aspects of the investigation and investigative strategy of terror financing cases (UNODC, 2019b).

The subject of law and order in Pakistan is dealt with by the federal and provincial police forces jointly besides other law enforcement agencies (Human Rights Watch, 2016). The infrastructure of police in Pakistan is poorly managed and is unprofessional. At times, they have done well. The institution of police is weak and the public at large is not happy with its performance and conduct. This is due to serious capacity issues, ignorance of merit in recruitment, political influence to use the police as coercive force to silent the political opposition, poor structure leading to corruption etc. There is political influence and there is rampant corruption at all levels (Shackle, 2013). The achievements by law enforcement agencies explicitly depict that they have growth potential in dealing with the menace of

terrorism and organised crime if supported by the government with the provision of adequate resources (Abbas, 2009).

In my view as a senior police officer, the capacity of the police force in Pakistan to combat crime is not ideal. Police as an institution has lost its credibility in the provision of security and in the face of growing militancy. The policymakers and legislators have neglected the institutional development and reform of law enforcement agencies in general, and the police department in particular. In addition to a lack of personnel and inadequate resources that have hindered better policing, the various provincial police forces operate independently from one another and there is no integration in training standards, cooperation, and coordination (Khan, et al., 2021). There is no centralised mechanism by which to frame a joint strategy to counter the dynamics of crimes and criminals. Another critical factor is that the law enforcement agencies are quite reluctant to modernise, and the reputation of the police department has continuously declined. An ordinary citizen usually avoids approaching police to lodge complaints. The police department is widely considered corrupt and incompetent (Abbas, 2011). There are only a handful of forensic experts, and forensic services are not accessible to local police except in high-profile cases. Despite a huge grant given by Asian Development Bank, there is no substantial evidence of progress in this domain. There is still only one DNA laboratory working in the country (Abbas, 2011). Thus, inadequate resources coupled with incapable manpower results in failure in the implementation of existing policing as mentioned and further highlighted in Section 5.5 ‘Recommendations for policy making’.

#### **2.4.2 Madrasahs (Islamic Religious Seminaries)**

It is desirable to modernise the curriculum of Madrasahs with education level on a par with international standards. In Pakistan, usually for the poor masses, a Madrasah serves as a base for the provision of free services of religious education together with board and lodging. Many poor children study in Madrasahs as the only option available for these amenities. These Madrasahs run on public charity and donations. Usually, religious clergymen get their education and training in these institutions for services in the religious sector. Lack of modern education and the limited outlook of these clergymen make them easy targets for biased religious indoctrination and they are exploited for vested interests of others in the name of religion (ICG, 2002). A general myth that the Madrasahs are the factories producing

terrorists exists in society (Butt., 2020). Despite accusations against Madrasahs following suicide attacks the association between Madrasahs and the suicide attackers was not established (Sajid, 2012). Under UNSCR 1267, Pakistan has seized 82 Madrasahs in Punjab and six in KPK from among the UN-listed entities in Pakistan (APG-MER, 2019).

Meanwhile, the federal government of Pakistan has undertaken steps to register the Madrasahs and has taken several measures to link them with the Ministry of Federal Education and Professional Training. To give this a real shape, it was decided to create directorates all over the country for the registration process, and a single oversight office would be established in Islamabad. Departments of Registration, Finance, Examination, and education would be formed. Two registration centres would be established in the provinces, one each in Gilgit-Baltistan and Azad Jammu and Kashmir. The government would provide the facilities of books, a modern curriculum and salaries to the teachers who will be appointed after joint consultation of the Madrasahs administration and concerned directorates (APP, 2019). Despite these developments the discussion about the role of Madrasahs in Terrorism Financing in Pakistan has been continuously in debate for the last two decades (Latif, 2019). Madrasahs are often assumed to have links with banned religious outlets. It is obligatory now to devise a strong mechanism to bring all Madrasahs operating in Pakistan under one umbrella as recommended in section 5.5 ‘Recommendations for policy making’.

### **2.4.3 Religious Organisations Related to TF in Pakistan**

Religion plays a highly significant role in Pakistani society. Due to its importance, it can be exploited as a soft target by anti-state elements as it is easy to associate any terrorist act with the name of religion. People are highly sentimental, emotional, and committed to their religious narratives, but due to illiteracy, they can be manipulated and militant organisations have recruited people with the help of religious indoctrination (Butt., 2020). Pakistan witnessed a sectarian division in the late 1970 due to religious animosities. The era of Zia ul Haq flourished apparent Sunni/Shia differences. An evident sectarian was created by the religious leaders among Shia and Sunni Muslims which resulted in massacre in the country.

The differences expanded across Sunni, Shia, Barelvi, and Deobandi sects, which eventually led to the foundation of militant outfits like Sipah-e-Sahaba Pakistan (SSP),

Lashkar-e-Jhangvi (LeJ), and Sipah-e-Muhammad (SPM). This transformation resulted in the expansion of sectarian-based seminaries in Pakistan, followed by violence, chaos, and terrorism. Foreign funding aggravated the situation, and mosques, seminaries, religious personalities, and gatherings were attacked, resulting in thousands of casualties across the country (Butt., 2020). The urban centers became the worst hit by sectarian violence. Later after 9/11, religion was again exploited by extremists when the US invaded Afghanistan, and Pakistan became a front-line state in the war on terror. Later, these sectarian outfits established links with TTP and Al Qaeda (Azam & Javaid, 2017). Recently, the Sindh Government has frozen 65 properties of four banned religious outfits under the Security Council resolution 1948 and UNSC Freezing and Seizure Order 2019. It was reported that 59 assets of Jamaat-ud-Dawa (JuD), Falah-e-Insaniat Foundation, and Jaish-e-Muhammad besides six properties of TTP Afghanistan had been seized (Aijaz, 2019). Charities and donations received by religious outfits usually go unchecked and so remain vulnerable in their probable and alleged role in Terrorism Financing in Pakistan (Kaplan, 2006). It is a very important area of concern and needs to be handled tactfully as religion is a sensitive matter and obstructing its exploitation has always remained a challenge for national and international organisations. A robust policy mechanism is required at the national level as recommended in Section 5.5 of this thesis. Another area of concern is the role of NGOs in TF.

#### **2.4.4 NGOs and INGOs**

NGOs have been flourishing in Pakistan over the last decade, and their evolved role has raised many questions on the apparatus of national security. Owing to a recent wave of vigorous checks and accountability of financial institutions, the role of NGOs/INGOs is now under the scrutiny of various stakeholders, including media and defence institutions (Kahlon, 2015). International and national NGOs are busy serving humanity at large, but Pakistan is inflicted by the vested interests of some foes conspiring against its sovereignty (Butt., 2020). The Government of Pakistan framed a policy for registration in 2015 to facilitate INGO's operations (Chaudhary, 2018). The physical location of Osama bin Laden was traced by the American CIA with the help of a US funded health services NGO for hepatitis B vaccination programme. One doctor named Shakeel Afridi led this initiative under the NGO named 'Save the Children'. Prime Minister Imran Khan ordered 18 foreign NGOs to close their operations

and leave the country soon after assuming power. Those identified as being involved in anti-state activities were banned from operation (Rafay, Khan, & Ahmad, 2019). However, nearly 38% of NGOs/NPOs are unregistered, and there is a lack of a regulatory mechanism for monitoring the activities of registered ones (Butt., 2020).

The Government of Pakistan has rejected the applications from 42 NGOs in 2019 for the acquisition of foreign funding and bank account opening. This was in response to Pakistan's placement on the FATF's grey list. Moreover, NACTA has proposed draft legislation on unified registration and regularisation of NGOs/NPOs following FATF's concerns (ICNL, 2019). It is also mentioned in Section 5.5 'Recommendations for policy making'. As a result of National Action Plan (NAP), several military and intelligence operations were conducted to counter terrorism and its financing.

#### **2.4.5 Military Operations and Their Impacts**

Military operations Zarb-e-Azab and Radd-ul-Fasaad played a significant role in curbing terrorism in Pakistan (Zulfqar, 2017). A total of 1650 military/security operations were conducted by law enforcement agencies during 2009-18, killing 15,896, including 14,977 militants, 724 civilians, and 195 law enforcement agency personnel (Hussain, 2019). Operation Rah-e-Raast was launched in SWAT (a district in the Malakand Division of Khyber Pakhtunkhwa, Pakistan) against banned TTP and recovered arms and ammunition. Operation Zarb-e-Azab, which was launched in 2014-2017, targeted the elimination of terrorists without discrimination. It was a joint operation of military forces in North Waziristan that did not try to differentiate between good or bad Taliban. It significantly reduced the rate of terrorist incidents and reformed the global perception of Pakistan. It not only strengthened relations with neighbouring countries but paved the way for CPEC'S security. Another operation, Radd-ul-Fasaad, launched in 2017 across the country and reduced threat level assuring the safety of borders (Khan, 2017). The operation was conducted in accordance with the NAP (National Action Plan) (Mubashra & Shafi, 2018). However, the military operations infuriated the tribal people and their leaders which they saw as a threat to their identity. In the wake of these military operations, around 550,000 people became Internally Displaced Persons (IDPs) in Khyber Pakhtunkhwa in 2009, and hostilities with the military accelerated. The education system nearly collapsed due to strikes and counter strikes

by the terrorist and anti-terrorist forces. It is argued that in consequences these military operations tore at the social and psychological frame of society (Khan, 2012).

However, these operations also brought reforms in the political status of the Federally Administered Tribal Areas (FATA) border control along the Durand line (Pak-Afghan Border), and helped in the de-radicalisation of the people. This also shows that the Pakistan Army can turn the country around in the direction of economic prosperity. These operations successfully eradicated Tehreek e Taliban from the areas of North Waziristan after they refused to observe the ceasefire (Zulfiqar, 2017). However, in addition to conducting Army operations to curb terrorism and its financing in a country, there is a dire need to create awareness among the masses regarding prospective terrorism, its factors, and threats to counter-terrorism at the grass-roots level. It is also necessary to develop a counter-narrative and a parallel ideology against terrorism, and that is possible by promoting awareness among the public as it is considered as a barrier in policy implementation further recommended in Section 5.5 of this thesis.

#### **2.4.6 Lack of Public Awareness**

Public awareness and understanding of ML/TF serve as an essential partner of government and state institutions. The public may help in preventing vulnerable sectors and groups from being exploited for ML/TF intentions. There are a variety of hurdles and challenges being faced by law enforcement agencies while performing their duties of counter-terrorism (UNODC, 2019c). Lack of public awareness is one of the main hurdles faced by Law Enforcement Agencies in CT activities. The investigation and prosecution of ML/TF need effective coordination among public stakeholders (AMLC, 2018). Enhanced attention of media on fines imposed on banks for not complying with ML regulations could lead towards better public awareness (Lau & Harvey, 2008).

Public knowledge about FATF is also low as information about its standards and requirements tends to be only understood by specialist in the financial and government sectors. Further, there has been criticism of the applicability of a set of standards devolved in the west to the broader group of developing countries (Duyne, Harvey, & Gelemerova, 2018). In consequence, it is more difficult for institutions in countries such as Pakistan to understand and implement FATF standards and can lead to ineffective cooperation among various

stakeholders (Mirzosharif, 2017). FATF has attempted to address this problem through acknowledgement of “Low-Capacity Countries”. Perceiving the specific issues looked by low-capacity countries (LCCs), the FATF has created this guidance which recognizes various standards, and explicit components and methodology that might be utilized to guarantee successful prioritization and execution of the FATF norms on illegal tax avoidance and terrorist financing.

Full and viable execution of the FATF principles in all countries is one of the key objectives of the FATF.

Because of the powerful patterns in ML/TF, Pakistan has evaluated ML/TF risk connected with internet banking, micro finance and everyday banking accounts for which Pakistan has been appraised as 'generally safe.' Financial Monitoring Unit (FMU) directed an appraisal on virtual cash dangers, and the State Bank of Pakistan has given a consideration letter of those dangers for public awareness raising (APG-MER, 2019).

Pakistan has been rated as low risk by FATF for its financial services including online banking, micro finance and access accounts. The state bank of Pakistan is vigilant about financial services and its financial monitoring unit (FMU) remains alert and keeps trying the attention of general public on new trends such as virtual currency threats etc.

If policy focuses on only the internal areas that have discussed earlier and vulnerable external areas and factors remain intact, there will be little in the way of a positive outcome. Some areas are unfortunately beyond the control of Pakistan as hostile neighbouring countries view Pakistan as a state promoting terrorism as identified from the interview responses and further recommended in Section 5.5 ‘Recommendations for policy making’.

## **2.5 Bordering Countries**

As mentioned, Pakistan has a long and porous border with Afghanistan, which is not monitored (Khan, 2017). However, the government of Pakistan has been trying to control this aspect by recently strengthening border security. The transfer of narcotics produced in Afghanistan remains a question mark and the biggest challenge. A large proportion of drugs produced in Afghanistan is routed to the west through Pakistan due to its porous borders with Afghanistan and Iran (UNODC, 2018b). However, curbing drug trafficking also requires

action on the part of countries from where major demand emanates. It can be observed that some of the western countries in recent years have decriminalised some drugs such as marijuana for personal use in an attempt to divert consumption to legal suppliers(Hassan, 2018). In addition to Afghanistan, Pakistan has a long running dispute and history of conflict with India, in particular over the disputed region of Kashmir. National border management by Pakistan of its borders with neighbouring countries Afghanistan, Iran, and China is essential in the context of Terrorism financing (Neill, 2010). It is crucial to regulate dealings with bordering countries as recommended in Section 5.5 of this thesis.

### **2.5.1 India and Terrorism in Pakistan**

Pakistan and India have been in an adversarial relationship due to territorial disputes from their beginning. This confrontation has seen, over the last decades, a rise in terrorism between the two nations. Hostile elements are present in both countries. The Agra Summit, a series of negotiations between the two countries, was held in July 2001 in an attempt to calm the situation. It failed to produce a breakthrough due to Pakistan's demands for India to accept Kashmir as a disputed territory and to involve Kashmiris in negotiations and India's counter- demand that Pakistan cease to support activity in Indian-held Kashmir. There is a difference in the perception of the two countries in understanding the word 'terrorism'. India considers the action of anti-state elements as political objectives attained through violence with external support whereas; Pakistan considers terrorism because of unfair policies of the government, injustices, and illegal occupation in Kashmir (Noor, 2007).

The Indian agent Kulbhushan Yadav was arrested in the Saravan region in Balochistan in March 2016 and charged with terrorism and spying for the "Research and Analysis Wing (RAW)", an intelligence agency of India. Pakistan saw this an indication of Indian involvement in vulnerable areas of Pakistan. The United Nations have been provided with proof of Indian involvement in terrorism activities in Pakistan by the Indian agency Research and Analysis Wing (RAW). In November 2016, Pakistan expelled eight members of the Indian High Commission from the country in connection with charges of espionage and having links with TTP. (Hussain, 2017).

In a statement on February 6th, 2013, the Defence Minister of India A K Antony said that India has concerns over China's taking control of the Gwadar port in the Arabian Sea.

China has already constructed a seaport in Hambantota, Sri Lanka, and wanted to build a port in Bangladesh. India is concerned about the expansionary ambitions of China. The presence of China in the Gwadar port and the creation of the China Pakistan Economic Corridor in Pakistan are of strategic importance as they will provide China with proximity to the Persian Gulf and Strait of Hormuz. According to Khetran (2017), this suggests that India wants instability in Balochistan by which it can destabilise Pakistan on the one hand and, on the other hand, can prevent China from entering Southern Asia (Khetran, 2017).

Pakistan also considers India's presence in and development support for Afghanistan as provocative. India has assisted in the construction of Afghanistan's parliament building and Chimtala power substation, the restoration of the Stor palace in Kabul, the reconstruction of the Salma Dam and the Indira Gandhi Institute for Child Health in Kabul, the establishment of Afghan National Agriculture Sciences and Technology University, the expansion of national television network, up-grading of telephone exchanges and many more. The funding of the Zaranj-Delaram road which connects Afghanistan to Iran, is strategically crucial for India as it opens other transit options for Afghanistan that had been reliant on Pakistan for transit. Similarly, India supported the Shahtoot Dam project to stop Kabul River waters from flowing downstream to Pakistan (Iwanek, 2019). All the above examples only point in one direction i.e., India wants a long term and strategic presence in Afghanistan with the sole objective of countering Pakistan by creating a permanent base in Afghanistan.

In case of Taliban returning to Afghanistan after the withdrawal of US forces, India's presence will not only disappear but will be chased out by the Taliban. This is common knowledge among the intelligentsia in Pakistan. From the perspective of Pakistan, the role of India in TF in Pakistan and its hostility towards Pakistan are hindering attempts in Combating Terrorist Financing.

### **2.5.2 Afghanistan**

Pakistan and Afghanistan not only share the same border but also the same religion, culture, and traditions. Pakistan shares a very long porous border with Afghanistan named the Durand line, and it is a soft border. The people of Afghanistan cross over to Pakistan through these borders freely. This has been the case since creation of Pakistan in 1947 as the KPK province of Pakistan is linguistically and culturally very similar with Afghanistan. The

Pakistan Economic Survey (2014-15) notes that it is quite unfortunate that the bilateral relations have not remained cordial and have been hostile since independence of Pakistan. The state of disorder and chaos in Afghanistan following 9/11, resulted in a significant inflow of Afghans into Pakistan and a subsequent escalation of terrorist attacks. This escalation has meant that for several years, a considerable number of resources have been allocated to security and defence (PES, 2014-15).

The Afghan Jihad damaged the fabric of Pakistani society and introduced a 'Kalashnikov and narcotics culture' (Hanifi, 2004). It has been estimated that the size of the illegal economy in Afghanistan in 2015 was about US\$1 billion and includes narcotics smuggling, illicit trade, and other criminal activities for terrorism financing (Hanifi, 2004). It is also evident that the Hawala/Hundi system has been used to facilitate the illegal economy with disastrous effects on the legal Afghan economy (Kelvington, 2019). Given the close proximity of the two countries and their shared history, stability in Pakistan is linked with the integrity and stability of Afghanistan. Next to Afghanistan on the Eastern edge of Pakistan is Iran.

### **2.5.3 Iran**

Relations between Pakistan and Iran can be traced back to 1947 when Iran became the first country to recognise Pakistan after its independence. It is said that the Central Treaty Organisation (CENTO) was a significant factor in building and strengthening cordial ties between the two (Alam, 2004). The Regional Cooperation for Development (RCD) was another milestone for economic cooperation among Pakistan, Iran, and Turkey. Iran has helped Pakistan on various occasions as it served as a mediator during the Durand line demarcation issue in the 1960s and provided logistical aid to Pakistan in the 1965 war with India (Husain, 2015). Pak-Iran's relation remained on track till the post-Iranian revolution in 1979 followed by the Afghan invasion in which Pakistan and Iran supported the Mujahedeen against Soviet forces. However, dynamics in the situation of Afghanistan badly affected Pak-Iran ties. Pakistan supported the Taliban backed by the US against the Soviets, putting the two countries into opposite camps (Ashraf, 2019). Later, the US invasion in Afghanistan post 9/11 imposed new strains in Pak-Iran relations owing to Pakistan's support for US forces.

Iran is an important country owing to its resources and geostrategic location, but its relation with the west have been strained since the Islamic revolution. Iran is the third-largest oil producer having the fourth-largest oil reserves and second-largest gas reserves, respectively, which make it powerful essential in the energy-seeking world. Pakistan has to balance the relationships between Saudia and Iran alongside those of China and the US. Pakistan is concerned about the transit routes such as Chabahar port of Iran being used for Terrorism financing in Pakistan (Baqai, 2019).

#### **2.5.4 China**

The geographic location and strategic importance of Pakistan has always been significant for China. China considers Pakistan as a bridge towards the Islamic World, making it a crucial regional state. In light of the hostile relations with both Afghanistan and India, Pakistan sees China serving as a strategic partner and ally to countering modern economic, social, and security challenges. Pak-China co-operation has been extended to Energy, Transport, Industry, and Gwadar port. Among various other joint ventures, China Pakistan Economic Corridor (CPEC) is an essential extension of the Silk route (Khan & Kasi, 2017).

China supported Pakistan in the FATF and warned member countries to refrain from politicising the FATF platform (Abbas, 2021). China observed that some countries were engaged in political conspiracies to get Pakistan blacklisted. Turkey and Malaysia also endorsed the stance of China and backed Pakistan in the October 2019 FATF meeting (Times, 2019). The Pakistan economy would be severely negatively impacted if it is placed on the blacklist, with an expected decline in trade (particularly from Europe and the US) and development and foreign direct investment (Awais, 2018). In addition to the strategic partnerships in the various sectors, Pak-China cooperation will lead to the elimination of social problems like poverty and unemployment with the hope that greater economic stability will reduce TF/ML activity.

Having discussed the sources of international terrorism, in particular from neighbouring countries, it is appropriate to review the designated Law Enforcement Agencies and financial regulatory bodies who are trying to address TF in Pakistan. It is important to

discuss their structure and functions to have a clear understanding of the existing resources and prospective challenges.

## **2.6 Financial Regulatory Bodies and Designated Law Enforcement Agencies**

The government policymakers must ensure that regulations are proportionate and reasonable to the scale of the problem to avoid inadvertent consequences of over-regulation and be clear enough to prevent ambiguities in their understanding and application (Harvey, 2018). In the same way, the core responsibility to establish, analyse, and manage the implementation of a national strategy on fighting money laundering and terrorism financing in Pakistan lies with the National Executive Committee (NEC) established in October 2007. The NEC consists of four critical Ministers, i.e., Minister of Finance/Foreign Affairs/Law & Justice and Interior together with the Governor State Bank of Pakistan, and Chairman Securities & Exchange Commission of Pakistan. The NEC is assisted by the General Committee (GC) comprising the Secretaries of Finance, Interior, Foreign Affairs and Law, the Chairmen of the National Accountability Bureau (NAB), Federal Bureau of Revenue (FBR), Directors of the Federal Investigation Agency (FIA), Anti-Narcotics Force (ANF), Deputy Governor State Bank of Pakistan (SBP), and the Commissioner Securities and Exchange Commission of Pakistan (SECP). This means all the key players of the federal government are included in the NEC with the responsibility of dealing with terrorism and its financing. National Executive Committee (NEC) (which consists of Ministers of Finance or Advisor to the Prime Minister as a Chairman and members including Minister of Finance, Law, and Justice, Foreign Affairs, Interior, Governor SBP, Chairman SECP or any person recommended by the Government and Director General FMU) develops, reviews and oversees the execution of national strategy in combating money laundering and terrorism financing; makes suggestions to the government for productive implementation of this Act and formulating national policy to combat money laundering and financing of terrorism; discusses any other issue of national importance about money laundering and terrorist financing; and initiates, addresses and executes such other responsibilities as directed to it by the Federal Government in connection with money laundering and financing of terrorism.

NEC is assisted by General Committee comprising Secretary Finance as Chairman and members including Secretaries Interior, Foreign Affairs and Law, Chairman NAB and

FBR, Director General FIA and ANF, Deputy Governor SBP, Commissioner SECP or any other member recommended by Federal Government and Director General FMU to (a) take steps as essential for progress and evaluation of performance of investigating agencies, FMU and the financial organisations and non-financial institutions and occupations, associated with ML and TF; (b) assess training facilities for Government, financial institutions, non-financial businesses and professions and other entities pertaining to ML and TF (c) provide proper support to the National Executive Committee in executing its functions and duties under this Act; (d) keep in view any other crucial national issue pertaining to ML and TF; (d-a) ratify FMU's budgetary proposals for carrying out the objectives of this Act; (d-b) sanction FMU's human resource requirements; and (e) execute and carry out such other tasks as assigned or envisaged to it by the National Executive Committee. The General Committee has the power to establish one or more sub-committees to execute such functions as it may seem appropriate (AMLA, 2010).

However, thus far little has been seen in the way of tangible results. In consequence, Pakistan was placed on the grey list by the FATF. FATF set out specific steps required for removal from the grey list in February 2020 (Documents - Financial Action Task Force (FATF), 2020). These steps include: (1) showing that healing actions and authorizes are applied in instances of AML/CFT infringement, identifying with TF hazard the executives and TFS commitments; (2) exhibiting that capable specialists are collaborating and making a move to recognize and make a requirement move against illicit cash or worth exchange administrations (MVTs); (3) showing the execution of cross-line money and BNI controls at all ports of passage, including applying powerful, proportionate and dissuasive approvals; (4) exhibiting that law authorization offices (LEAs) are distinguishing and examining the most stretched out scope of TF action and that TF examinations and arraignments target assigned people and substances, and those following up for the sake or at the heading of the assigned people or elements; (5) exhibiting that TF indictments bring about successful, proportionate and dissuasive assents (6) showing viable execution of designated monetary authorizations (upheld by a far reaching legitimate commitment) against every one of the 1267 and 1373 assigned terrorists and those representing or for their sake, including forestalling the raising and moving of assets, recognizing and freezing resources (versatile and unflinching), and denying admittance to reserves and monetary administrations; (7) showing implementation against TFS infringement including managerial and criminal punishments and common and

government specialists participating on requirement cases; (8) showing that offices and administrations possessed or constrained by assigned individual are denied of their assets and the use of the assets.

### **2.6.1 Financial Monitoring Unit – FMU**

The Financial Monitoring Unit (FMU) of the State Bank of Pakistan is an independent Federal Government entity initially established in October 2007 in terms of section 6 of the Anti-Money Laundering Ordinance, 2007 (now AML Act, 2010), to combat ML and TF (SBP, 2007). It works under the National Executive Committee and General Committee. It serves the function of the Financial Intelligence Unit for the country.

The Financial Monitoring Unit (FMU), was established as part of anti-money laundering efforts to set out plans for improvement of capacity, operational efficiency, analytical expertise and training programmes that, after more than a decade following its establishment, it has failed to implement, suggesting the inefficiency and lack of interest of the government.

The primary responsibility of FMU is to receive Suspicious Transaction Reports (STRs) and Currency Transactions Reports (CTRs) from reporting entities, to analyse such reports, to send information to Law Enforcement and regulatory authorities if there is suspicion of ML and TF and to maintain data (APG-MER, 2019). Director General of Financial Monitoring Unit can freeze assets up to a maximum of 15 days if there is suspicion of ML and TF elements. It is also required to cooperate with financial intelligence units of other countries and to provide recommendations to the regulatory authorities relating to the issuance of regulations in the context of AML/CFT. In accordance with AMLA 2010, it is the responsibility of every financial institution to file STRs with the FMU within seven days of forming a suspicion of funds being laundered or related to terrorist financing.

There has been a sharp decline in the number of STRs reported to FMU, which is as 8,801 STRs have been received by FMU during the second quarter (Apr-Jun) of the year compared to 20,030 in 2019. Further, to save time and prompt delivery of STRs to stake holders, from January, 2020 FMU has given directions to discontinue the use of hard copies and instead to send STRs electronically. For this purpose, FMU has introduced a software suite called goAML for the collection of data, its analysis, and dissemination (FMU, 2020).

The FMU of the State Bank of Pakistan is not a member of the Egmont Group, which serves as an informal forum for international Financial Intelligence Units (FIUs). As the Egmont group provides the forum where suspicious transaction activities are gathered and shared with the member countries, this is a deficiency in the CF/AML framework for Pakistan. The country has yet to sign agreements of mutual legal assistance with international countries for help in the investigation of ML, STRs, financial trails, proceeds of crime, and TF. Similarly, Pakistan is not a part of the Harare Scheme related to mutual legal assistance among commonwealth countries. Further, there is also an absence of law in Pakistan on mutual legal support in ML and TF cases with other countries (Ali, 2019).

Thus, Pakistan needs to revisit its policy in empowering the FMU and in enhancing its ability to seek legal assistance from other countries. Inter-agency cooperation is essential for making a sound strategy rather than simply forming committees that indulge in excessive paperwork. In Pakistan, the financial regulatory institution for the banking financial sector is the State Bank of Pakistan and for non-banking financial institutions, the Security and Exchange Commission of Pakistan manages the financial matters. Both institutions are discussed below:

## **2.6.2 State Bank of Pakistan – SBP**

### **Anti-Money Laundering and Combating the Financing of Terrorism (AML/CTF) Regulations for Banks and Development Finance Institution (DFIs)**

The State Bank of Pakistan serves as the main policy institution for regulation of the financial sector, and it has introduced different parameters and policies to regulate the financial activities of Banks and Development Finance Institutions (DFIs).

#### **Customer Due Diligence (CDD)**

As with other countries, the State Bank of Pakistan has a regulation for all banks operating in Pakistan to know their customer with the concept of customer due diligence or CDD. This means understanding, identifying and verifying their customers through scrutiny of documents of the respective customer. They also should recognise the beneficial owner or the individual on whose part a transaction is being conducted. They are required to obtain the intended nature and purpose of the business and monitor accounts/transactions to ascertain whether they are consistent with the bank's knowledge about the customer.

For identification of individual customers, the banks may use any of the documents issued by the National Database & Registration Authority (NADRA) i.e., Computerised National Identity Card or Computerised National Identity Card or Pakistan Origin Card or Alien Registration Card (ARC) issued by National Aliens Registration Authority or a passport with a valid visa or other legal proof of stay along with the passport. For salaried persons, attested copies of service cards are also required. Similarly, valid documents issued by the relevant national institutions are necessary in cases of Sole Proprietors, Partnerships, Limited Companies/Corporations, Foreign Companies/Trusts/Clubs/Societies/ Associations, NGOs/NPOs/ Charities, Agents Accounts, Executors and Administrators and Minor Accounts. Additionally, they must obtain full name, CNIC/business registration number information regarding residential or business details and addresses, telephone number, email address, date of birth/incorporation or registration, nationality or birthplace and nature of business. Also, the geographic location of operations involved and prospective types of counter-parties, account purpose and type, source of income, presumed monthly credit turnovers with amount and number of transactions and expected mode of payment and transactions are required. It has been a difficult but effective mode of payments.

For verification purposes, all banks, and Development Finance Institutions (DFIs) are required to verify the identities of their customers and retain copies of all documents on record. If any other person is acting on behalf of the customer, his/her identity must also be verified through documentary evidence. Information should also be obtained about the character and credentials of the beneficial owner(s). Information regarding the intended nature and objective of business relations is also required. In the case of negative verifications by the government departments, the business relationship is closed, and the data is put on record. Such information is retained by the recipient organisations for 5 years on average. However, every recipient has a separate policy. In the case of walk-in or occasional customers, biometric verification, or copies of CNIC are required for a cash transaction of greater than USD 2,975.27 (PKR.500, 000) just to verify the payer.

If the value of a transaction exceeds an amount of PKR 1 million, the name and CNIC number shall also be picked up and identified by the system. In cases of unsatisfactory verification status, the accounts shall not be opened; such a relationship may be termed as high risk. If there is suspicion of money laundering or terrorism financing, an STR should be filed with the Financial Monitoring Unit.

All business relations with the customers must be consistently monitored and reviewed periodically by the Banks/ Development Finance Institutions (DFIs). Moreover, no anonymous or fictitious accounts may be opened. All banks/ DFIs may perform CDD measures on their existing clients. This will cleanse the banking system of dubious accounts and only genuine/legitimate and traceable individuals and institutions will remain in the banking sector. Banks/DFIs cannot provide any banking service to proscribed/designated entities or persons nor their known associates. If any such case is highlighted, it must be brought to the knowledge of the FMU and immediate action taken. Personal accounts may not be used for business purposes except proprietorship, small-scale businesses, and occupations where formal documents are unavailable, and banks/DFIs are satisfied with Know Your Customer (KYC) profiles.

In the case of politically exposed persons (PEPs), all banks/ Development Finance Institutions (DFIs) have to have in place adequate policies, procedures, and checks, requiring approval of the bank(s) senior management to establish or continue business and monitor business relationships with such customers. There should be enhanced due diligence in maintaining association with non-governmental organisations (NGOs) and non-profit organisations (NPOs) and charities are required to ensure that their accounts are utilised for the purposes stated. Banks/DFIs should apply enhanced due diligence, equivalent to the risks, to business associations and transactions with natural and legal persons from jurisdictions as demanded by the FATF.

### **Correspondent Banking**

Correspondent banking is the service whereby account holders from one bank in a certain jurisdiction (respondent) can benefit from the banking services of another bank in a different jurisdiction (correspondent). All banks must assess the suitability of respondent banks through reviewing all relevant information about their KYC policy, information about their management and ownership, principal business activities, money laundering deterrence, and preventive measures. They must also assess geographical presence/jurisdiction of the correspondent bank, the purpose of account/service being offered, the identity of any third party that will use the correspondent banking services, bank regulations, and supervision in the location of the respondent bank. The sanctions/embargoes and advisories about risks are also to be assessed by the financial monitoring unit (FMU). All banks must seek the consent

of higher authorities (State Bank of Pakistan) before establishing a new correspondent banking relationship. Correspondent banks must ensure that the respondent bank has adopted adequate CDD measures where cross-border banking services are involved. Special attention is given to checking for the banks and institutions identified by the FATF for inadequate and poor AML/CTF standards. These guidelines issued by the State Bank of Pakistan are in line with the FATF guidance on correspondent banking, which addresses the procedures and policies to be adopted internationally in correspondent banking matters (FATF, 2016). Further, CDD directions issued by the State Bank of Pakistan for all Banks of Pakistan are in line with recommendations 13 and 40 of the FATF.

### **Wire Transfers/Fund Transfers**

In line with international regulations, the banks or Development Finance Institutions (DFIs) who transfer or receive funds through wire transfers must spot and authenticate the identity and verify the originator, including the beneficial owner of the funds. Such transactions must also be recorded with all relevant details for future investigations if required. A data profile containing the name of the originator, account number/reference number, address/ CNIC or passport number, name of the beneficiary, and their address/CNIC or passport number must go along with the wire transfer in the payment chain. Wire transfers with incomplete information may be treated as a factor to proceed or terminate the transaction.

### **Reporting of Transactions (Suspicious Transaction Reports-STRs/ Cash Transaction Reports-CTRs)**

All Banks/ Development Finance Institutions (DFIs) are to follow the Anti-Money Laundering Act for reporting suspicious transactions related to ML and TF. Attention is to be given to transactions that may be unusually large, unusual/abnormal for the account, inconsistent with historic activity or those with no visible lawful purpose. Banks/ DFIs are to enhance the technological skills of staff and allocate sufficient analysts for monitoring and further reporting. STRs including attempted transactions, are to be reported, and CTRs for transactions exceeding the amount of PKR two million as per the requirement of the AML Act. The decision on STRs shall be recorded. All banks/ Development Finance Institutions (DFIs) report to the State Bank of Pakistan about the number of transactions reported to FMU

on a bi-annual basis. As part of the code of ethics, all banks/DFIs are to direct their staff not to disclose the generation of an STR.

### **Record Keeping**

All Banks/ Development Finance Institutions (DFIs) are to maintain records for a minimum duration of ten years after transactions. All such documents should enable transactions to be reconstructed, if required.

### **Internal Controls, Policies, Compliance, Audit, and Training**

Each Bank/ Development Finance Institutions (DFIs) is required to formulate their own AML/CTF policy which is to be disseminated to all staff for strict compliance. Such a policy must address CDD measures, record keeping, and correspondent banking, managing wire transfers, risk assessment procedures and the detection of unusual or suspicious transactions. Banks/DFIs shall initiate suitable AML/CFT compliance programmes. Special attention should be given to their branches in domiciled in countries identified by the FATF as having strategic deficiencies. Banks/ DFIs shall retain an unconventional internal audit function in line with the Code of Corporate Governance, that audits the inner financial controls and risk management frameworks. The institutions will also make proposals and suggestions according to the arrangement of external auditors and sets their compensation and terms of engagement. Banks/DFIs are to provide suitable training to their employees (SBP, 2018).

Despite this provision of this set of directions by the State Bank of Pakistan there remains a problem in the implementation of these policies and procedures. The practical experience says that there are issues in the implementation of policies and procedures due to the capacity issue, mindset and resistance to change. The academic sources are non-existent as there are no formal studies conducted by the local academicians on the subject. However, problems are highlighted through print media and also observed during the discussion with various stakeholders.

### **2.6.3 Securities and Exchange Commission of Pakistan – SECP**

Governed by the Securities and Exchange Commission of Pakistan Act, 1997, the Securities and Exchange Commission of Pakistan (SECP) was established on January 1,

1999, with enforcement and investigative powers as the financial regulatory agency of Pakistan. Supervision of capital market, corporate sector, insurance corporations, non-banking financial companies, and private pension schemes, regulating various external service providers to the corporate and financial sectors besides chartered accountants, credit rating agencies, corporate secretaries, brokers, surveyors, etc. comes under the domain of SECP (SECP, 2016). The office is aimed at improving the work of the corporate and capital markets in Pakistan to encourage economic growth in the country. The office also seeks the provision of an efficient and transparent regulatory framework to strengthen regulations for good governance to ensure adequate risk management measures for safeguarding investors and lessening systemic risk. The administrative functions of SECP cover the following four broad categories: Registration and licensing; Supervision (prudential and regulatory); Appellate bench, Investor apprehension, and awareness; Management of professionals like accountants, and corporate secretaries. The office is responsible for regulating and enforcing companies listed on stock exchanges, unlisted public companies, private companies having paid-up capital of PKR 100 million or above; those companies established under section 42 and 43 of the 1984 Companies Ordinance (except insurance companies, non-banking finance companies, and modarabas) through review of accounts, investigation, and prosecution perform inspections, licensing, registration, regulation, surveillance, and enforcement of the Non-bank Financial sector. It also supervises the Insurance Sector by the powers envisaged in the Insurance Ordinance, 2000, and the Companies Ordinance, 1984.

On the recommendations of FMU and in line with section 6 of the AMLA, 2010 and in compliance with the FATF regulations on ML and TF, the SECP introduced its own AML/CFT regulations in 2018. This included the process for risk assessment of ML and TF and Customer Due Diligence, identifying beneficial ownership of legal persons, identification of beneficiary for life insurance policies, risk mitigation, and applying a risk-based approach to identify risks including the utilisation of modern or emerging technologies, EDD for customers on high-risk profile, adequate risk management for politically exposed persons (PEPs) and reporting STRs/CTRs. It also emphasised the maintenance of necessary records on transactions (SECP, 2018). The new regulations are in line with the FATF regulations on ML and TF, which Pakistan is bound to comply with as part of the Asia Pacific Group. The concept of Simplified Due Diligence will allow ease of transactions for low-risk customers and would enable monetary institutions to keep an eye on customers with high risks. With the concept of identification of beneficial ownership, criminals would no longer be able to hide

through complex transactions (Tribune, 2018). But the effectiveness of these regulations are yet to be seen.

Financial institutions are criticised for their weak system of compliance in ML cases. In September 2017, Habib Bank Limited, the largest private bank of the country, was made to pay a fine of USD 22 million against various violations of New York states' regulatory provisions. Similarly, in December 2020 Habib Metropolitan Bank (not related to Habib Bank Ltd), a small private bank, was fined approx. PKR 60 million over violations of regulations relating to AML, by State Bank of Pakistan. For such purposes, fines are imposed. Such penalties result in an enhanced cost of operations of banks, which are ultimately passed on to customers. Both the State Bank and the Securities and Exchange Commission of Pakistan have given AML/CFT requirements for all banking and non-banking financial institutions (latest in 2018), which looks in line with the FATF requirements but how far these will be implemented is yet to be seen. However, the rules and regulations of designated Non-Financial Business and Professions (DNFBPs) remain a weakness, although the government of Pakistan has established a supervisory authority for this area (Shakoori, 2020).

#### **2.6.4 Federal Investigation Agency – FIA**

During the Second World War, a federal police force came into being in 1942 for investigating bribery in the Government of India's Supplies and Procurement Department. It was named Special Police Establishment. Soon after 1947, it was renamed as Pakistan Special Police Establishment (PSPE). It was mandated with a schedule of offences with ordinance VIII of 1948. Later, the mandate changed, and powers were given to investigate the crimes under the Official Secrecy Act 1923, Foreign Exchange Regulation Act 1947, Passport (Offenses) 1952, and Customs Act 1959. The transformation continued and the FIA Act, 1974 (Act VIII-4 of 1975) was promulgated on 13-01-1975, bringing the Federal Investigation Agency into existence.

Now the professional mandate of the FIA is the investigation into organised crimes, Immigration, Anti-Smuggling, Anti-Human Trafficking, money laundering, Cyber Crime and plastic money fraud, Intellectual Property Rights. The FIA employs a Personal Identification Secure Comparison and Evaluation System (PISCES) for the computerised control and exit

of passengers at airports, there is additionally a specialised Counter-Terrorism Wing of the FIA (FIA, 2018). The Federal Investigation Agency (FIA) and Financial Monitoring Unit (FMU) have thwarted many illicit fund transfers in coordination with Counter-terrorism Departments (CTDs). NACTA has released a report that stated 777 cases of Hawala/Hundi were reported, with 1060 arrests being made, and a recovery of PKR 1321 million in criminal funds (Khan; Rafique, 2018). Further, there is provincial police where specialist Counter-terrorism Departments (CTDs) have been created.

### **2.6.5 Police**

The overall police structure of Pakistan was inherited at the time of partition of British India in 1947, which is governed by the Police Act of 1861 (Jamal, 2010). There is a close relationship between their police and LEAs, providing the first line of defence against terrorism. The role of the police is crucial for successful counter-insurgency measures in a country. Unfortunately, the police infrastructure is maladministered in the country, although it has performed well. (Abbas, 2009).

Pakistan is a developing country where regulatory environment is also being developed in line with the international best practices. It is successful in terms of day-to-day management of regulatory issues whereas there is room for further improvement in the areas pointed out by FATF. The regulatory agencies in Pakistani financial sector are Security and Exchange Commission of Pakistan (SECP), Competition Commission of Pakistan (CCP), Planning Commission, Federal Board of Revenue (FBR), Financial Monitoring Unit (FMU) and State Bank of Pakistan (SBP). State Bank of Pakistan (SBP) has imposed PKR 465 million penalties on four banks i.e., National Bank of Pakistan, Silk Bank Limited, United Bank Limited, and Industrial and Commercial Bank of China-Pakistan branches. The penalty of Rs280.509 million was imposed on NBP followed by Silk Bank {Rs132.437 million}, UBL (Rs38.554 million), and ICBC Pakistan branches (Rs13.542 million) in quarter ending September 2021 for noncompliance with instructions on anti-money laundering (AML) and combating the financing of terrorism, general banking operations, and customer due diligence (SBP, 2021).

At the federal level, there are a number of agencies having inter-provincial jurisdiction. These include the Federal Investigation Agency (FIA), Frontier Constabulary,

Anti-Narcotics Force (ANF), Pakistan Coast Guards, Frontier Corps, Pakistan Rangers, Pakistan Railways Police, National Highways and Motorways Police (NHMP), and Islamabad Police. The agencies working at the federal level have inter-provincial jurisdiction concerning the federal government. These agencies work on securing border crossings, prevention of smuggling, drug control, and assisting provincial authorities in maintaining law and order. There are police organisations at the provincial level and the Police Service of Pakistan (PSP) provides qualified officers (trained and managed by the provincial governments) to the provincial governments. Provinces are further segmented into Police districts for management purposes. Every year millions of police complaints are lodged all over the country.

The duties of the police are set out in the Police Act 1861. These include the responsibilities of compliance of orders lawfully issued by the competent authority, dissemination of intelligence for maintaining peace, prevention of crime, apprehension and bringing perpetrators to justice, etc. The Police Order 2001 brought about reforms and explicitly expressed the details of duties and responsibilities supposed to be performed by the Police (Jamal, 2010). In the recent past, the Counter-Terrorism Departments of Police across Pakistan are given the power to deal with terrorism cases and to investigate the financing of terrorism. To enhance the capacity of the police, the UNODC in 2017 has initiated the programme called the PACT – Pakistan's Action to Counter Terrorism – with the financial support of the European Union in consultation with the NACTA. The programme aimed at policy improvement, enhancing capacities of the law enforcement agencies, and improved coordination among provinces on Counter-Terrorism (PACT, 2019b). It is a new programme and its outcome shall be visible in next few years. This programme has successfully imparted many training sessions for LEAs, prosecutors, provincial CTDs for capacity building and bridging gap. Obviously, it will not be an overnight change but a good thing is that an awareness is being made among all stakeholders about the flaws they face in dealing in TF/ML cases which are usually lack of coordination among agencies and faulty investigations. Information gathering and information are essential for the work of policing. Being the primary law enforcement agency, police must be trained to deal with terrorism financing cases as incompetent and under resourced police department hinders effective implementation to policy making as recommended in Section 5.5 'Recommendations for policy making'. There are other specific agencies in Pakistan, like Inter-Services Intelligence (ISI) and Intelligence Bureau (IB).

## **2.6.6 Intelligence Agencies**

### **Inter-Services Intelligence – ISI**

The Inter-Services Intelligence (ISI) is considered the preeminent Intelligence Agency of Pakistan. Pakistan acted as an ally of the US against communist augmentation in South Asia in the 1980s, and it was the time when ISI played a vital role in balancing peace in the region. General Zia ul Haq, the then President of Pakistan, promoted the ISI as the central organisation, routing all the logistics and aid given by the United States (Tristam, 2019). The FATF suggested there was a need for an effective coordination mechanism between the agencies of Pakistan working against terrorism and its financing. It has been suggested that more responsibilities should be given to the Intelligence Bureau instead of ISI to deal with the banned extremist groups which is yet to be done (Shakil, 2019). A National Task Force on CFT has been established with the approval of the Ministry of Interior Pakistan. The task force include representatives from all police establishments of Pakistan, ISI, IB, among others (NACTA, 2019). The Intelligence Bureau works in parallel with ISI on information gathering and sharing matters.

### **Intelligence Bureau – IB**

Established soon after independence on August 17th, 1947, the Intelligence Bureau is a civilian intelligence agency of Pakistan. It was inherited from the British Raj's Intelligence Bureau of the British Indian Army. It is responsible for providing information on espionage, terrorism, political developments in Pakistan, etc. After 9/11, the IB has captured and detained many high-profile militants (GlobalSecurity, 2020). The IB is also working on terrorism financing matters, and it is also included in the National Task Force on Counter Financing of Terrorism (NACTA, 2019). Further, there is a Ministry of Foreign Affairs to develop better relationships with other countries.

## **2.6.7 Ministry of Foreign Affairs**

The Ministry of Foreign Affairs of Pakistan promotes the foreign policy of Pakistan for friendly relations with other countries based on honesty and the promotion of peace and security for the world, upholding the charter of the United Nations. It is based on seeking non-aggression, and peaceful resolution of disputes (MOFA, 2019). The Foreign Service of

Pakistan is run by civil servants of Pakistan who serve internationally. Initially, It was established soon after independence as the Ministry of External Affairs on 15 August 1947. It was renamed as Ministry of Foreign Affairs in 1964 (FSA, 2019). The objectives of the foreign policy are aimed at promoting Pakistan as a progressive and democratic Islamic country, safeguarding national security, geostrategic interests, and Kashmir, commercial and economic cooperation with the international community, protecting the interests of Pakistanis living abroad, and optimal utilisation of natural resources for regional and international cooperation. The Ministry has a separate Counter-Terrorism Division to guide the state affairs to combat TF (MOFA, 2019). There is another ministry, i.e., the Ministry of Interior, to look after the internal affairs of law and order in the country.

### **2.6.8 Ministry of Interior**

The Interior Ministry is a critical Ministry of the Government of Pakistan with the primary responsibility of security of the state and the administration of internal affairs of the country. It is headed by the Interior Minister. Federal Investigation Agency, National Counter-terrorism Authority, Pakistan Rangers, National Database and Registration Authority, Frontier Constabulary, Directorate of Immigration and Passports, Civil Defence, Coast Guards, National Crisis Management Cell, and Islamabad Capital Territory Police among others comes under the domain of MoI (MoI, 2019). NACTA, under the supervision of MoI, prepares the national policies for countering terrorism, ML, and TF.

Law Enforcement Agencies are available for dealing with financial investigations, arrests, and taking the culprits to the courts of law, whereas intelligence agencies are there for providing relevant information. Besides, the State Bank of Pakistan and SECP are there for financial regulations. But although these policies should provide great help in theory, in practice there are problems with their implementation. A joint robust mechanism is required to ensure collective efforts. Thus, it is implied that lack of coordination is a flaw in the implementation of the policies' effectiveness. Acharya (2012) states that lack of coordination among agencies has resulted in failure of institutions to work at optimum (Acharya, 2012). Another author Kupchinsky (2004) states that after the Madrid bombings, French police official were outraged as their Spanish counter parts were reluctant to share details about the explosives used in the incident (Kupchinsky, 2004).

To sum up, it can be said that empowering and rectifying the flaws in the working mechanism and coordinated response of above mentioned financial regulatory bodies and designated law enforcement agencies including State Bank of Pakistan (SBP), Financial Monitoring Unit (FMU), Security and Exchange Commission of Pakistan (SECP), Federal Investigation Agency (FIA), Police, Inter-Services Intelligence (ISI), Intelligence Bureau (IB), Ministry of Foreign Affairs (MoFA) and Ministry of Interior (MoI) should be at priority. Regulations in the form of ATA and AMLA are available, but there are some problems identified in the following section.

## **2.7 Legislative Weaknesses and Gaps in Implementation**

Another important area is the weaknesses in legislation and the issues in implementation. In this section, we are going to discuss the shortcomings in Anti-Terrorism Act (ATA) and Anti Money laundering Act (AMLA) besides discussing gap in implementation of NACTA & NAP and Research Gap.

### **2.7.1 Shortcomings of Anti-Terrorism Act (ATA)**

Pakistan has outlawed 73 religious' entities under ATA as proscribed besides their assets having been frozen. The Anti-Terrorism Act (ATA) 1997 (last amended on February 9, 2018, to enhance the extent of punishments), explicitly defined the terrorism offences as mentioned in Section 2.1.1 of this thesis. Pakistan is persistent when it comes to implementing UNSC resolutions about TF offences. State Bank of Pakistan (SBP) has frozen the accounts of 32 organisations worth 10 million US dollars. Although sixty-eight (68) religious outfits have been banned under ATA with the subsequent freezing of their assets, the problem lies in the fact that they have not yet been forfeited yet. It is a fact that Pakistani authorities are not fine-tuned and experienced in prosecuting TF cases.

There are some factors involved in prolonged delays and increased acquittals. The Act defines terrorism in a broad perspective. The issue of excessive paperwork and lengthy procedures among state institutions, especially law enforcement agencies and judiciary, is also a cause of delay in court judgments. Restoring the trust of the public in civilian institutions like the police, if restored, will pave the way in reduction of terrorism incidents, for example, the public may provide information about the presence of terrorist

elements, they can cooperate with police in becoming witnesses and help in the collection of evidence. This will result in swift prosecution and reduction of terrorism and terrorism financing cases which will ultimately reduce the burden on the military to combat terrorism. To upgrade the ATA, a deterministic approach is required based on four significant areas: modification of the legal language, rationalising and organising its implementation, making the courts aware of the provisions of the law, and reinforcing the foundation responsible for its imposition (Pervez & Rani, 2015). The scope of ATA is extended to the whole country.

The law was enacted in 1997 and amended 18 times as of February 2018 to adapt to the evolving nature of the terrorist threat. Despite continued revisions to deal with the evolution of terrorism, the ATA still lacks the power to significantly curb terrorist activity. Various studies have been conducted to review the evaluation and effectiveness of ATA, and the following most common shortcomings were found (Pervez & Rani, 2015).

1. One of the fundamental weaknesses in ATA was the extremely broad definition of terrorist acts (Bokhari, 2013). This overburdened the criminal justice system of Pakistan, i.e., police, prosecution, and the judiciary. Consequently, it has led to delays in the trial of high-profile criminals and delays in the disposal of “real” cases of terrorism. However, this issue has been highlighted by the former Chief justice of Pakistan, Mr. Justice Asif Saeed Khosa, in a 27-page judgment issued on 11th November, 2019 wherein he expressed the need for legislation in Pakistan to provide a specific definition of terrorism (SCP, 2019). It is yet to be done by the legislative bodies.

2. Pakistan law criminalises Terrorism Financing under section 11.H of ATA (Pervez & Rani, 2015). However, it does not counter the provision on financing, which could also be indirect, for example, through donations or Madrasahs.

3. The rationale of ATA is described as “the prevention of terrorism, sectarian violence and for speedy trial of heinous offences and matters connected in addition to that and incidental to that”. However, the term “heinous offences” is not described at any other place in the Act. That makes the Act ambiguous and extends the application of ATA to embrace cases other than terrorism such as kidnapping for ransom, gang rape, extortion, and arms trafficking (Bokhari, 2013). This explains why the Anti-terrorism courts (ATC) have so many cases to consider other than terrorism. Indeed, the ATC is dealing with all types of criminal cases that could be dealt with under ordinary law, i.e., the Pakistan Penal Code

(PPC) rather than cases having a connection with terrorist organisations or the presence of terrorist acts. This, as a result, leads to the delayed hearing of genuine terrorism cases.

4. The term “funds” is not defined in ATA, and this is essential to counter-terrorism financing. Similarly, the term “Property” is not defined, adding ambiguity in the law.

5. Section 11.D of ATA contains the phrase “for the offenses purpose of terrorism.” However, the term terrorism is not defined, and the word “for the purpose” could also be interpreted as ambiguous.

6. Section 11. I of ATA only covers the example of collection for terrorism by stating “possession of money or other property”. However, it does not target those who mastermind the terrorist’s schemes who do not possess any property directly to use to finance terrorism.

7. The inadequate police system is another critical factor that directly influences the efficiency of ATCs. The police system that is being used in Pakistan is adopted from British government rules, 1861. As a result, police are not trained in using sophisticated and modernised equipment/tools for investigation.

8. ATA is also criticised for violating human rights. These criticisms are mainly based on the violation of innocence until proven guilty and allowing the investigator to torture suspects. The official time limit to complete a judicial trial is seven days, but in practice it is rarely adhered to. So, there are higher chances that police can create false evidence (Bokhari, 2013).

## **2.7.2 Shortcomings of Anti-Money Laundering Act**

It is argued that there are shortcomings in the Anti-Money Laundering Act that from the perspective of my professional role I would agree with Kemal (2014). The major shortcomings are:

### **1. Money Laundering as a Non-Cognizable Offence:**

Section 21 (a) of AMLA – 2010 says that “every offense punishable under this Act shall be non-cognizable and non-bailable;”

This creates problems for the Investigating Officers dealing with the offences punishable under this Act because at every stage of the investigation the permission is required from the respective court (Ali, 2019), which involves an unnecessarily long time and burden on investigators. Therefore, investigators avoid taking an interest in such cases.

**2. Confusion in the attachment of property and investigation (Sections 8 and 9):**

Section 8 of AMLA says to attach (seize/confiscate) the property first and then, as per Section 9, to serve notice to the person within seven days after attachment of property. There is no provision of inquiry before attachment of property, thereby enabling courts to ascertain if the property is attached rightly or wrongly.

**3. Judges of Courts are not trained:**

For example, if the predicate offence is established earlier and later it was found that the money is also laundered and sections 3/4 of AMLA are applied, then the judges think that there will be double jeopardy. However, the offence of money laundering is a separate offence.

**4. Jurisdictions of Agencies not defined:**

If the offence of money laundering is established by any agency whose primary responsibility is something else, then in that situation, it is not defined which agency will cover the offence of money laundering. For example, if personnel from ANF are deputed for duties at a counter at the airport and while checking for drugs he comes across a huge amount of money, then, in this case, AMLA is silent as to who should register the case against the established offence of money laundering.

**5. No audit and monitoring of job responsibilities:**

There is no provision of audit or monitoring of the persons who are assigned responsibilities that whether they are discharging their responsibilities.

**6. No action for non-implementation:**

There is no provision of initiation of departmental action in case of non-implementation of the sections of this Act against the officers/personnel who are responsible. Therefore, the chances of accountability are very sleek.

### **2.7.3 Gap in Implementation of NACTA and NAP**

Despite achievements, there are shortcomings with the NAP which have led to problems with implementation, as discussed in the report of Mr. Justice Qazi Faez Isa in the Quetta Enquiry Commission Report. For example, for the achievement of 20 goals of National Action Plan (NAP), no timeline is decided, though the document is categorized as a “Plan”. This brief document does not provide any explanation for its implementation. Moreover, it also lacks the monitoring and evaluation process; for example, what steps should further be taken if goals are not achieved? (Isa, 2016). The government of Pakistan formed an “Implementation Committee for NAP” and appointed the National Security Advisor (NSA) on 31st August 2016 (Ramay, 2016).

NAP is merely executed by the Ministry of Interior. NACTA, Intelligence Agencies, and NSA are overseeing the implementation of NAP through related authorities. Moreover, NAP also clearly stated that NSA is not responsible for maintaining any kind of data regarding terrorism. All these duties are carried out by NACTA. However, the Director-General and National Coordinator of NACTA also stated that they do not maintain such kind of data. The Quetta Inquiry Commission report also speculates that the implementation committee members of NAP are also the Executive Committee members of NACTA.

Moreover, the Implementation Committee notification also stated that the “Director General of NACTA” is also a member of the Implementation Committee. However, NACTA has five Director Generals, and this notification does not specify which Director-General is the member of the Implementation Committee (Isa, 2016). NAP highlighted the importance of capacity building and revamping of the criminal justice system, i.e., courts, police, prosecution, and prisons. However, except for constitutional amendments, no focus was placed on the proper training of police to modernise them with the latest technology to investigate terrorism-related cases efficiently (Ramay, 2016). The role of NACTA is limited to coordination only, and no conclusive decision can be communicated for implementation unless all actors and stakeholders are brought together. The government and private sector need to take preventive measures considering the above observations to regulate the financing of terrorism in Pakistan (APG-MER, 2019).

More recently there has been a high-level meeting of government officers in Islamabad headed by the Minister for Economic Affairs and other senior officers who deal

with the FATF. The concerns/observations of FATF are then conveyed to various organisations/departments of the government for their feedback and implementation where possible. A lot of activity has been going on since 2019 when FATF expresses its serious concerns on the non-implementation of its directives and the ML and CTF landscape in Pakistan has been constantly evolving since then, some of the activities include the introduction and amendments in-laws mentioned in Section 2.2.11 of this thesis. With this background, the NACTA which is the central coordination institution has not been able to play an effective role as various tiers of law enforcement and financial institutions are in the process of capacity building and partial implementation. NACTA will be able to play an effective role only when the other government organisations finalise their internal workings and start sharing the relevant information regularly with NACTA. At this point, NACTA is not playing any significant role in any of the counter-terrorism/Money laundering/CTF efforts; the onus is on the counter-terrorism departments of all the provinces.

It is pertinent to mention again that limited and scattered literature is available on terrorism financing with respect to Pakistan and this study addresses the gaps by enlisting and highlighting all the possible and probable issues together. The issue of terrorism financing and its characteristics along with its association with organised crime were discussed at first. Money laundering which is a process of utilisation/transfer of money for terrorist activities is explored with the factors of poverty, illiteracy, corruption, ethnicity, lack of capacity of LEAs as chief causes of terrorism and terrorism financing. Financial Action Task Force (FATF) and its recommendation were discussed along with progress of Pakistan and it has revealed that there is to need analyse this plethora of problems and incapacities of institutions together and a robust mechanism is required to legislate policies and unify the authorities. Being a developing country, it is not easy for Pakistan to bring an overnight change but the global institutions like FATF, APG and others may help Pakistan to deal with it. The shortcoming highlighted in this chapter may help understand better in policymaking and effective implementation.

#### **2.7.4 Research Gap**

In June 2018, Pakistan provided high level political support for the strengthening of its Counter-Terrorism Financing (CTF) regime and Anti-Money Laundering (AML) regime. This is in line with the Financial Action Task Force (FATF) and Asia Pacific Group (APG)

and to address the deficiencies in its strategic counter-terrorist financing-related activities. Pakistan has taken the following steps to improve its AML/CFT regime, including initialising the collection of databases on an integrated basis for currency declaration for every citizen and revision of terrorist financing risk assessments (Ghauri, 2019). FATF in its document on *'Improving Global AML/CFT Compliance'* published in June 2018, stated that the government of Pakistan had made a political commitment with the APG & FATF to address the following deficiencies related to CTF (FATF, 2018), where attention is still required including:

- (1) Proper demonstration of understanding of the TF risks and their supervision.
- (2) To demonstrate the sanctions and remedial actions on financial institutions in cases of violations of AML/CFT regulations that are to be complied with.
- (3) To ensure action against illegal money or value transfer services (MVTS) by the competent authorities.
- (4) To identify cash couriers and control the illicit movement of currency being used for TF.
- (5) To improve coordination between NACTA and Provinces to combat terrorism financing.
- (6) To ensure that law enforcement agencies (LEAs) investigate terrorism financing cases extensively.
- (7) Enhancing capacity besides encouraging judiciary and prosecutors for effective prosecutions in terrorism financing cases.
- (8) To implement sanctions and prohibit access to funds on designated terrorists and those supporting them.
- (9) Better coordination between federal authorities and provinces on imposition against Targeted Financial Sanctions infringements, including administrative and criminal punishments.
- (10) Amenities and benefits possessed or administered by designated persons are to be dismantled of their ownerships.

Conclusively, terrorism financing has many factors and classifications. As identified in this chapter, it has nexus with money laundering and organised crime and various internal and external factors are involved in it. The International obligations like UNSC resolutions and FATF recommendations are compulsory as Pakistan is a member of UNO and bound to

follow all international obligations. Besides, Pakistan has its own AML/CFT regime containing ATA, AMLA, FERA, Fair trial Act, NACTA and NAP with areas to tackle terrorism financing include lack of capacities of LEAs, vulnerabilities of Islamic religious seminaries (Madrasahs) and their mode of working, religious organisations and NGOs/INGOs. External factors include relations with bordering countries and treaties with them.

In my professional experience, I have encountered/observed all these issues and they are very relevant if the root cause is to be addressed. This research seeks to address the issues of corruption, lack of capacities of LEAs, organised crimes, institutional weaknesses, drug trafficking, deteriorated security situation, and exploitation of informal financial systems by identifying the root causes of terrorism financing in Pakistan and problems in the implementation of existing laws and regulations. Therefore, the following research questions were drafted to address these issues:

1. *What considerable changes in terrorism were witnessed in Pakistan after the incident of 9/11?*
2. *How do the neighbouring countries of Pakistan impact terrorism financing?*
3. *Which factors lead to ineffectiveness amongst the counter-terrorism financing policies in Pakistan?*
4. *What are the major barriers in the implementation of existing counter-terrorism financing policies in Pakistan?*

## **2.8 Conclusion**

While several measures have been taken by the Government of Pakistan to fight against terrorism and its financing, there are still deficiencies. Several amendments have been made to the counter-terrorism laws to update them and to bring them to par with international standards. There remain shortcomings with implementation. For example, little attention has been paid to the monitoring and evaluation of laws and to the operation of the criminal justice system of Pakistan (Jamshed, 2018). Although NAP and NACTA appear to be successful, Pakistan only designs strategies in reaction to terrorist attacks rather than adopting a proactive approach to deal with the issue of terrorism (Ali, 2015). Additionally, there is no clear

direction to counter terrorist activities in Pakistan, with the consequence that policies are not being implemented efficiently. Agency roles appears to be unclear and disorganised and different agencies, operating at federal and provincial level fail to cooperate (Jamshed, 2018). Significantly, investigators, especially the police, are not aware of laws and their amendments and lack capacity to use technology, i.e., use of computer applications, digital forensics, and financial tools during investigations hindering effectiveness (Ali, 2015). Finally, there is limited regional and international information sharing through Mutual Legal Assistance about suspicious economic activities (Ali, 2015).

Understanding the reasons for these shortcomings, and the sources of barriers to effective implementation of existing CTF policies in Pakistan will be explored through interviews with practitioners in the field. The methodology for conducting interviews for research purposes is explained in the next chapter.

## **Chapter 03: Research Method**

### **3.1 Overview**

This chapter explains the approach or methodology used for this study, which is carried out to explore the factors influencing the effectiveness of Counter-Terrorism Financing (CTF) policies and their implementation in Pakistan. Terrorism Financing (TF) activities now comprise a range that encompasses many actors and stakeholders. This chapter discusses the research design, ethical issues, limitations of the study and the ontological and epistemological assumptions suitable for this research. Selecting a

constructivist approach, the chapter discusses the qualitative research method followed firstly by pilot and then by the main study. It also contains details about the interviews, description of the method used for data collection, importance of the sample selected, and process of data analysis. The chapter also sets out the connection between the literature, the interview questions and main research questions.

### **3.2 Research Design**

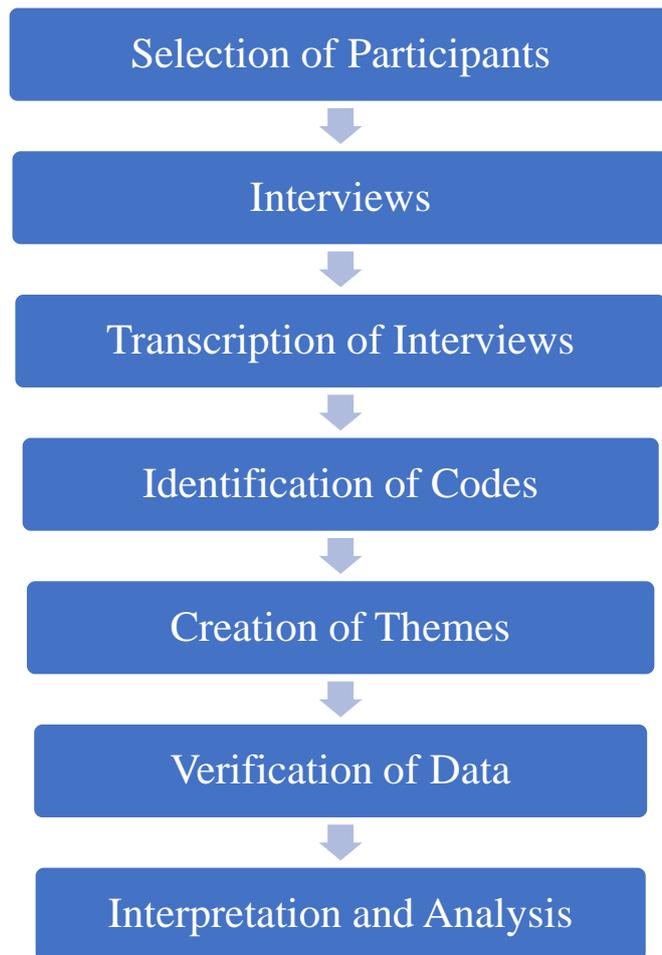
The purpose of this study was to explore and understand terrorism financing with particular reference to effective policies for counter-terrorism and its implementation in Pakistan. The following primary research questions were designed to address this problem:

1. *What considerable changes in terrorism were witnessed in Pakistan after the incident of 9/11?*
2. *How do the neighbouring countries of Pakistan impact terrorism financing?*
3. *Which factors lead to ineffectiveness amongst the counter-terrorism financing policies in Pakistan?*
4. *What are the major barriers in the implementation of existing counter-terrorism financing policies in Pakistan?*

Research Design of this study is elaborated in the following diagram:

## **RESEARCH DESIGN**

Figure 3.1: Research Design



### **3.3 Ethical Consideration**

All ethical consideration for the present research followed Northumbria University research ethical guidelines (Northumbria University, 2018). A research proposal was submitted, and before the commencement of the study, ethical approval was granted – Submission Reference 4227 dated: 17.02.2018 (attached as Appendix 3). In conducting research, the impact it will have on participants and society as a whole must be considered. In line with Northumbria ethical approval, informed consent from all participants was sought, confirming voluntary participation and freedom to withdraw or to refrain from answering any of the questions.

The participants were sent formal invitation letters to participate in the study. They were also given ample time to think if they wanted to take part in the study or not. All the participants agreed to participate by signing the informed consent forms. Participants were

informed in advance before the interviews about the broader nature of the subject, type of question to be asked, the purpose of the study, and how the information provided by them would be used. Before each interview, participants were informed about the expected time duration required for the discussion, and ample time was provided to them before and after the meeting to ask questions about the research topic. With participant permission, responses were recorded and data then transcribed. The names of interviewees are kept anonymous and given a number so that their identity is not disclosed at any stage, and the information they provide cannot be identified back to them, all the data, including consent forms will be destroyed immediately after the examination as per Northumbria University policy.

All participants were also informed that confidentiality and anonymity would be maintained throughout the process about their identity. The topic of the research for many individuals was sensitive. During preparation, operation and analysis of the subject and data, possible vulnerability and sensitivity of the participants towards questions asked were given due importance. The individual participants had different experiences in counter-terrorism, therefore the point that, for some participants, it could be upsetting to share matters of secrecy was also kept in mind.

All research personal records were protected according to the Data Protection Act (Northumbria University, 2018). Research data and files are stored electronically in an encrypted folder. Hard copies of data are stored in a locked cabinet and room. Access to data is restricted to the researcher. On completion of the research, all data will be disposed according to Northumbria University's research ethical guidelines. Participants were apprised that the anonymised data collected from them may be published, used, and reproduced in a variety of ways and for a diverse audience as the subject due to the broad nature of the research. However, the data will not be utilised other than the purposes explained to the participants, without their permission.

### **3.4 Limitations**

Owing to the multi-lingual, ethnic, and community-based society, there are multiple and complex factors responsible for terrorism and its financing in Pakistan. Ethnocentrism and religiously motivated elements use stereotypes to mould ideologies for their vested interests. People are reluctant to talk about the loopholes in the administrative, political, and

religious system that prevailed in the country due to fear for their lives. Criticising state institutions is considered an act of rebellion, and one may be held unduly accountable for discussing/commenting on such sensitive issues, so data on this topic was only partially available. There are few people working as law enforcement executives who are well versed on the topic. Such officers are rarely available to take out time and provide relevant information. Information acquired is often symbolic- saying what is expected in answering research questions. Respondents were quite reluctant to share the realities of their experience, particularly when negative. Frequently, they gave vague and generalised responses to some of the problems. A police officer who is currently heading a Law Enforcement Agency excused himself when he learnt that the interview would be recorded. A Police Officer who is currently heading a law enforcement agency excused himself when he learnt that the interview would be recorded. Another police officer who is doing well at Counter Terrorism initially agreed but then withdrew after reading the questions. I was/am aware that, despite the limitations and difficulties faced, this type of sensitive research on terrorism financing will pave the way for positive discussion among intellectuals, especially in Pakistan.

This section outlines the current study's ontology, epistemology, and research philosophy. A qualitative methodology was adopted for the purpose as interpretative approach is needed for exploratory research. As far as the research questions suggest, principally establishing and implementing efficient intervention against TF that continues to deliver operational impact, such exploratory research suggests an interpretive approach. Therefore, a qualitative research strategy was found appropriate to support this research. Priority was given to an understanding of the literature in connection with the availability of laws, institutions, and critical challenges in countering terrorism financing in recent years. The literature review helps in identifying gaps and in locating the research within the context of existing literature (Frodeman, 2019). This research is conducted because it is believed that this is a turning point for CTF in Pakistan when the country is facing many other problems affecting its stability and is, therefore, operationally relevant.

### **3.5      **Ontology****

*“Ontology is the belief that researchers have regarding knowledge; epistemology is the way individuals have arrived at that knowledge, and methodology is the process of studying the situation”* (Schuermann, 2014, p. 90). Therefore, ontology guides the

methodology, research process and the researcher's knowledge. This will guide mode of data collection, subject sampling technique, and data analysis. Considering every aspect, ontology is our own "view of the nature of reality or being" (Don-Solomon, A and Eke, G.J., 2018, p. 83).

*"All knowledge, and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of the interaction between human beings and their world, and developed and transmitted within an essentially social context"* (Crotty, 2016, p. 3). *"How humans respond to the social environment is based on their perceptions and that future actions are based upon experience and interactions"* (Schuemann, 2014, p. 76). The above-mentioned assumptions support an approach that emphasises the importance of experiences and views of the respondent from the field of counter-terrorism.

### **3.6 Epistemology**

Epistemology is related to knowledge and according to Crotty's statement about epistemologies, it relates to experience as *"how we know and what we know."* (Sittlington, 2014, p. 101) and recognises that ontology and epistemology are inter-dependent and challenging to separate when discussing *"the construction of meaning"* (ontology) and *"the construction of a meaningful reality"* (epistemology). Assumptions of epistemology are related to how knowledge can be produced, assimilated, and communicated.

### **3.7 Constructivism**

Constructivism may be defined as the collection of knowledge based on human intelligence and social experiences. Hence, knowledge is constructed instead of being discovered. A constructivist epistemology looks at the theory of knowledge and understands how we acquire that knowledge (Barillaro, Metz, Perran, & Stokes, 2013). Aligning with the constructivist epistemology enables this study to follow a broad-minded approach to discovery. The philosophy of constructivism is adopted as the epistemological position for this research so that the participants understand and create meaning as per their social constructions.

It was recognised it would be likely that the participants convey different and

multiple meanings concerning the same matter. The approach, therefore, emphasised the evolving information shared by the participants by conducting in-depth interviews on the subject (Schuemann, 2014). Of importance was how participants experience and understand the context, issues, and consequences of counter terrorism financing in Pakistan.

### **3.8 Qualitative Research Method**

The research methodology is described as “*the strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the choice and use of the methods to the desired outcome*” (Ahmed, 2008, p. 5). There are four guiding philosophical assumptions that a researcher makes in qualitative research. “*These are beliefs about ontology (the nature of reality), epistemology (what counts as knowledge and how knowledge claims are justified), axiology (the role of values in research), and methodology (the process of research)*” (Creswell, 2013, pp. 19-20). “*The process of research involves empirical work being carried out with the collection of data which can concur, refute or contest theories which in turn allows for understanding and clarification for different observations*” (Conroy, 2010, p. 16).

### **3.9 Pilot Study**

The first step of the study comprised the conduct of a pilot study that comprised less formal and semi-structured interviews with counter-terrorism and policy professionals. “*A pilot study is one of the most important stages in a research project, and it is conducted to identify potential problem areas and deficiencies in the research instruments and protocols before implementation during the full study*” (Hassan; Schattne; Mazza, 2006, p. 70). It is also helpful in familiarising the researcher with the procedures and the protocols of interviews. The pilot study provides an advance indication whether the direction of the research project is correct or not. It provides useful insight to evaluate whether adopted methods or tools are appropriate or not and determines the feasibility of the research project, research tools and data analysis. It enabled the researcher to check the questions were understood and in the best sequence. Pilot studies are conducted for a variety of reasons including assessing the adequacy of research instruments, determining the feasibility of ‘Main study’, designing research protocols, assessing the practical utility and significance of

the research, identifying logistical issues, collecting primary data, assessing data to identify prospective and potential problems, developing and amending main research questions and research plan. The study may also convince the stakeholders about the suitability and feasibility of the main study.

The interview questions were designed to explore the phenomenon of terrorism financing in Pakistan, keeping in mind the deficiencies and gaps found in the literature review, in particular the barriers to effective law-making and to implementation of existing laws. The questions were designed so that a general view of terrorism and counter-terrorism was discussed early on. Discussion was then moved to external/internal factors of terrorism in Pakistan and terrorism financing in Pakistan. Questions such as how terrorism financing could be prevented, views on the funding methods used by terrorists, the contribution of charities and donations in TF, effective laws of Pakistan for countering terrorism, and views on weaknesses in the existing laws of Pakistan were asked. Further supporting questions aimed to explore the ideas and experiences of the respondents about improving the existing laws of Pakistan in combatting terrorism, steps taken by the Government in regulating the financing of terrorism, implementation of existing laws formulated to stop terrorism financing in Pakistan, hurdles faced during duties about counter-terrorism and their opinions to trace and bring to a halt the funding of terrorists. Interview questions of the pilot study are available in Appendix 5.

As the subject of discussion was very sensitive for participants as explained in Section 3.3 of this chapter, efforts were made to balance the interview with open-ended questions so that the responses may highlight possible aspects of counter-terrorism in Pakistan. Four interview meetings were carried out for the pilot study before the start of the actual research. Following an analysis of these four interviews it was determined that some of the questions were too general and did not provide any information in areas of interest such as alternative remittance, NGOs, Madrasahs, terrorism in bordering countries, operations of the Pakistan Army, and the content of FATF and UNSC resolutions. Therefore, there was a need to revise the interview questions to get the responses on these topics. Hence, the interview questions were reviewed and revised, which are attached as Appendix 6.

For example: Question no. 4 of the pilot study asked about the external and internal factors of terrorism in Pakistan. The responses gathered from this question resulted in the

formation of another question further added in final interview questions i.e., Question no.12 (Your views about Pakistan’s confrontation with India? Its role in terrorism).

### **Summary of Participants – Pilot Study**

The participant selection was based on respondent roles and expertise in the field of counter-terrorism in Pakistan. Owing to my position in the Police Service of Pakistan, I have the opportunity to connect with the officers of a range of Law Enforcement Agencies. This provided the chance to get different insights and diversity of responses based on their experience and expertise about the barriers to effective Counter-Terrorism Financing policies, their implementation, and strategies in dealing with such situations. The pilot study was conducted with the following CTF practitioners:

**Table 3.1 Participants of Pilot Study**

<b>No.</b>	<b>Job Title</b>
1	Officer of the Counter-Terrorism Department
2	Senior Police Officer
3	Former Head of a Federal Agency
4	Former Head of an Intelligence Agency

The pilot study was conducted in April 2018, and four face to face interviews with the above-mentioned respondents took place. A sample of four expert participants was sufficient to assess the suitability of the questions and to assess the desired outcome as the full study comprised of 20 participants. These participants are experts in their particular domains and have expertise in counter-terrorism and terrorism financing in Pakistan. The responses received from the participants helped in assessing the suitability of interview questions. The interviews were transcribed and reviewed in detail identifying a need to add some new questions that are relevant to the study and were not included in the pilot study as mentioned in Section 3.8 – Pilot Study. Questions on Alternative Remittance System (Hawala/Hundi) in Pakistan, NGOs, Madrasahs, role of India in terrorism, border control with neighbouring countries, transshipment of narcotics and smuggling from Afghanistan, counter terrorism military operations, recent developments of FATF and UNSC resolutions were added as new questions in the final study (attached as Appendix 6). The result of the pilot study was not

included in the final study as the questions asked in the final study covered a larger area of enquiry.

### 3.10 Main Study

The purposive sampling method was adopted for selecting study participants. Purposive sampling is based on characteristics of the population and the aims of the study. There are different types of purposive sampling; Homogeneous Purposive Sample, Typical Case Sampling, Extreme/Deviant Case Sampling, Critical case Sampling, Total Population Sampling, and Expert Sampling (Crossman, 2019). In this study, expert sampling is used because knowledge based on a particular form of expertise was needed. This procedure of sampling is essential strategically in creating effective communication between sampling and research questions (Conroy, 2010). Participants were pursued through personal contacts. There were difficulties faced in convincing the participants that they are free to give responses without any compulsion (as discussed in Section 3.5 of this research in limitations section). The following 20 participants were recruited to be interviewed for the main study.

**Table 3.2 Participants of Final Interviews**

<b>Respondent No.</b>	<b>Office/Designation</b>	<b>Age</b>	<b>Gender</b>	<b>Date of Interview conducted</b>	<b>Location</b>
1	A senior officer of an Intelligence Agency	56	Male	13.11.2018	Karachi
2	Senior Police Officer	48	Male	26.11.2018	Karachi
3	Former Head of a Federal Agency	62	Male	18.01.2019	Karachi
4	Former Head of a Federal Agency	64	Male	25.02.2019	Karachi
5	Former senior-most Police Officer	65	Male	12.03.2019	Karachi
6	Officer of a Federal Agency	38	Male	26.03.2019	Karachi
7	Police officer	40	Male	05.04.2019	Karachi
8	Police officer	30	Male	10.04.2019	Karachi
9	Senior office bearer of an International	55	Female	15.04.2019	Karachi

<b>Respondent No.</b>	<b>Office/Designation</b>	<b>Age</b>	<b>Gender</b>	<b>Date of Interview conducted</b>	<b>Location</b>
	Academic Institute				
10	Teaching Fellow at a reputed Academic Institute	38	Female	22.04.2019	Karachi
11	Senior Police Officer associated with Counter-Terrorism	51	Male	23.05.2019	Karachi
12	Former Judicial Officer of the Senior Court of Law	59	Male	27.05.2019	Karachi
13	Defence and Security Analyst	61	Male	29.05.2019	Karachi
14	Former senior Police Officer	65	Male	03.06.2019	Karachi
15	Former Judicial Officer	63	Male	11.06.2019	Karachi
16	Police Officer	41	Male	17.06.2019	Karachi
17	Professor at a reputed Academic Institute	58	Female	24.06.2019	Karachi
18	Senior Government officer	49	Male	28.06.2019	Karachi
19	Provincial Law officer	46	Male	03.07.2019	Karachi
20	Consultant, Public Policy & Research at Government of Pakistan	39	Female	15.07.2019	Karachi

### **3.11 Interviews**

While the interview process is an important method of gathering in-depth information, it can end up being a costly and time-consuming process. As each interview is unique, the interaction between the interviewer and the participant can vary, and the quality of the responses received from different participants may differ. Furthermore, the researcher has to be well prepared and must have the mastery of skills of quality listening (Brounéus, 2011).

The respondents were given full liberty to express their experiences and ideas about the questions asked.

The duration of each interview was approximately 60 minutes, and voice recordings of meetings were made for data collection. Participants were requested to provide relevant information on the research topic during the interview. In each interview, 22 questions were asked to have in-depth knowledge about four main research questions (mentioned in Section 3.2), which explores the main idea of identifying changes in terrorism since 9/11, impact of neighbouring countries on terrorist financing, factors responsible for ineffectiveness amongst the counter terrorism financing policies and the barriers in the implementation of existing TF policies in Pakistan.

The interviews were held in friendly environment of trust and confidence with the that name of interviewees could not be revealed as there is general apprehension among those held public offices to give their opinions on terrorist financing. The general trend was a lot is needed to be done by the state but there is no will or capacity for accomplishing it. The questions ranged between seeking personal information, career trajectory experience in countering terrorism, its legislation, administrative exposure, opinion on remittance system, role of NGOs, charities, Madrasahs, etc. in terrorism and its financing, effects of FATF and its implications and any contribution towards AML/CTF.

### **3.12 Data Collection**

Data was collected and compiled from the audio recorded interviews of all participants. For this purpose, invitation letters along with Informed Consent Forms were provided to the participants before the commencement of the interviews. Some of the participants chose to stay at their workplaces for interview, whereas some were welcomed at the workplace of the researcher as the venue for interviews. It was important that the location provided a setting that permitted them to talk unreservedly and transparently on the research topic. A semi-structured face to face interview is ordinarily led with a progression of inquiries in the general type of interview meetings. The interviewer therefore had some opportunity to probe and investigate with additional queries and clarification when replies seemed significant. An interview plan was set up ahead of time to help the structure and flow of the interview. All participants were provided with the same set of questions related to

counter-terrorism, its issues, complications, and way forward. The questions were kept open-ended which allowed the participants to express their experiences and opinions, mainly when delicate problems are being talked about. In line with Conroy (2010) the language required to be used was understandable and relevant to each of the respondents being interviewed.

### 3.13 Data Analysis

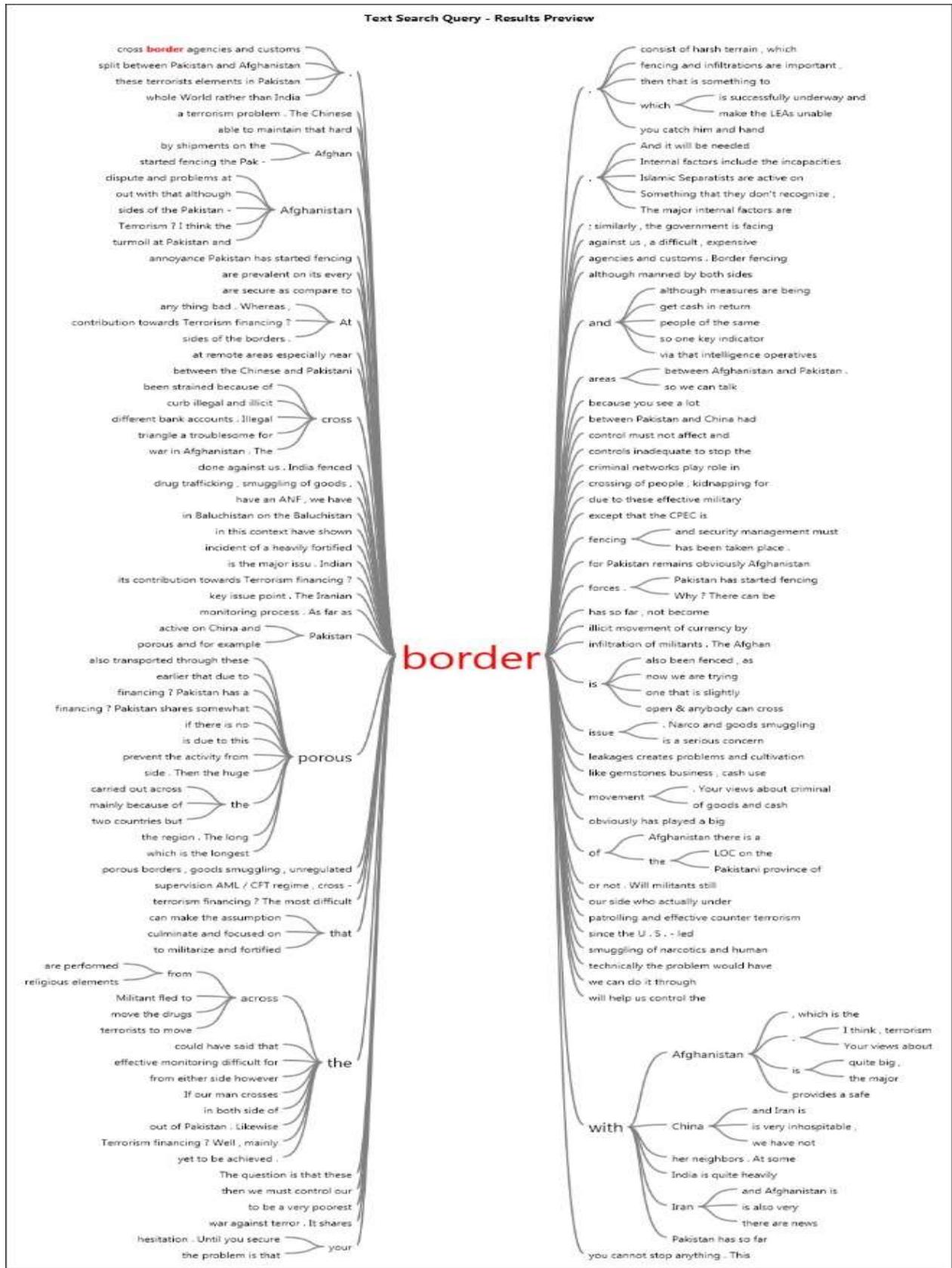
After transcribing all interviews, the process of coding took place. The method of coding involves organising and labelling the data to identify different themes that could be identified. In coding, different words or similar words that recur and appear necessary are assigned labels. These labels can be words or short phrases, and these labels help to organise data in making themes. After coding the data, themes were generated. For example, the code ‘bordering countries’ was identified as repeatedly used. It led to the generation of the second theme ‘**Geostrategic importance and relationships to bordering countries**’ which emerged through discussion that there is a role of bordering countries directly or indirectly with respect to terrorism financing in Pakistan. Coding was done manually and was further supported by NVivo software.

Thematic analysis is a widely used method in qualitative studies as *“a method for identifying, analysing, and reporting patterns (themes) within data. It minimally organises and describes your data set in (rich) detail. However, it also often goes further than this and interprets various aspects of the research topic.... A theme captures something important about the data concerning the research question and represents some level of patterned response or meaning within the data set”* suggests that in thematic analysis, themes are fetched from data through analysis of the structure of words and sentence structure (Braun & Clarke, 2006, pg 7). Therefore, thematic analysis is used in this study to get a complete understanding of the research questions.

The second theme ‘**Geostrategic importance and relationships to bordering countries**’ as referred earlier is supported by many authors. Isa (2016) states that the international Western borders of Pakistan are not controlled and no record is not maintained by the agencies (Isa, 2016). Riecke (2013) says that border control is not strong and remains vulnerable to illegal activities. (Riecke, 2013). Thus, there are so many authors who opined about the role of bordering countries as discussed in sections 2.3.1 ‘Pakistan’s approach to

counter-terrorism' and 2.5 'Bordering Countries'. The process of coding is further supported by NVivo software by which the particular codes like 'Border' or 'Bordering Countries' were searched in data (transcripts) which helped in generation of theme 2 supported by the literature mentioned above. The following example illustrates how NVivo helped in generation of theme 2.

# Example of coding



This is how most repeated words or terms from data were analysed through NVivo. The nodes resulted by the word 'border' as shown above indicated some other codes used repeatedly with border like 'Geography' or 'Geographic importance', thus by connecting these together and analysing relevant literature resulted in the generation of theme 2. This process was repeated for all identified themes which are mentioned below:

Theme 1: Changes in terrorism in Pakistan Since 9/11

Theme 2: Geostrategic importance and relationships to bordering countries

Theme 3: The role and significance of Alternative Remittance System

Theme 4: Effectiveness of existing framework

Theme 1 explains the changes dynamics of terrorism in Pakistan since 9/11. The views of various authors were taken into consideration and it was assessed and analysed that Pakistan underwent different waves of terrorism since 9/11 and different factors were responsible for this. Similarly, Theme 2 talks about the geographic importance of Pakistan and how neighbouring countries specifically the bordering countries affect terrorism financing in Pakistan. Theme 3 is meant to identify the role and significance of Alternative Remittance System and how it is linked to terrorism financing in Pakistan and theme 4 is meant to discuss the effectiveness of existing framework of Pakistan in dealing with terrorist financing.

### **3.14 Connection of Literature Reviewed to Interview Questions, Main Research Questions and Themes**

The following table shows the connection of literature reviewed to interview questions and emerged themes. The first column mentions the referred literature, second column contains interview questions, and third column shows the connection of literature and interview questions with themes. This helps in understanding the themes generated from the responses of a particular question.

**Table 3.3 Connection of literature, interview questions and themes**

No.	Literature Reviewed	Interview Questions	Connection with theme
1.	Hassan (2018) Neill (2010) Khan (2017) Noor (2007) Hussain (2017) Khetran (2017) Iwanek (2019)	What are main External and Internal factors of Terrorism in Pakistan?  Your views about Terrorism financing in Pakistan?	Theme 2: Geostrategic importance and relationships to bordering countries
2.	Ryder (2018) Rao (2019) Toledo (2018) Gurulé (2010) Schmid (2017) Normark & Ranstorp (2015) Zahid (2018) Kahlon (2015) Butt (2020) Chaudhary (2018) Rafay, Khan & Ahmad (2019) ICNL (2019) ICG (2002) Sajid (2012) Latif (2019) Duyne, Harvey, & Gelemerova (2018) Jeelani (2021) Harvey (2018) Ahmed, Siddiqui, & Chaudary (2013) Cammack, et al., (1993)	What are the funding methods /sources used by terrorists/terrorist organisations in Pakistan?  Your views about alternative remittance system/Hundi /Hawala in Pakistan and their role in money laundering and terrorist financing?  What is your opinion about NGOs’ role in money laundering and terrorism financing in Pakistan?  What is the contribution of charities and donations in terrorism financing?  What is your stance about contribution of Madrasahs in terrorism and its financing in Pakistan?	Theme 3: The role and significance of Alternative Remittance System

No.	Literature Reviewed	Interview Questions	Connection with theme
	Ahmed (2016) Khattak (2015) Kamran (2019) Kugelman & Husain (2018) Noor (2019) Shackle (2013) Abbas (2009) Khan, et al., (2021) Abbas (2011) Jamal (2010)		
3.	Hassan (2018) Neill (2010) Khan (2017) Noor (2007) Hussain (2017) Khetran (2017) Iwanek (2019)	Your views about Pakistan's confrontation with India? Its role in Terrorism. How do you see the control of Pakistan's borders with neighbouring countries Afghanistan, Iran and China and its contribution towards Terrorism financing? Your views about criminal networks that play role in the transshipment of narcotics and smuggled goods from Afghanistan to international markets? Their contribution in Terrorism financing?	Theme 2: Geostrategic importance and relationships to bordering countries
4.	Zulfiqar (2017) Hussain (2019) Khan (2017) Mubashra & Shafi (2018) Khan (2012) Zaki (2002) FBI (2020a) Bruce (2013)	Your comments on Zarb e Azab and Raddul Fasaad counter terrorism operations? What effects they have on Terrorism and Terrorism financing?	Theme 1: Incidents of terrorism in Pakistan are decreasing post 9/11

No.	Literature Reviewed	Interview Questions	Connection with theme
	Brenda & James (2015) Bolt (2001) Feyyaz (2013) Hesterman (2013) ICAP (2018) Harvey & Ashton (2015) Rumi (2015) Calari, Léautier, & Ingves, (2002) Amador (2009)		
5.	Asghar (2018) UNSCR, 2253 (2015) Khan (2019) Kiani (2019a) Parvez & Rani (2015) Rizvi (2019)	How do you see the recent developments of FATF and placement of Pakistan in grey list? What do you say about implementation of UNSC resolutions with reference to Pakistan? What is your opinion regarding current legislative operating system of Pakistan regarding counter Terrorism Financing? What are the effective laws in Pakistan to counter terrorism? How do you see the implementation of existing laws formulated to stop terrorism financing in Pakistan?	Theme 4: Effectiveness of existing framework

No.	Literature Reviewed	Interview Questions	Connection with theme
		What preventive measures would you suggest to be taken by government and private sector to regulate the Financing of terrorism?	
		How to stop Terrorism financing in Pakistan?	

Sharing their views about terrorism in Pakistan, in particular and the world in general, most of the participants talked about the situation of terrorism in Pakistan after 9/11 which resulted in the formation of **Theme No.1** i.e., “**Changes in terrorism in Pakistan Since 9/11**”. Eventually, the direct quotes from the responses were analysed in chapter 4.

Another three questions (4-6) were designed to understand and identify the barriers faced by the counter terrorism experts (participants) in fulfilment of their duties pertaining to counter terrorism in Pakistan. Furthermore, these questions aim to identify internal and external factors of terrorism in Pakistan which further explore loopholes and gaps in policies and their implementation. Section 2.1.9 of literature review augments the responses of the participants and these questions help understand the causes, effects and remedies of dealing with terrorism in Pakistan. It describes the topic as a whole, its relevance to the field and overview of the literature being investigated. The responses further highlighted the external factors of terrorism financing with regard to Pakistan’s borders with neighbouring countries like India, Afghanistan, Iran and China. The geo-strategic importance of Pakistan was discussed by the participants in the purview of terrorism financing. This resulted in the generation of **Theme No. 2** i.e., “**Geostrategic importance and relationships to bordering countries**”. Section 2.5, ‘Bordering Countries’ in literature review endorses the responses of participants and explains the external factors of TF in Pakistan in detail.

The various sources and funding methods used by terrorists/terrorist organisations in Pakistan were identified by the participants via other five questions (7-11). The spectrum of these questions was broad enough to identify a variety of sources like Madrasahs, NGOs, Hawala/Hundi and their role as Alternative Remittance System in Pakistan which is elaborated in section 2.3.2, ‘National Risk Assessment’ of literature review endorsed by the responses of interviews. The discussion of funding methods used by terrorists/terrorist organisations in Pakistan identified different factors like charities and donations, the flow of

illegal money via money laundering and alternative remittance system and institutional weaknesses among law enforcement agencies failing to regulate the illegal flow of funds. The discussion further expands to the flaws in existing laws and need for new CTF laws and policies in Pakistan. Majority of the participants were of the view that a cohesive mechanism is required to effectively utilise the existing resources, policies and laws. Secondly, there is a dire need to enhance inter-agency coordination among all stakeholders to effectively execute National Action Plan (NAP) and comply with FATF recommendations in dealing with TF in Pakistan.

The discussion further expanded to the role of Madrasahs in terrorism and its financing in Pakistan. Participants from diversified backgrounds and fields of work suggested the vulnerable role of Madrasahs in terrorism financing and need for policymaking and implementation. The discussion led to creation of **Theme No. 3** i.e., “**The role and significance of Alternative Remittance System**”.

The next questions (12-14) intend to seek participants’ views about Pakistan’s confrontation with India and its role in terrorism and the control of Pakistan’s borders with other neighbouring countries like Afghanistan, Iran and China and its contribution towards terrorism financing. These aim to find out the border control of Pakistan which is a parameter in identifying terrorism financing risks. Border management serves as a parameter and it is the most susceptible factor in money laundering and smuggling resulting in terrorism financing. India serves as a traditional foe to Pakistan and does not miss a chance to create hurdles and chaos in the country by various means. Pakistan shares a huge boundary with India and cross border terrorism and its financing may have some policy repercussions. The responses of these questions further strengthen theme no. 2 which is discussed further in section 2.5, ‘Bordering Countries’.

Question No. 15 aims to analyse the effects of military operations in reducing terrorism incidents in Pakistan and the responses gathered from this question provided the achievements of counter terrorism operations and decline in terrorism incidents since 9/11. This further strengthens theme no. 1 as most of the participants responded to this question as positive but some opined that the repercussions of CTF military operations will have long term negative impacts.

Asking this question aims to find out the achievements of counter terrorism operations and evaluate whether policies regarding this proved to be effective or not.

Other questions (16-23) aim to analyse the recent developments of FATF, placement of Pakistan in grey list, compliance with UNSC resolutions in policy making for CTF, opinion regarding current legislative operating system and effective laws for CTF in Pakistan. Being a member of UN, Pakistan is bound to make and implement laws in the light of FATF recommendations. The responses identified the efforts being made by Pakistan to comply with FATF recommendations. The responses were sought to assess the credibility of existing laws and policies for counter terrorism financing and finding out gaps in policies if there are any.

The object of this discussion is to identify and highlight effective laws in Pakistan regarding counter terrorism and its financing which may become a guideline for suggesting new policies or amending them. The above factors and discussion helped in creating **Theme 4** i.e., “**Effectiveness of existing framework**”.

### **3.15 Conclusion**

This chapter presented the methodology and research design of the study, the ethical considerations taken in to account, which includes confidentiality and data protection. The limitations faced during the conduct of the study are also outlined and followed by the different philosophical assumptions which are considered in the study. The qualitative research methodology was chosen, and the reasons thereof are also discussed. Considering the limitations and ethical considerations, a set of questions from the literature review was designed to interview 20 participants belonging to different law enforcement agencies, including police and CTDs, judiciary, academics, and policymakers, respectively. Further, the chapter discusses how and why the pilot and main study was undertaken and how the interviews were conducted, data collected, and analysed. Later on, interviews were transcribed, and codes were generated. With the help of coding, themes were identified. The next chapter discusses in detail the analysis of the data and the discussion of the findings.

**4.1 Overview**

This qualitative study is focused on exploring the factors influencing the effectiveness of Counter-Terrorism Financing (CTF) policies and their implementation in Pakistan. The research commenced with pilot work in which four interviews with respondents from Police and Counter-Terrorism were conducted to assess the suitability of the interview questions for generating responses that would address the main research questions. The main study comprised 20 interviews wherein eight officers of Police Departments, three officers from Federal Agencies, six experts (two academic experts, one financial securities policies expert, two Public Policy and Research experts, one law expert), two judicial officers, one security analyst, and one officer from an Intelligence Agency participated. This chapter presents the findings, analysed through thematic analysis. The connection between the interview questions with particular themes is stated. The themes emerged from specific/similar words, which are termed as codes. The specific patterns and codes are first identified in the data (transcripts of interviews), and from these themes emerged. For each theme, specific excerpts/direct quotes from respondents are first mentioned leading to discussions of findings. Finally, a summary of the results and conclusion of the chapter is given.

**4.1.1 Gap in Knowledge**

The study is conducted to contribute to the gap in the literature about the problems faced by Pakistan in its efforts to comprehensively counter the financing of terrorism. Apart from the work of the FATF on the analysis of counter-terror financing in Pakistan, there is no comprehensive document which highlights the problems in making effective counter-terrorism financing policies and their implementation. This study intends to fill that gap. The main Research Questions are as follows:

1. *What considerable changes in terrorism were witnessed in Pakistan after the incident of 9/11?*
2. *How do the neighbouring countries of Pakistan impact terrorism financing?*

3. *Which factors lead to ineffectiveness amongst the counter-terrorism financing policies in Pakistan?*
4. *What are the major barriers in the implementation of existing counter-terrorism financing policies in Pakistan?*

#### **4.1.2 Presentation of the Findings**

This section includes a description of the outcomes/findings discussing them in the context of the literature review. Thematic analysis was used for the study of data; coding was undertaken both manually and using NVivo software. Both of these methods aided in analysing the data gathered from the interviews. The software helped in generating nodes or concepts emerging from the data. The analysis and interpretation of the themes identified in this study help in addressing the research questions. The corresponding themes are discussed in detail as follows:

### **4.2 Results**

The interview questions were generated from the literature reviewed in Chapter 2 of this thesis. From the responses of the above mentioned 20 interviews, 4 themes were generated:

**Theme 1:** Changes in terrorism in Pakistan Since 9/11

**Theme 2:** Geostrategic importance and relationships to bordering countries

**Theme 3:** The role and significance of Alternative Remittance System

**Theme 4:** Effectiveness of existing framework

All the applicable responses of interviewees were coded, and subsequently, themes were created which were necessary to be analysed for this study. While a number of themes had been generated, four major ones have been identified for detailed analysis. For example, in theme No. 2, “Geostrategic importance and relationships to bordering countries” first, the code “borders” was identified in the data. Then this code was identified into each interview to generate an appropriate theme for informed interpretation of meanings. When it was developed from the responses of interviewees that ‘borders’ has a direct or indirect role in TF in Pakistan, then the theme mentioned above was generated. The findings of this theme were discussed, and links with available literature were established to authenticate the arguments to answer the main research questions. The theme was broadened by not naming only ‘India’

as Afghanistan is also a key player identified from the responses who is involved in drug trafficking by bordering countries including Pakistan. This chapter contains the discussion and findings of the themes to respond to the main research questions of the study. The responses of the interviewees related to the themes are mentioned in italic with quotation marks as direct quotes of the respondents.

#### **4.2.1 Theme No.1: Changes in terrorism in Pakistan Since 9/11**

After 9/11, *Terrorism in Pakistan is generally facing suppression*, this statement surfaced from the responses of participants during interviews. Participants expressed their views that *terrorism over the last five years, in terms of the number of attacks quantitatively, has reduced*. Respondent No. 8 said that *at present we are in the stabilisation phase we had seen a lot of ups and downs, and we have seen the worst, and now is the time that the terrorist incidents are on a decline. Notwithstanding the recent upsurge in violence, data shows the number of terrorist attacks has declined comparatively*. Respondent No. 3 said that *if we talk about the major cities in particular top of the list, we can see a decline in terrorist incidents in Karachi. Now there are special wings of counter-terrorism which are working on collection of information with the cooperation of the other Law Enforcement Agencies. Effective coordination between them has minimised the terrorism at some length*.

Another important fact that surfaced (as identified by respondent no.15) is *due to counter-terrorism operations by the Pakistan Army, terrorism incidents have reduced*. Respondent No. 1 and 5 expressed that *the counter-terrorism operations by the Pakistan Army, i.e., Operation Zarb e Azab and Operation Raddul Fasaad played a crucial role in the significant reduction of terrorism in the country*. Respondent no. 18 said that *Pakistan remained an epicentre of terrorism in the region till 2013, but after that, once the army started operations against them in 2014, the incidents of terrorism have reduced significantly*. Respondent no. 9 told that *the process of streamlining the economy and banking system in line with the global best practices is exhausting and often cumbersome, as the common citizen is not used to such regulations. However, over a period of time, people are now quickly adjusting to the demands of banks, tax authorities and other organisations requiring documentation and bringing things on record. There is, however, no effect on civil liberties or personal freedom of the individuals*. Respondent no. 4 further added that *These operations proved very fruitful, very productive and very decisive. Due to these operations,*

*the terrorist incidents have substantially reduced. As such Global Terrorism Index (GTI) score of Pakistan has declined from where it was in the list. If we look at the city of Karachi (the biggest metropolis of the country), where dozens of killings, extortions, and lawlessness was the norm of daily life before these operations, but after these operations, there is peace in the city. Both these interventions have curtailed the wave of terrorism across the country. Respondent no. 16 said that Zarb-e-Azab has successfully established state writ in the erstwhile FATA and weakened the grip of militant organisations in the area. The Raddul Fasaad also proved very effective in fighting urban terrorism inside the settled areas of the state. These operations brought back good effects and has improved the disturbance rather minimised the terrorist activities. The military operations carried out by the Pakistani government indeed helped in countering the menace of terrorism in Pakistan. The efforts taken by the government of Pakistan in last ten years with special focus on military operations and the efforts taken by the Police, Rangers and Army via National Action Plan has played a preeminent role in countering the terrorism and military operations had to be launched to flush the terrorists from the country.*

*Respondent no. 10 said that Post 9/11 terrorism has evolved in different forms in Pakistan. Currently, we are not out of the effect of terrorism. Many of the root causes of terrorism and the various groupings that emerged following 9/11 are still there. Deformation including the radicalisation of the society has taken place. The sleeper cells may have smashed but the sympathizers and financiers of terrorists are still living in our midst. Respondent no. 7 said that the government has not been as successful in dealing with those root causes as they have in bringing down the quantity/numbers of attacks. Externally, the factors of CPEC, 9/11 & Afghanistan issue have created a hectic activity of hostile intelligence agencies in Pakistan, and they are most interested in the destabilisation of Pakistan. Pakistan has been involved in the on-going war against terrorism. In soviet war, the groups that were directly and openly funded to promote Jihad against communism, more specifically, Afghan Jihad against the former Soviet Union, post 9/11 these groups were no more heroes but terrorists. So the challenge was for the government and the law enforcement agencies were not only to fight against these terrorist groups but also against those who financially sponsor them. Respondent no. 17 is of the view that the effects of the political alignment of Pakistan with the Capitalist block and against the Communist Soviet bloc during the Cold War i.e. Southeast Asia Treaty Organisation or SEATO, made by Great*

*Britain, USA France, New Zealand, Australia, the Philippines, Thailand, and Pakistan to prevent communism from gaining ground in the region and Central Treaty Organisation – Cento which was made by Turkey, Great Britain, Pakistan, and Iran to stop Soviet expansion in the Middle East on the persuasion of UK and USA and then the policy of becoming the vanguard in the US-sponsored War on Terror in the aftermath of the incident of 9/11, was devastating for the national unity and security. It was essentially against the US military presence in the middle east that led to 9/11 no matter from where it was orchestrated. Since then, we have been struggling with terrorism, and its trajectory of non-state actors, comes in the elementary of funding and financing.*

Respondent No. 12 said that *Poor economic condition, became supportive of the development of terrorism in the country, determines the vulnerability of needy persons who, for small amounts of commercial support, become part and parcel of terrorism and carry out terrorist activities. The other driver of extremism is unemployment. Respondent no. 14 added that There are huge unemployment and underemployment. The youth of middle classes besides having higher education are not able to get jobs commensurate to their qualifications. Poverty is another most important cause of terrorism in Pakistan, and poor economic conditions are among the root causes of terrorism. Because of extreme poverty and lack of educational infrastructure, many parents have no option but to send their children to the "Madrasahs," or religious schools where it is alleged that the brainwashing of youngsters takes place. Madrasahs are nurseries and the huge number of students gets an education in these institutions. Some of Madrasahs are registered, and some are not registered, and the curriculum taught is also not supervised or audited. So, there is a capacity that extremist religious education is imparted in these Madrasahs. Another respondent opined that some Madrasahs have left their original duties of giving religious education to the students and are imparting their extremist views anticipating their own school of thought, which in return increases the threat of terrorism. Those poor parents who could not afford to earn the livings send the children to the Madrasahs, what is needed is that our education system is not very prosperous these children are sent to different Madrasahs, and they should also be provided the education in regard to this modern world. Issues of poverty, illiteracy, lack of modern education, lack of availability of schools, and as a result, the poor students they end up in taking religious education. Respondent no. 19 said that I would blame the factor of poverty, frustration, and social class difference as the main motivator for somebody who is blowing*

*himself up is harming the society is angrier towards the society rather than committed the cause of Islam. Conditions necessary for youth to hope for upward social mobility, e.g., quality education, entrepreneurial opportunities, jobs or other skill development or work opportunities are not there.*

## **Analysis**

The discussion of Theme 1 ‘incidents of Terrorism in Pakistan are decreasing post 9/11’ showed that respondents are of the view that the occurrences of terrorism incidents in Pakistan are falling. Some respondents gave specific attention to the operations of the Pakistan Army, i.e., Operations Zarb e Azab and Operation Raddul Fasaad. This showed that the action by the Pakistan Army in the form of such operations has resulted remarkably in reduction of terror incidents across the country. The conducive security environment created with the help of the armed forces has resulted in the restoration of faith in the future of the country. With the support of these operations, Pakistan enabled itself to contain terrorism from the country and has improved in the Global Terrorism Index. This is also following the discussion of these operations in Section 2.4.5 (Literature Review – Military Operations and their impacts) that these military operations played a significant role in eradicating a large portion of terrorism from the country, if not in its entirety (Afridi, et al., 2014). These operations were conducted in connection with the National Action Plan. Peace was restored in the tribal areas of Pakistan as a result of these operations. Although millions were displaced and faced problems, comparatively it resulted in more benefits than losses (Afridi, et al., 2014).

Further, these operations brought reforms in tribal areas and eradicated Tehreeke-e-Taliban from the country. As a result, the present elected government is in a position to take on the economic challenges faced by the state. Moreover, it has also given the current government a unique opportunity to put the economy on the right path in consultation with international donor agencies by adopting their best practices. This has resulted in better policy input as international best practices are selected, keeping in view the domestic economic situation, for example the Pakistan’s Action to Counter Terrorism (PACT) programme of the UNODC has been started across Pakistan. In view of the formal interviewees and informal and off the record discussion with the interviewees and looking at the successful end result, it emerges that the Pakistani government and its institutions have

the capability to deal with sensitive issues provided they have the mandate and will of the stakeholders. This shows that if army operations can be successfully conducted, then if serious steps are taken, and the right policies are made, terrorism financing can also be controlled provided the environment is given. It may be inferred that lack of will serves as a barrier in making the right policies and implementation of existing policies on countering terrorism financing.

The views of respondents concluded that, after the 9/11 attacks in 2001, terrorism had eroded the social, political, and economic fabric of Pakistan in the shape of the destruction of property, loss of human lives, and curtailment of commercial activities. This is also directly related to the unfortunate economic situation of Pakistan and inadequate availability of employment opportunities, as mentioned by Zaki (2002), Bruce (2013), Brenda & James (2015), Bolt (2001) and Feyyaz (2013) in Section 2.1.1, UNSC (2020), Hesterman (2013), ICAP (2018), and Rumi (2015) in Section 2.1.2 and Calari, Léautier, & Ingves (2002), Amador (2009), and APG-MER (2019) in Section 2.1.8 of this thesis. Participant No. 15 was of the view that Pakistan helped the US and other countries to deter Soviet expansion, and soon after that, when that fight was over, the so-called heroes that were prepared and funded by the west were left with nothing to do, and today they are termed as terrorists. Viable education, employment, economic, and counter-terrorism policies were essential to stop terrorism from growing in the country. Economic growth, due to improved economic policies, alleviates poverty and inequality, resulting in bringing the oppressed out of the poverty cycle, and people have opportunities to send their children to schools for education. This, in turn, matures the thinking capacity of the youth to decide between right and wrong. The discussion shows that post 9/11 not visualising the gravity of the pace of terrorism and non-availability of policies by the government of Pakistan on poverty alleviation, education, and social reformation paved the way for the development of terrorism activities in the country. *Respondent No. 6 said that education plays a vital role in building a nation. Extremist ideologies can better be replaced by the provision of education in society and strengthen youth by providing multiple opportunities to them. Respondent no. 9 said, community bonding and creating sense of civic responsibilities are important for a society to mitigate the extremist culture.*

Perpetrators exploit financial instruments for TF in Pakistan, which was not countered because of a lack of policy and non-conducive environment for effective policymaking in the

country. Another aspect of cashless policy is the imposition of charges on deposit in addition to the already existing charges on withdrawals. In my opinion, cashless policy would also improve transparency in financial dealing and reduction in crime such as advancing fraud, graft, ransom payments, and extortion. It is also stated for record that cashless policy in Pakistan is not new and the electronic payment systems already exist. However, there is a huge room for improvement. Financial access points, ATMs, POS, agents and mobile cash across each cashless policy have also witnessed exponential growth along with financial inclusion.

#### **4.2.2 Theme No. 2: Geostrategic importance and relationships to bordering countries**

In this theme, respondents are of the idea that in terrorism in Pakistan, the biggest factor is its geostrategic location of Pakistan. Respondent no. 1 opined that *the designs of major powers in this region are a challenge for Pakistan. Pakistan is surrounded by hostile neighbours. The intelligence agencies of those countries India and Afghanistan do, in my opinion, play a role in fermenting terrorism. These enemies do not accept and tolerate the existence of the country. Afghanistan and India have always been trying to disintegrate Pakistan from day one.* Pakistan is located at a region which has a great economic, political and strategic location. An extensive colonial history, cultural richness, and religious and ethnic diversities have made it the exotic Asian land that has enamoured sociologists and travellers, academics, and historians alike. Pakistan shares borders with Afghanistan, Iran, and China and India, but the approximate 1500-mile-long Durand Line along Afghanistan remains the most dangerous. Respondent no. 2 said that *Incidents of violence have increased on both sides of the Pakistan-Afghanistan border since the U.S.-led war in Afghanistan. The cross-border smuggling of narcotics and human smuggling is done via Iranian borders, and the economy of Afghanistan lies in the poppy seeds that make this triangle troublesome for cross border agencies and customs.*

Respondent no. 5 opined that Afghanistan is our neighbouring country, and we have been a sufferer of *the war over there. Jihadi groups are a major security threat for Pakistan. Afghanistan is taking revenge on Pakistan for allegedly creating, supporting, and funding Afghan Taliban to destabilise the Afghan elected government and have a Taliban regime in Afghanistan. Looking at the rate of drug addiction, narcotics based on Afghanistan's support have caused destruction for Pakistani people. The geo-strategic location of Pakistan matters,*

*the neighbour Afghanistan is still volatile and the war is still being fought over there because that is an unresolved kind of conflict for years. Respondent no. 6 said that the long porous border with Afghanistan provides a safe passage to the terrorists to move across the border. Narcotics are produced in Afghanistan and smuggled to parts of the World through Pakistan. Often time, terrorists employ the same tactics for generating financing for their terrorist activities. It can be said that countries having a conflict of interest with Pakistan can be the countries that do intervene by in fluxing terrorists, and there are other factors which include the finance within the country there may be persons who are being financed for that purpose.*

*Respondent no. 8 said that in different sectarian domains international factors particularly, the Middle East led by the Saudis and affiliated to a very radical Sunni category versus Iran with very radical Shia category played their roles. Saudi Arabia and UAE being the leaders of the Middle East and 27 countries constituting the OIC are not happy because Pakistan has the second-largest Shia population. The major states have a power struggle in the broader region of South Asia. Regional players also embark on the destructive strategy of political warfare in various States like Afghanistan, Iran, and, most importantly, Pakistan. the surfacing of organisations like the Balochistan Liberation Army - BLA and the Pashtuns has an external linkage because of Pakistan's geostrategic situation and Pakistan's relations with its neighbour; the funding is coming from abroad. Proxy wars, the religious and sectarian sentiments are enhanced, are exaggerated, mistreated by the involvement of world powers. CPEC, 9/11 and Afghanistan are the main issues which created a hectic activity of hostile intelligence agencies in Pakistan, they are most interested in destabilisation of Pakistan especially Balochistan where major part and important part of CPEC has to be constructed. India has been involved in propagating terrorist financing in Pakistan. The extremist nature of Sunni Muslims in Afghanistan is a factor which cannot be neglected when we talk about terrorism and its financing in Pakistan.*

*Respondent no. 10 said that when talking about India all the security paradigm is changed and that is our main issue. India is also operating from Afghanistan. The arrested people who were from Afghanistan used to tell that they used to get money from India, and there was a fixed rate for it. Together with the National Directorate of Security – NDS of Afghanistan, they have fixed rates that if you kill a government office, you will get such and such amount of money. Pakistan from the Indian point of view encouraged various militant groups to conduct militant activities in Kashmir. And from the Pakistani point of view,*

various local groups have been encouraged by India to do the same in Pakistan. The incident of the arrest of an Indian Army intelligence officer, Kulbhushan Yadav, who was found to be commanding a strong terrorist network in Pakistan, is a clear indication of the Indian's involvement in funding anti-state terrorist activities, which were pursued by Kulbhushan Yadav's network in different areas of Pakistan. One cannot expect India to be a well-wisher of Pakistan. The involvement of India in the separatist movements in Balochistan is quite clear by the arrest of Indian Intelligence Officer Kulbhushan Yadav and subsequent confessions. Although the issue is under "the International Court of Justice," but the international community must take it into account that India must be warned against the promotion of terrorism in the region as the instability in Pakistan would result in the instability of the whole region. Secondly, the growing interest of India in Afghanistan is a cause of concern. As the enemy of an enemy is always a friend, so that is the sort of relationship India is trying to build with Afghanistan.

Respondent no. 3 said that *For India and Pakistan, the basic confrontation lies in deep-rooted conflict over Kashmir. It has taken many forms, many wars right since the first that was held in 1948. India in the region has been projecting itself to be the policeman and which was not acceptable, so, after that 1971 war, Pakistan took up a powerful, formidable defence strategy and became capable in its defence, we just saw on two occasions, an incident in Pathankot and then now Pulwama, we saw eyeball to eyeball contact, and yet no one would move forward because of the mutual deterrence. The Indian lobby continues to call the freedom fighters in Indian occupied Kashmir as rebels and as terrorists whom Pakistan continues to say should be investigated. These are the people who are demanding their rights; see the atrocities committed by the forces.* Respondent no. 4 said that *India, a traditional ally, doesn't accept the sovereignty of Pakistan and finance terrorist activities that have been witnessed in the past by the arrest and confessions of arrested agents. India has been enemy of Pakistan since its inception and the Kashmir issue keeps this rift alive always. Pakistan has always been concerned about the atrocities with Muslims in occupied Kashmir by Indian Law Enforcement Agencies. When you have a hostile neighbour and or when you have a neighbour that you don't particularly like or are not comfortable with then you do these sorts of actions.*

Respondent no. 7 said that *Pakistan is a threat to India because they have remembered their society is much fragmented than ours. The best hybrid war ever fought in*

*this World has been by India. First, using Russia dice and Russian money, then using American dice and American money and Afghanistan was the platform. Neither their money wasted nor men died. And they did whatever they wanted to do against Pakistan and defamed Pakistan too. India entered into Afghanistan and started to engage people indirectly because Afghanistan was the hub from where the operations were initiated/launched. India has intervened too much and made situation bad and erected problems for Pakistan. The Indian Army chief himself, on record, admitted that India provided support to the liberation movement in Balochistan, known as BLA, to carry out their terrorist campaigns against the public functionaries and sensitive installations. Further, a major political party of the largest metropolis Karachi which is called MQM, it is now proven that it was funded from India. India and Pakistan's Kashmir Policy is a major hurdle to peace between both countries. India has been involved in promoting and supporting anti-state activities and sponsoring terrorism in Pakistan. Indian interference in the affairs of Pakistan, supporting and financing anti-State groups may it be religious extremism, separatists, or terrorism. Therefore, India has played a key role in promoting destabilization in Pakistan and spreading terrorism. India has used the soil of both of these countries to promote terrorism in Pakistan.*

*Respondent no. 11 expressed that for the borders with Iran, the respondents are of the idea that, border of Pakistan with Iran is somewhat organised, more controllable although a large amount of smuggling from both sides of this border is takes place but remains more of a criminal problem rather than a terrorism problem. This border is also open and porous and there are reports of smuggling of goods here. One of the biggest problems at this border is smuggling of narcotics. Reportedly, 70% of the world narcotics which is not cultivated in Pakistan is smuggled through this border, if there had been no porous border technically the problem would have been solved. Respondent no. 9 opined that the factor of the extremist nature of Shia Muslims in Iran cannot be neglected specially when we talk about terrorism and its financing in Pakistan. Pakistan is a bit apprehensive because of its organisation Jundullah that does activities in Balochistan and Iran reacts. Pakistan's border with China has so far been protected as far as terrorism is concerned". Border with China is very inhospitable, very tough, very well monitored for any subversive activity.*

*Respondent no. 15 said that if we want stabilisation then we must control our borders, fencing and infiltrations are important, it will also ensure disengagement in terrorism. At present, the problem is that the border is open and anybody can cross without hesitation. The*

most difficult border for Pakistan remains Afghanistan because it is porous. The border with Afghanistan is quite big; approximate 1500-mile-long Durand Line along Afghanistan remains the most danger which consist of harsh terrain, which makes the effective monitoring difficult for the border forces. This border is quite porous and is the main route for ingress of the terrorists coming into Pakistan and going out of Pakistan. Respondent no. 12 expressed that Pakistan is located in the area where opium and its cultivation and trade are widespread, owing to its geographical location. Its neighbouring countries, Iran, Afghanistan, and India, have a high volume of opium cultivation and trade origins. Border of Afghanistan there is a long history of problems from Afghan Jihad to smuggling of drugs using Pakistani soil as channel and penetration of some of those drugs in Pakistan. Drug trafficking within these countries, as well as across their boundaries, takes place regularly because the borders, Afghanistan–Pakistan, Iran–Pakistan, and Iran–Afghanistan, are not strictly protected and monitored. Afghanistan, the complaint of intrusion from our side and we complain of intrusion from their side. Then the huge porous border, although manned by both sides, still finds gaps. However, the government of Pakistan is now working on fencing of border, which is successfully underway and will help in strengthening the monitoring process. Border issue is a serious concern when it comes to tackling financing terrorism in Pakistan as hostilities are prevalent on its every border. Across this border people including intelligence operative terrorists can walk through both sides of the border. The government is facing turmoil at Pakistan and Afghanistan border and although measures are being taken to check the entrance and exit but the desired results are yet to be achieved. Respondent no. 16 said that I think terrorism only has a regional solution. Unless Pakistan, India, Afghanistan, and Iran resolve to curb violent actors operating in the region and deny them local support, the problem will remain irrespective of security measures on the borders. A large number of families and communities are split between Pakistan and Afghanistan. Border control must not affect and further alienate these communities. The solution is dismantling transnational terror network through international/regional cooperation not erecting further walls and fences alone. Respondent no. 20 said that Afghanistan plays a major role in cultivation and transportation of drugs to international markets. On the contrary, Afghanistan enjoys the status of 'White' on the FATF list. On the other hand, Pakistan who is taking all possible steps to deal with TF is located into 'Grey' list. Participant No. 18 opined that India is playing a hostile role to push Pakistan into 'Black list'.

## Analysis

This theme concluded that the geo-strategic location of Pakistan had contributed significantly to terrorism and its financing in Pakistan. There are porous borders towards its east and an open enemy towards the west. Afghanistan has always remained vulnerable for drug production and its routing; it is mainly done through Pakistan. Further, the increasing support of India to Afghanistan is also a cause of concern for Pakistan's efforts in curbing terrorism financing. The pieces of evidence in the form of the arrest of Indian agent Kulbhushan Yadav on 3<sup>rd</sup> March 2016 and capture and release of Indian fighter pilot Abhinandan (on 27<sup>th</sup> February 2019 and 1<sup>st</sup> March 2019 respectively) are clear proofs of Indian interference in Pakistan's affairs as stated by Respondents No. 4, 5, 8 and 16 respectively. There is also a strong opinion that the terrorism activities are supported by India in Balochistan in particular and the whole of Pakistan in general. From Iran, there are allegations of human, commodities, and drug smuggling. China Pakistan Economic Corridor (CPEC) remains of utmost importance as China and Pakistan have a history of friendship, and with this project, both countries are going to benefit. China, already one of the biggest world economies, will benefit from CPEC, which will further strengthen its present economy.

On the other hand, Pakistan could overcome the economic crises it is facing. This situation is not accepted by the enemies and the countries which influence the region. Middle Eastern countries and Saudi Arabia and Iran also have stakes in the country because of having sectarian hegemony one over the other. Pakistan needs to review its foreign policy because of China's increasing role in the region, imminent withdrawal of US forces from Afghanistan, US-Iran tension, India-China-US developing nexus, etc. The above discussion also aligns with the argument made in Section 2.5 (Literature review – Bordering Countries) of this thesis. The apprehensions that direct interventions of India and the indirect influence of Afghanistan on Pakistan are the barriers in making effective CTF policies and their implementation cannot be ruled out because corruption is identified as one of the biggest problems of Pakistan, as mentioned in MER of APG October 2019. The corruption identified can be inferred as bribery, embezzlement of funds, fraud, nepotism, patronage, abuse of discretion, favouritism, exploiting conflicting interests, political or economic gains. Corruption can be linked with terrorism financing in Pakistan because of turning a blind eye to unmonitored porous borders with Afghanistan (claimed to be producing a large ratio of the world's narcotics) and Iran (from where huge smuggling is reported), presence of

undocumented channels of money transfers besides the presence of regulations etc indicates corruption.

Secondly, this theme also concluded with a strong viewpoint of the majority of the participants that India is involved in one way or the other in promoting terrorism in Pakistan and destabilising the country for the following reasons. First, the Kashmir issue remains a bone of contention between the two countries and has been an issue since the creation of Pakistan. Despite the existence of Security Council resolution No. 47, adopted on 21 April 1948, the atrocities made by India in Indian occupied Kashmir are not a new story. And after all such activities, India labels the freedom fighters of Kashmir as terrorists. The geography and economy of India reveals that it is more prominent than Pakistan, and India always tries to threaten Pakistan to establish its hegemony. To do so, it is working from all fronts to destabilise Pakistan. As stated in the previous theme the presence of Indian agent Kulbhusan Yadav in Pakistan as a spy is on record and shows clearly the efforts of India to disintegrate the country through supporting the organisations like Balochistan Liberation Army in Balochistan province and Muttahida Qaumi Movement (MQM) in Karachi, Sindh province. China Pakistan Economic Corridor (CPEC) a project between China and Pakistan, is also a problem area for India as the project will benefit the deteriorating economic condition of Pakistan, which is against the wishes of India. Now both countries are nuclear powers, and the blame game of terror activities continues from both sides, and the perception of Indian involvement in terrorism financing in Pakistan remains strong. The discussion aligns with the arguments in the literature review by Noor (2007), Hussain (2017), Khetran (2017), Iwanek (2019) in Section 2.5.1 of this thesis.

The border of Pakistan-Afghanistan is not completely manned, controlled and monitored. The border is of a porous nature and people living on both sides of border cross borders on a daily basis without any hindrance as families are scattered across either side. History reveals that during Soviet expansion Pakistan in collaboration with USA supported Afghanistan by taking part in war against Soviet expansion and supported creation of Mujahedeen in Afghanistan for Jihad. In that war Pakistan supported the United States in the war against communism. After Russian defeat USA left the region allowing the radical mind Mujahedeen to develop their roots in Afghanistan and Pakistan. Those militants later became a problem for the region because there was nothing for them to do and they changed into terrorist Taliban against whom the West is fighting now. Countries, and factions who had

vested interest took advantage of this situation and porous border between the two countries served as the ideal space for promoting terror activities in the two countries. Pakistan suffered a lot because of this scenario and received the label of supporters of terrorism. The border of Pakistan with Iran is also porous but there is only news of smuggling of oil and other commodities. As far as terrorism and its activities are concerned there is not much concern for Pakistan. Only news of drug transportation from Iran is reported. Similarly, the border of China and Pakistan is well monitored and it is well protected. Similar discussion is also mentioned in Section 2.5 of this thesis. After 72 years of independence, Pakistan is unable to stop the much talked about routing of Afghanistan origin drugs from Pakistani soil. This is mainly because of the presence of evil perpetrators and corrupt elements in the government sector that find loopholes and flexibilities in the existing policies and hinder implementation in the execution of policies. Narco trade is one of the predicate crimes in terrorism and its financing and this absence of implementation of the laws and policies indicates incompetence or vested interests of stakeholders.

#### **4.2.3 Theme No.3: The role and significance of Alternative Remittance System**

In this theme the responses of participants about the contribution of factors in TF and weaknesses of LEAs are discussed. Most of the times Charities and Donations are collected through legitimate sources. Respondent no. 1 opined that *there are some organisations which create their legitimate sources of income and take support of charities. People pay more in terms of charities and donation than the real taxes to the government. A person collects them and people just give them as a charity. Significant amount of funding is also done voluntarily without even thinking that this money might be used for terrorism.* Respondent no. 2 said that *religious organisations use charities and donations as their main sources of funding. Funding sources used by terrorists may involve funds raised from legitimate sources, such as personal donations and profits from businesses and charitable organisations. A percentage of amount collected as donations and charity by organisations like Jamaat-ud-Dawa is used for the purchase of weapon, equipment and giving trainings. So, terrorism is morphed in to a proper structure, they are into business including drugs that are not prepared here but most of drugs that comes from Afghanistan.*

Respondent no. 4 said that *political parties also collect funds in the form of charity, MQM's Khidmat-e-Khalq Foundation collected billions of rupees like this. Such welfare*

organisations remain unnoticed for their direct involvement in terrorism. So, it can be inferred that donations and charities are also one of the methods of supporting and sponsoring terrorism. The charities and donations made by the developed countries to the entities, either religious or social, in the developing countries had a lion share in financing extremist diaspora and in turn terrorism. People who are more inclined towards religion, give their own money as charity and donations. They also collect money from other people for such purposes. Some individuals due to their ideological conviction donate personal assets also. Owing to religious concepts of the people of this country, people are very much prone to give charity because it is our religious obligation to give Zakat and Sadaqa. Whereas, terrorist organisations collect funds in the skin of religious charities. They collect Zakat, sadaqa, fitra and hides of sacrificial animals in the name of religion and helping poor and needy. Respondent no. 6 opined that Charitable organisations collect funds during religious congregations like after Jumma Prayer every Friday or on religious prayers like Eid and during holy month of Ramadan, they keep donation boxes or collect money in the name of Zakat and Sadaqa. People generally don't ask as to what is being done with the money they give in the form of charity. Such money is misused for terrorist activities. This element of socio-religious aspects of our nation the perpetrators of ML and TF are exploiting this thing and charities and NPOs especially those are running on donations have high risk concerning TF and ML.

However, there is no accountability of collected funds. As per discussion with the participants some portion of funds that are collected through Madrasah network or charitable networks have been linked to terror groups. Whereas, the recipients of funds received from the organisations who are sending money from abroad under the garb of the charities of donations should account for such amounts and it must be documented.

Respondent no. 9 said that *Non-Governmental Organisations or NGO's* also play a role as a channel to collect and transfer money. There have been NGOs with the allegations that have been linked with Islamic charities. A lot of the larger religious organisations have charitable wings which act as NGOs. For example, *Jamaat-ud-Dawa*, has *Falah-e-Insaniat Foundation – FIF*. *Al-Qaida* has been using *Al-Rasheed Trust* and *Al-Akhtar Trust*. They had created those welfare organisations to generate funds for them. Few of them came to the notice of the Government of Pakistan and the Government of Pakistan has banned them under the ATA. It has been challenging so far to prove any cases, and think the number of

*prosecutions for such money laundering is negligible but what one can certainly say from experiences that these NGOs or these charitable NGOs or social organisations act as organisations where people can make the first contact with the core groups.*

*Another respondent told that founding an NGO and registering it in another country and providing funds to it can lead to money laundering. Some businessmen create trust organisations and give their money to them as charity so that the charitable amount is not taxed; this is done to avoid taxation. If such NGO is working in another country and the funds are provided to it in the foreign land through illegal means then it certainly constitutes money laundering. There may be NGOs who are being used by the terrorist or by the countries who have vested interests to upset or bring unrest within the country.*

*Respondent no. 11 said that NGOs are considered 'subjects at risk' in the money laundering framework, either as fronts for terrorist organisations that raise and transfer funds or as legitimate enterprises that indirectly support the aims of terrorist organisations. The aspect of vulnerability of NGOs involvement in TF and ML cannot be ignored as they have multiple transactions, multiple projects and multiple bank accounts and a lot of people are working for NGOs. Local and Foreign NGOs have no checks and balances besides an indefinite charter, and they pave the way for increased terrorism activities. The financial audits of NGOs are not carried out, and possibilities are there that some of them are in links with terrorist organisations.*

*Respondent no. 3 said that there are two types of NGOs; the Non-Governmental Organisation - NGO and the other is International non-Governmental Organisation or INGO. NGOs do two types of work first to spread their branches to provide services, and their offices are declared second, they work on projects for that they hire consultants and collect funding in the discreet way. If you see by vaccine programme, the NGO with the name "Save the Children" tracked down the Osama Bin Ladin. Effective laws regulating the functioning, registration, and activities of NGOs is still missing. The laws should primarily focus on the NGOs which openly support terrorist groups and also those which do not openly support them but indirectly or secretly support terrorism. NGOs in Pakistan became the face of both spying and terror financing. There is a lot of speculation about these international non-governmental organisations, I think the state of Pakistan and the government of Pakistan is not against these NGOs, but it is against the illegal use of these NGOs because at times*

*these terrorists used these organisations as a shade to cover their illegal transactions. Therefore, certain regulations need to be introduced by the government of Pakistan, which I feel as necessary to achieve the desired result.*

*Respondent no. 10 said that there is no accountability of sources of funds and registration of Madrasahs. Madrasahs have been established in a bigger number. Madrasahs are nurseries and the huge number of students get education in these institutions. Some of Madrasahs are registered, and some are non-registered. Religious conservatism and the mushroom growth of Madrasahs and the growth of different sectarian groups were not kept in check over the past 30/40 years. Some Madrasahs do serve as conduits for funding terrorism. There is no data available regarding sources of funding of these Madrasahs, whether foreign or domestic. It is a high-risk area and it is challenging to opine about the Madrasahs which are unregulated because there is no database or whereabouts of background of children studying there, what kind of curriculum is being taught to them, whether any military training is being given to them or not. Various funding groups like Madrasahs, Student Organisations, Religious parties, NGOs, NPOs, and others go unaccountable due to cash economy and make us vulnerable to terrorism financing.*

*Respondent no. 13 opined that Government has decided to regulate these Madrasahs and to teach some modern subject there. Important to note here is what is the reason why besides the directions of the government to get them registered, some of them are not registered yet. Curriculum taught is also not supervised or audited. So, there is a capacity that extremist religious education is imparted in these Madrasahs. Most of these continue to have murky financial records with some local and foreign benefactors. The government's role in regulating these seminaries, on the other hand, drastically receded to a point where it is strongly resisted. Rolling back, dismantling, or reforming Madrasah networks, therefore, has remained a challenge for successive governments.*

*Respondent no. 12 expressed that the speculation of Involvement of Madrasahs in terrorism cannot be ruled out. Madrasahs provides terrorist groups with a support and logistical network that enables them to remain active in Pakistan. The influence of local religious actors is the number one driver of violent extremism that includes the prayer leaders and also includes the teachers in the Madrasah in Pakistan. Over a period of time there has been a challenge to know about the extent of contribution of Madrasahs students in*

*terrorism as young children go there where their brainwashing is done. If we notice there is hardly any Molvis child involved or killed but these Molvis excel in involving others in this. There are some Madrasahs, where anti-State ideology and religious extremism are promoted. These Madrasah not only provide financial support to foster their biased sectarian interpretation but also carry out terrorist campaigns against other sects when their leaders find such violence to advance their particular political objectives in Pakistan and the broader region. It is the reason why the National Action Plan provide a specific mentioning about the registration and mainstreaming of Madrasahs in Pakistan. Madrasahs are exploited as a shield for terrorism financing. People who are involved in unlawful activities they use the cover of these sanctities.*

The respondents also discussed about their understating of the role of alternative remittance system of Hawala and Hundi in terrorism financing in Pakistan. As we have more undocumented economy than documented economy, so there exist alternative remittance system of Hawala and Hundi. There is a big workforce that is working outside Pakistan, which is also a huge source of income, mostly comprising of blue collars, and they prefer system of Hawala and Hundi. Secondly, this system is cheaper than the formal channel as these people are low-income people, so the smaller fees of the formal system appear bigger to them. So, they prefer this system, and they don't go to a bank and don't open their accounts.

The Hundi/Hawala system has been established for many decades in Pakistan, in India and also and in the Middle East. It is for such a long time been so successful in laundering all sorts of black money including terrorism financing. Terror groups have taken advantage of it because it remains successful in many legitimate businesses and it has been misused by our bankers, traders and local businessmen. It serves as a conduit for terror financing to send money across borders. An ex-pat in Spain or the UK can send his 20 euros/pounds via hundi or through western Union, but who can tell whether this person has sympathies for a particular militant organisation or just want to help contribute to the repair of the roof of his village mosque?

Owing to the nature of this Hawala /Hundi system or illegal remittance sector, people who try to launder the money or to transfer it to some foreign jurisdiction they use the channel of Hawala / Hundi and in my opinion 90% or more of money generated through

predicate offenses is being transferred or layered through illegal MVTS system. As the records of this system are not registered so the audit cannot be done, and that's why the apprehensions that this system contributes to terrorism financing cannot be ruled out.

Hawala/Hundi is one of the major challenges faced not only by Pakistan but across the globe. Mostly, the money generated by terrorists is transferred through Hawala/Hundi. No attention was ever given by the relevant forums to see how much damage is being caused to the economy of Pakistan under the garb of Hundi and Hawala.

Respondent no. 14 opined that *in Hundi for example, one person has 150 SIMS, (he has collected SIMS of different people) what he does is that he takes SIMS and use all of these SIMS in a day so that he can send multiples of thousand rupees per day per person. So, now he does not even have the problem of sending money through banks. Easy Money transfer means easy Money Laundering. So, if you have 1000 people and they are doing that, then you count how much money is being transferred. These are the things, and then the last one comes under-invoicing and over-invoicing in more prominent corporations, this is another form of money laundering. If there is an armoured truck which cost 10 thousand pounds and you sending Six thousand pounds for it. The remaining 4 thousand pounds again goes to Hundi Hawala.*

Hundi has been used for a long time now for business and trade, and recently, certain arrests have been made who have confessed that they have used Hundi to transfer money. Hundi is only used to transfer the money without moving the cash out of a country. In contrast, money laundering is used to legalise the illegal money, which can potentially be used for terrorism. Both have been reported to be used for financing terrorism.

Undoubtedly such informal sources of remittances are widespread in Pakistan and carried out by much reputable business organisation and powerful individuals having political connections. And the role of such remittance via informal means in terrorist financing is although not evident in the case of Pakistan, but various cases of terrorist financing through this channel were reported in India. However, an international watchdog, FATF in December 2013, flouted a 72-page report in which it identified alternative remittance system as vulnerable channel that could be used for terrorist financing. There is a hot market of these money changers, and even they function at the airports.

Hundi Hawala is an age-old alternate banking mechanism the original intent of Hundi Hawala was never to support any illegal activity. This practice needs to be discouraged by imposing sanctions but also by easing the same through legitimate sources.

On provincial level there are Counter Terrorism Departments - CTDs and on federal level there is National Counter Terrorism Department - NACTA. NACTA till today has not played the role it is supposed to play. There is proposal of creation of one joint intelligence directorate under the umbrella of NACTA but it is still pending. There is a lack of information sharing amongst departments and disconnect of agencies resulting possibly in duplication of efforts, blind spots and lack of clearly demarcated boundaries/areas of operation. NACTA should play its due role to establish a joint mechanism taking all agencies including Police on board to curb terrorism. Pakistan lacks a national consensus necessary to bring diverse interests to a common platform to gain support for a new policy to fight terrorism. NACTA must enhance its mandate and bring all the stakeholders on the same front with equal footings. Intelligence sharing must be centralised, and there must be a coordinated response mechanism of every agency, including Police, CTD, FIA, State Bank, SECP, FMU, and others. We have a lack of inter-agency coordination among different stakeholders, and a uniform strategy is needed to ensure an effective mechanism for countering terrorism. NACTA along with UNODC is preparing people to deal with the financial aspects of terrorism and once the people are trained and investigations of terrorism financing cases are done in scientific ways terrorism may be eradicated from Pakistani soil. Combating terrorism financing is a multi-dimensional and multi-faceted phenomenon and requires the same response. Sharing information or intelligence will improve in catching hold of those who are responsible for any sort of terrorism or any mode of terrorism.

Further there is lack of training and experience of dealing with financial investigations at the operations level. The level of giving such trainings to the Investigation Officers is very low. Personnel of Law Enforcement Agencies, especially Counter-Terrorism Department or CTD must be trained in implementations of laws. The most obvious reason for our delay in the conclusion of inquiries and investigations is that people are less sensitised, including our prosecution department, judiciary, and the capacity of the officers. They are not able to properly understand the provisions of laws and how they can be implemented. Further, some of these personnel must be replaced freshly recruited staff with higher level of capacity to learn and practice modern and scientific investigations. Another important factor is under

resourced offices of investigation. There is a very low number of STRs being investigated only because there are few officers available with the Federal investigation Agency. When the investigation officers are overburdened and dealing with huge number of investigations then it is very difficult to concentrate on the standard parameters of the investigation. Law enforcement agencies in Pakistan are quite reluctant in using digital forensics and technology. Another problem is lack of information sharing and coordination amongst LEAs.

## **Analysis**

This theme concluded that due to the attachment of the people of Pakistan with religion, they give money in the form of charities and donations without knowing the end consumer of that money. Such collections can easily be seen after Jumma prayers or Eid prayers in the form of Zakat/Fitra collection or collection of sacrificial animal hides. There is a strong view point of some of the respondents that this funding, though done voluntarily by people, is used in terrorist activities. Respondents also mentioned the collection of such funds through the Madrasah network. There is also an apprehension that funding received from foreign countries is also used in terror activities. It is obvious that terrorist activities cannot be done without financing and funding. Terrorists require funding for recruitment, training, sustenance, rewards for families and committing evil acts but financing of terrorism is not monitored properly. Checks and balances on financial transactions could choke terrorist funding. Under FATF guidelines, Pakistan is pursuing a comprehensive strategy to overcome the lacunas of policy formulation for effective laws and implementation of laws as identified earlier in the responses.

Monitoring the activities and working of NGOs, Madrasahs, and transactions done through the Hawala/Hundi system will indicate and identify the culprits involved in the exploitation of systems. Donors and contributors who donate funds collected in the name of religion to spread the message of peace are not aware as to where their charity ends up except for few known recognised and registered organisations. The general tendency to collect such donations is in emergencies for example flood, earthquakes, etc. people of Pakistan as a nation strongly believe in giving charity to help the poor, especially in the month of Ramadan. Most donors do it with the right intention and do not track the money as to where it ends up. There is no formal mechanism through which such funds can be accounted for, and the possibility of pilferage fraud and misuse is always there. As per standard tradition and

practice, usual donations are in minute denominations, and the donors are private individuals who contribute in the name of God. As already stated in Chapter 2, the institution of Zakat is dominant in the tenets of Islam, and every adult Muslim must contribute 2.5% of his/her wealth/assets every year towards the poor. The government of Pakistan also deducts Zakat at source from bank accounts, and Zakat is also privately collected by different individuals and organisations. All Madrasahs, no matter how small in size, need to be identified and registered with control over their curricula, which should be uniform and on modern style throughout the country. The issue of charities and donation as one of the sources of TF is mentioned in Section 2.1.3 of this thesis. The policies on customer due diligence (CDD) and knowing your customer (KYC) are being enforced on financial institutions to trace the movement of funds only recently. However, the absence of such policies provided a conducive environment for TF activities in Pakistan. Whereas, a smaller number of registered TF cases within the country show that besides the provision of CTF in ATA 1997, there is a problem in the implementation of laws.

It is inferred from the findings that the working of Non-Governmental Organisations is not monitored or supervised by the government. It is also not new that people have established their NGOs solely for their interests, be it businessmen, traders, or others to save tax, etc. So, establishing an NGO easily and collecting funds for its operations remain unresolved. We have already witnessed that the terror organisations like Al-Rasheed Trust, Al-Akhtar Trust, and Falah-e-Insaniat foundation have worked as funds collectors. These NGOs also work as the first contact with the citizens, for example personnel of these organisations collect donations directly from public outside mosques after Friday/Eid Prayers. The government does not have sufficient laws and regulations to monitor the activities of NGOs and INGOs. We have seen that an INGO working in Abbottabad did a commendable job in indicating the presence of Osama Bin Ladin. Still, the working of such NGOs also poses other questions as they are doing more than the work they have disclosed or working on the foreign agenda in the name of the cause of humanity. At the federal and provincial levels there are dedicated departments to register and monitor NGOs like the Social Welfare Department in Sindh Government and Ministry of Law at the national level. In the recent past, numerous NGOs were disbanded, and their offices were closed due to their involvement in supporting money laundering etc. However, there is considerable room for improvement, and the government is working towards it to fulfil the FATF criteria.

There is also a need to look into international political triggers and donors behind

terrorism financing and trade related to it directly or indirectly. Monitoring of the activities of the people on proscribed lists also needs to be watched vigilantly which must include what they are doing, how they are living, how they are earning, how they are supporting, who they are mixing with, who they are associating with which means better surveillance and better proactive follow-up. Madrasahs have to be scrutinised and supervised. There is a need to keep adequate checks on religious, charitable institutions, especially their movement of finances. Regular audits in this regard are required with the particular focus of FMU on their financial transactions. As a large quantity of drugs is allowed to pass through borders, equivalent to massively enabling the financing of terrorism, this must be addressed.

The literature reviewed, Kahlon (2015), Butt (2020), Chaudhary (2018), Rafay, Khan, & Ahmad (2019) in connection with this theme as mentioned in Section 2.4.4 of this thesis also aligns with the above discussion. During the research, it was strongly observed that in the absence of effective counter-terrorism financing mechanisms, donations are not checked, regulated and assessed properly. Islamic NGOs may be suspected as channels of TF and mobilisation of resources of finances through the collection of traditional Islamic funds of Zakat, Fitra, and Sadaqa. Looking at the potential Islamic social economics and the risk related to the organisations, Islamic NGOs need to be transparent and communicate their accountability. The Financial Action Task Force (FATF, 2002) has argued that community solicitations and fundraising have been used as a means of raising funds to support terrorism.

Keeping in view the importance of the problem in 2014, as discussed in Chapter 2, the National Action Plan (NAP) was prepared with 20 points. Point No. 10 of NAP was about *Registration and regulation of religious seminaries*. This was done with a view and importance of the Madrasah issue. According to UNSCR 1267, Pakistan has seized 82 Madrasahs in Punjab and six in KPK from among the UN-listed entities in Pakistan. To regularise all Madrasahs, the government of Pakistan has taken serious steps to link Madrasahs with the Federal Ministry for Education and Professional Training. The ministry intends to establish ten directorates all over the country for the registration of Madrasahs. Also, one directorate headed by a senior officer as overseeing authority was to be formed in Islamabad. The literature reviewed, ICG (2002), Butt (2020), Sajid (2012), Latif (2019) in Section 2.4.2 of this thesis further strengthened by APG-MER (2019) in connection with this theme mentioned also aligns with the above discussion. The National Action Plan has pointed for the first time for Madrasahs reforms only after the incident of Army Public School in

which many children were died in 2014. This shows that Pakistan is prone to a reactive approach instead of proactively making policies.

In this theme it is evident that the Informal Value Transfer System (IVTS) of Hawala and Hundi have long since been used in the region. The apprehension that this system contributes to money laundering and terrorism financing is mainly because it is not documented. And once it is undocumented then the money trails cannot be pursued, hence the transactions get lost in the system giving favour to the perpetrators. Due to this reason, IVTS is widely used in black markets to transfer the money and conceal its characteristics by flowing it into the legal system. Another reason not to appreciate this system is the uncertainty of the intent of the sender whether he/she is sending it for legal/humanitarian purposes or otherwise. The success and viability of this system lie in the characteristic that it is easily accessible and much more cost-effective than the formal system. Due to the successful and traditional practice of this mode of money transfer, i.e., Hawala/Hundi and faith of common man in its effectiveness, it is not easy to completely get rid of this. Hawala/Hundi has been discussed in the literature review in Section 2.3.2 of this thesis. Due to unclear language in the Foreign Exchange Regulation Act (FERA), the actions on Hawala/Hundi transactions remain vague. Operations of Hawala/Hundi in Pakistan, which is also mentioned in MER of APG 2019, shows a lack of interest or deliberate ignorance on the part of stakeholders on policymaking and implementation.

The theme highlighted that there is a lack of coordination among the stakeholders. The same has been highlighted by the FATF in its latest Mutual Evaluation Report on Pakistan drafted by AP. There is a federal office, NACTA, whose work is to act as an umbrella agency. Still, it has not delivered the desired result, especially when we talk about coordination among the provinces and federation. NACTA has proposed the creation of a joint directorate for investigations, but that also is still a proposal. There is no proper mechanism for provincial CTDs or other agencies to work cohesively with the Federal units of FIA, FMU, etc. in financial intelligence and investigations. This shows a lack of policy on this matter to an extent. Lack of coordination and information sharing is also highlighted in the MER on Pakistan in October 2019. The primary responsibility of coordination of CT activities in Pakistan lies with NACTA, which is discussed in Section 2.3.8 of this thesis. Coordination and communication are considered as the lifeblood of working in any walk of life. Highlighting the issue of lack of coordination by FATF shows the lethargic attitude of

responsible officers of Pakistan towards assigned duties. This also indicates weaknesses in policymaking in coordination. Effective Counter-Terrorism policies require all stakeholders to function as a whole for a broader national interest. The same happens with the implementation of existing laws when all segments and government functionaries perform their duties in segments, and there is a competition for point-scoring instead of addressing the problem. National integrity and sovereignty are not prioritised for a better cause, and a holistic approach is not followed.

For the effective investigation of terror financing cases in Pakistan, there is a need for a trained and well-educated police force. As police are the first contact of government with the public, the basic responsibility of law and order lies with the police. An ill-prepared and poorly equipped police force serves as the first step in the deterioration of law and order because rogue elements find their way easily due to the incompetence of the police force. Similarly, this is leading to increased criminal activities, including terrorism as an incompetent and under resourced force hardly bothers to work for the larger interest of the public. Due to incapability of police investigators in terror financing cases, the perpetrators get the advantage, and they either are not caught in investigations, or if they are arrested, they do not get convicted or get easy acquittals due to lack of evidence or inability to clearly establish the charge to the evidence. The same has been highlighted by the FATF in its MER on Pakistan in October 2019. As the number of officers with investigation skills is very low and even the CTDs are not trained, it can be said that training more officers in financial investigations and transferring the financial investigations at the police station level could make a difference. The literature reviewed in connection with this theme is mentioned in Section 2.4.1, and Section 2.6.5 of this thesis also highlighted the scarcity of trained and skilled manpower in law enforcement agencies. It is desirable that the capacity of Police, being a primary crime controlling and investigating department, should be increased for more contemporary methods of investigation, including financial crime and digital forensics at the police station level.

It is the prime duty of policymakers in a country to forecast and further manage planned developments in the economy, resources, and technologies, etc. Sufficient provision of training to the concerned officers is essential, especially when we talk about the investigations of terrorism financing cases. As with the modernisation in the conduct of terrorism financing, the Investigation Officers (IOs) must be able to trace the money trails to reach the origin of certain transactions. In the case of Pakistan, due importance is not given to

the provision of such aspects of training or recruiting professional officers, which failed government in reaching the real contributors and beneficiaries of TF. Therefore, merit-based recruitment of professionals and their substantial trainings are recommended in Section 5.5 ‘Recommendations for Policy making’ in the next chapter.

#### **4.2.4 Theme No.4: Effectiveness of existing framework**

Participants are of the view that placement of Pakistan in the grey list is a direct result of the disconnect between the federal level and the operational level. Pakistan avoided being placed on the grey list, but what was being said at government level was not being followed on the ground level, which created serious issues about the financing of various groups. Respondent No. 2 said that *Placement of Pakistan on the grey list means Pakistan lacked a resilient and strong anti-terrorism financing infrastructure. There are flaws in conventional banking regime, accounts are being opened in different names. So, if there are such flaws in general financial regulations, then these are vulnerable to misuse.* NACTA along with UNODC is preparing people to deal with financial aspects of terrorism and once the people are trained and investigations of terrorism financing cases are done in scientific ways terrorism may be eradicated from Pakistani soil.

Respondent No. 6 said that *Pakistan should make long term policies without the pressure of FATF. Pakistan has made considerable efforts to resolve all the issues prevalent in the past, I believe that the state of Pakistan is committed to resolve all issues and significant efforts have been made in this regard. Pakistan still is committed to resolve all those issues by way of meaningful dialogues and engagement.* Respondent No. 17 said that *there should be no doubt about the fact that Pakistan is committed to choke all avenues and all sources of terror financing or terrorism at all cost. FATF has a political and technical side to it. The technical side means that Pakistan needs to strengthen its systems and processes to curb terror financing. Much to be done to address informal and undocumented economy, use of cash transactions, culture of charity and donations, Hawala/Hundi, and lack of regulations in this realm. There is also a political side, I think though where the international community, including China, increasingly thinks that Pakistan needs to do more to curb terror financing.*

It was discussed that Pakistan played the role of a frontline non-NATO ally in Afghanistan against the Al-Qaida and Taliban network. The immediate interest of both the US and Pakistan was in the suppression of the terrorist network of Al-Qaida and the Afghan Taliban,

which kept the implementation of the UNSC resolution on the backburner. But now the situation is different as the US along with the international community appears more serious to ram through the implementation of the UNSC resolutions, without which Pakistan would neither be able to secure the financial lending from the international financial institutions nor able to attract the foreign direct investments necessary to rebuild the country's critical financial infrastructure. Pakistan has always been very compliant with the UNSC resolutions, as and when the directions of the UN are received action is taken, for example, Al-Rasheed Trust and others were banned. Pakistan has truly proscribed and outlawed those organisations, and their assets were seized. All the requirements of the UNSC resolutions have been complied with. All persons and organisations on the UN banned list are also on the banned lists of Pakistan. Implementation of UN resolutions, weapon sanctions, travel bans, and all requirements of UNSC 1267, 1373 resolutions are ensured. Anti-Terrorism Act and Anti-Money Laundering Act are made to address such issues. CTD has adopted all the SOPs developed by NACTA in consultation with other relevant stakeholders to comply with the demands of both the resolutions fully. The Federal Investigation Agency (FIA) has registered cases against suspected terror financiers, seized money, arrested some accused, and secured convictions from various courts. Checks on private banks have been extended besides organising workshops to bring all stakeholders close for a workable strategy and mechanism. Pakistani authorities are working to be in line with the contents of UNSC resolutions. Pakistan is not in a position to violate them because of many checks and balances, and we have to prove that we adhere to do.

Respondent No. 16 said that *the biggest problem or hurdle in my personal experience that we faced in counter terrorism is a lack of an overall coherent strategy. While we work on a certain level in a city or in a province that policy despite rhetoric is not necessarily replicated across the country and as a result what happens is often times you have the situation where there are groups that may be active in terrorist activities in one part of the country that has perhaps have shelter in other part of the country and it's not possible to reach them or to arrest them so this lack of coherent strategy at the national level is the biggest problem.* Respondent No. 13 said that *there should be stringent laws and penalties and laws must be amended for same. If a person is involved in financing terrorism, the maximum punishment should be awarded.* Respondent No. 5 said that *We are not able to have a very comprehensive counter-terrorism policy or focused approach. Pakistan lacks a national consensus necessary to bring diverse interests to a common platform to gain support for a*

*new policy to fight terrorism. The backers of a consensus have often demanded that the parliament must be the forum to initiate this initiative. The main hurdle is lack of full holistic engagement approach and movement with the central command for instance NACTA's establishment at the federal level and the provincial setups leading more integration, more coordination, more working together and that is always felt was lacking and there was still the feeling of going it alone, trying to get the credit.*

Counter terrorism demands collective efforts, concerted action and concentrated focused action. Working at the senior level such action is carried out with close coordination but at the ground level it is also required. Respondent No. 14 said that *there is a need to empower the primary agency i.e., Police to investigate and prosecute by seeking the help of other agencies if apprehended by the Police. A joint mechanism is much needed for inter-agency cooperation in the larger interest of the nation. Moreover, there should be some strict and effective laws for the auditing and regulations of Madrasahs in Pakistan. NACTA should be extended to provincial level and experts from every agency must be taken to work jointly for a collaborated response. There is a need to work on the implementation of laws and effective laws for stoppage of terrorism financing may be added especially in Anti-Terrorism Act.* We need to make a policy to prevent the activity from porous border. Sharing of information or intelligence will improve in catching hold of those who are responsible for any sort of terrorism or any mode of terrorism. The government should centralise this and should formulate a policy or the laws by which all these agencies interact on the issue of terrorism. The issue in regard to terrorism and its connections with Madrasahs has to be streamlined. Pakistan has a long way to go when it comes to fighting terrorism and eliminating terrorism financing by focusing towards necessary legislation, policy formulation and most importantly, to gather the will of the masses as well as the political parties and civil society to combat terrorism financing.

Political corruption and ineptitude result in the absence of integrated policy aimed to foster equitable education and social system. The absence of a comprehensive and resourceful national counter-terrorism institution still enables the terrorist organisations to maintain their logistics and finances. We need to create easy mechanisms of reporting and stopping and punishing, and of course gradually curtail the stakes the profit making, the benefits that come out of investment in this. There should be the use of intelligence to identify and dismantle terrorist organisations/infrastructure of all hues and colour is

important. This should also yield information about specific means used by terrorists to finance their activities. This experience/information should then inform policy and legislation to plug loopholes that are exploited by the terrorists.

Respondent No. 1 said that *somehow counter terrorism laws are effective in dealing with CT cases in Pakistan. ATA is a good and effective law and Anti Money Laundering Act is also there. These must be implemented following the National Action Plan (NAP).* Respondent No. 13 said that *Law enforcement agencies must be trained in the light of effective provisions and implementations of these laws rather than exploiting these laws in useless and normal cases. If these laws are implemented in letter and spirit besides swift prosecution, investigation and trial may bring a great and effective result in dealing with terrorism and terrorism financing cases. Anti-Terrorist Act 1997 has been amended several times but the effectiveness of laws lies not in the nature of the law but in the implementation of the political will and effective policing.*

Concept of witness protection programme has recently been introduced in the Anti-Terrorism Act which basically provides for the security of witnesses to make sure that their identification is not disclosed and in-case their identity is disclosed they should have the option of change of identity. By way of legislative intervention, concept of testimony by way of video link by using technology is also introduced. These indicators shows that the government of Pakistan is moving in the right direction to control terrorism and its financing.

The second sub theme emerged as ATA Pakistan needs amendments to become effective in true spirit. Respondent No. 11 said that *ATA is a good law but personnel should have the capacity to work. Anti-Terrorism Act covers the financial aspects as well but certain enhancements can make it harder for example in the area of charitable organisations collecting funding without having any kind of license or any kind of audit from the government.* Respondent No. 14 said that *We still need to upgrade those laws because the nature of terrorism is evolving. Law enforcement Agencies must be trained in the light of effective provisions and implementations of these laws rather than exploiting these laws in normal cases. The preparation, the people supporting, accomplices, nurseries, nurtures everything should all go into ATA especially the financers and supporters should be there. These provisions are not in the act so the whole burden comes on one judge. As in the UK itself or US, the jury determines the guilt or innocence. The judge determines the sentence. The judge does not determine the guilt or innocence. Propagating, spreading hate or in any manner radicalising, are confined to different*

*laws again i.e., special laws. There is a need to make them co-related.* The country has started pinpointing their shortcomings, and policies are being made, and that will be translated into law, which definitely will operate as a strain on the terrorism financing.

## **Analysis**

The findings and results of this theme endorsed the latest Mutual Evaluation of Pakistan which was conducted by the Asia Pacific Group (APG) in October 2019. FATF is completely satisfied with Recommendation No. 9, i.e., Pakistan has ensured that secrecy laws of the financial institution do not hinder the execution of the Recommendations of FATF. Pakistan has largely complied with nine recommendations of the FATF. FATF in its Mutual Evaluation Report (MER) on Pakistan of October 2019 has highlighted that there is a lack of coordination in the assessment of risks, national cooperation, imposing financial sanctions, inter-agency coordination, provision of guidance, and feedback. Lack of coordination is highlighted in Recommendations 1 and 2 (Scope of the criminal offence of money laundering), 6 (CDD and record-keeping), 29, 31 & 32 (Competent authorities, their powers, and resources), 34 (Transparency of legal persons and arrangements) and 38 (Mutual legal assistance and extradition). There are some deficiencies in laws as identified by the FATF in Recommendations 3 (Provisional measures and confiscation), 4 (Measures to be taken by FIs and NFBPs to prevent ML and TF), 5, 6 (Customer due diligence and record-keeping), 21 and 22 (Measures to be taken for countries that do not or insufficiently comply with the FATF Recommendations), 30 (Transparency of legal persons and arrangements) & 37 (Mutual legal assistance and extradition). In AMLA deficiencies are highlighted in its scope of the predicate offence, there is no provision of security to the reporting entities, there is no definition of Customer Due Diligence (CDD), there is no parallel ML/TF investigation of predicate offence and lack of legal basis to provide MLA in TF/predicate offence cases. In Pakistan's laws on terrorist financing offences, the amount of penalty is not defined; there is no obligation to freeze funds in targeted financial sanctions related to TF.

Recommendations 6, 7 and 11 (Customer due diligence and record-keeping), 13 (Reporting of suspicious transactions and compliance), 20 (Other measures to deter money laundering and terrorist financing), 23 (Regulation and supervision), 26, 27 & 31 (Competent authorities, their powers, and resources), 33 (Transparency of legal persons and arrangements), 36 and 39 (Mutual legal assistance and extradition) of FATF highlighted the

loose administrative perspectives in financial sanctions related to terrorism and TF, financial sanctions related to proliferation, record keeping, correspondent banking, reporting suspicious transactions, regulation and supervision of financial institutions, no AML/CFT supervision on CDNS and Pakistan Post, no timely identification of persons who control accounts by LEAs, maintaining statistics, some deviance from signed international documents/conventions, and lack of a case management system.

Deficiencies regarding policies are highlighted in Recommendations 2 (Scope of the criminal offence of money laundering), 5, 6, 7, 8, 10 and 12 (Customer due diligence and record-keeping), 14 and 16 (Reporting of suspicious transactions and compliance), 17, 18, 19 (Other measures to deter money laundering and terrorist financing), 24, 25 (Regulation and supervision), 26, 27, 28, 30 and 31 (Competent authorities, their powers and resources), 35 (international cooperation) and 37 (Mutual legal assistance and extradition). Accordingly, TF is not managed independently from general AML/CFT matters to address financing risks/dangers, financial travelling of terrorist is not criminalised, targeting financial sanctions, no supervision of NPOs, CDD measures, measures related to politically exposed persons not applied on Exchange Companies, sanctions on MVTs, supervision of Pakistan Post, gathering adequate information about originator in wire transfers, financial establishments not covered by third parties reliance rules, Financial Institutions not required to actualise programmes on TF, no requirement for EDD proportionate to risk on some institutions, lack of ML/TF risk-mitigating measures in shares/warrants, unavailability of mechanism to collect details of trusts, lack of the requirements for FIs to assess beneficial owners, limited power of sanctions with the SBP and SECP, No supervision on AML/CFT for DNFBPs, gaps in powers of LEAs and investigative authorities for actions on confiscation, limited sanctions outside banking sector on AML/CTF and no provision of MLA with foreign countries. Section 2.6 of this thesis covers the discussion of Pakistan being on the grey list of the FATF.

The deficiencies, as mentioned earlier, are highlighted by the FATF too. Although respective departments are present but there is a lack of will of concern in dealing with TF. Though the highlighted problems are not very typical, it appears that such deficiencies occur due to lack of direction and lack of interest. As a developing country, Pakistan is afflicted with a variety of challenges and problems besides doing her best to comply with FATF recommendations. Still, it is a matter of the fact that blind enforcement of regulations under global pressure without keeping in view regional and local challenges will result in a

temporary solution and progress. For example, in Pakistan there is a general tendency among law enforcement officers to avoid applying proper laws. The laws which are enacted by the lengthy process of legislation are just kept in books and documents and there are no checks and accountability of whether these laws are implemented in letter and spirit.

The above discussion shows that Pakistan has tried its best to comply with the UNSC Resolutions. The FIA has registered cases in which properties have been seized and confiscated. However, the actions are not per the required work in terrorism cases. Pakistan has banned the organisations related to terrorism and TF as given in Table 1.1, in the literature reviewed, the discussion of compliance of UNSC Resolutions by Pakistan is presented in Sections 2.2.4 and 2.2.5 of this thesis. Instead of showing progress as a result of international pressure, there is a need for concrete policymaking on terrorism and TF. There is also a need for implementation of existing policies as set out in the shape of the National Action Plan (NAP), regulations of SBP and SECP, and the relevant laws of Pakistan.

Most of the respondents are of the view to have a clear CTF policy with holistic engagements between all stakeholders. NACTA has to come up with a coherent strategy and plays an active role in coordination between the federation and the provinces on all CT and CTF affairs, including cooperation at all levels of investigations between different offices and agencies. There is a need for uniform CT policy for all provinces. Though UNODC is playing an important role in bringing programmes like PACT (Pakistan's Action to Counter Terrorism) etc. but the government has to take the lead in introducing new programmes rather than relying on foreign support. There is also a need for a proactive approach rather than having a reactive approach to dealing with such challenges. Besides CTF policy, the policies on Madrasah regulations, porous borders and sharing information and intelligence reports, the introduction of new sections of laws in ATA for CTF, documentation of financial transactions, and institutionalisation of charities are also of immense importance. There should be a policy to gather the will of the masses and civil society on national matters. A holistic counter-terrorism policy across the country is missing. All the offices dealing with CTF like police, CTDs, federal agencies, financial regulation offices are not functioning on one page under the umbrella of NACTA.

ATA is the first counter-terrorism law of Pakistan and was made to counter terrorism with specific sections to deal with terrorism financing. Though it has been amended many times,

it has not achieved the desired results mainly because of some confusion in the understanding of the definition of the word terrorism. The results of this study showed that new policies on coordination and overall supervision on implementation on existing laws, rules and regulations would not only put the country in the right direction, but it will also curb the menace of terrorism from the country particularly the holistic approach by NACTA in coordination with the provinces on different aspects of countering TF. The coordination between the departments in federation and provinces will play a lead role in disrupting terrorism financing from every aspect and all fronts. Strict implementation on the policies and regulations of the State Bank of Pakistan, Taxation department, Federal Board of Revenue, etc. of getting the economy documented, wherein banks play a lead role in identifying their customers to meet the challenges posed by the modern techniques of terror financing is essential. Documenting the undocumented money transfers will not only act as a deterrent for perpetrators but will become like concrete evidence against the misuse of that money. Amendments in laws to keep abreast of the emerging technologies will obstruct the TF business in the future, whereas the implementation of the existing laws is like lifeblood to impede TF. The above discussion also aligns with the discussion in the literature review in Section 2.3.3. The summary of the findings of all themes is discussed below.

### **Summary of Findings**

This chapter has considered the barriers that hinder the making of effective counter-terrorism policies as well as the implementation of existing counter-terrorism financing policies in Pakistan. The findings of this study provided a detailed perspective about the factors influencing the effectiveness of Counter-Terrorism Financing (CTF) policies and barriers in their implementation in Pakistan along with recommendations for policy making, and the majority of the responses from the interviews indicated probable barriers in countering terrorism financing in Pakistan. If given the right directions, the institutions of Pakistan are capable enough to take the country in the right direction in the fight against terrorism. Operations of the Pakistan Army against terrorists directed by the National Action Plan set an example that if the national interest is given priority things can get better. All the sacrifices made for getting rid of the menace of terrorism are worth the effort as terrorism effects the economy of a country. It is an established fact that where terrorism is flourishing, companies halt or take out their business from those countries, which results in unemployment and subsequently it results in poverty. Similarly, if the economic condition of the country is poor,

there are fewer educational opportunities for masses. According to the respondents, the post 9/11 vulnerable environment of Pakistan can be attributed to the lack of policies on education and poverty reduction which can be attributed to lack of willingness and lack of national interest on the part of policy makers and stakeholders. Likewise, responses from participants indicated widely held speculation about the influence and impact of foreign agents, particularly those from India at work within the country. Further, that intelligence work falls short of international standards and with the presence of many intelligence agencies, hostile neighbours are conducting terrorist activities in Pakistan resulting in fencing of borders, strict measures at immigration, issuance of visas, and thorough checking of the transports entering Pakistan. Transit and sale of drugs produced in Afghanistan and smuggling of goods from Iran also raises the question mark for the responsible institutions.

Accountability and monitoring the working of charitable institutions claiming to help the poor along with the NGOs and INGOs focusing on various social causes, is also an important work of the government. According to respondents, there is a lack of interest and national interest in these domains, for example, so many years after the National Action Plan being prepared, there are still questions on Madrasahs and their way of working, such as is it a pure religious training or some political philosophy being taught along with it resulting in extremism. Similarly, working of alternate remittance system of Hawala/Hundi poses questions on the institutions such as State bank of Pakistan (SBP), Security and Exchange Commission of Pakistan (SECP) and policy makers.

Lack of expertise of officers of LEAs, especially in financial investigation, is also an important problem in dealing with CTF. Pakistan is capable of having control over terrorism, and its financing, which can be witnessed by the operations of the Pakistan Army against anti-state elements and clear counter TF policies of the State Bank of Pakistan for commercial banks and Development Finance Institutions (DFIs) operating in Pakistan. The above discussion highlights the existing barriers in making effective counter-terrorism financing policies and hurdles in the implementation of existing policies to counter TF in Pakistan in detail. However, compliance with 36 out of 40 recommendations of the FATF on CTF in Pakistan, no matter whether complete or partial, indicates that Pakistan is progressing to counter the menace of TF, but the barriers are still there highlighted in this chapter in detail and things are not up to the mark at operational level. There should be clear and strict policies on implementation with fixed responsibilities and penalties on ignorance and negligence by the

officers/officials associated with AML/CTF. The state institutions are struggling to address the issue with available resources and manpower, and in the times to come, the issue of terrorism financing appears to be resolved.

### **4.3 Conclusion**

This chapter summarises the main themes i.e.,

Theme 1: Changes in terrorism in Pakistan Since 9/11

Theme 2: Geostrategic importance and relationships to bordering countries

Theme 3: The role and significance of Alternative Remittance System

Theme 4: Effectiveness of existing framework

The above themes were generated by identifying the codes from the dataset of the transcribed interviews. Then with the help of those codes, themes were generated that were relevant to the study and to answer the research questions. Then these themes were individually assessed to ascertain the veracity and their connections with the literature review for validation. Analysis of each theme was also done with the help of NVivo to match the nodes and codes. The analysis identified the gaps and underlying problems that are necessary to answer the research questions that are clearly identified by the above themes and supported by the literature review as discussed earlier and analysed. The overall conclusion and recommendations are discussed in Chapter 5.

## **Chapter 05: Conclusion and Recommendations**

### **5.1 Overview**

This aim of this thesis was to answer the following research questions:

1. What considerable changes in terrorism were witnessed in Pakistan after the incident of 9/11?
2. How do the neighbouring countries of Pakistan impact terrorism financing?
3. Which factors lead to ineffectiveness amongst the counter-terrorism financing policies in Pakistan?
4. What are the major barriers in the implementation of existing counter-terrorism financing policies in Pakistan?

The four themes as discussed earlier in chapter 3 and 4 helped to answer the above stated questions by exploring the various angles of the changes in terrorism in Pakistan since 9/11, Geostrategic importance and relationships to bordering countries, the role and significance of Alternative Remittance System and the effectiveness of existing framework on terrorism financing in Pakistan. The answers to the questions are summarised in the later

sections with recommendations for policy making. This chapter summarises the thesis and identifies the barriers to counter-terrorism financing policy in Pakistan together with the problems in the implementation of existing counter-terrorism financing policies. Furthermore, by identifying problems and their causes, recommendations are given, keeping in view the available resources and the challenges faced by the stakeholders in countering terrorism financing.

## **5.2 Contribution of the Thesis**

The discussion, interviews, and study support the view explicitly that terrorism and its financing is reducing in Pakistan which is an ultimate result of military operations (as discussed and identified by the respondents). Therefore, the positive aspect is that measures taken by have been effective against terrorism and its financing. However, these measures do have a cost in terms of liberty and inconvenience caused to the citizens. Pakistan has somehow controlled the terrorism in the wake of its commitment against terrorism and its financing. Besides having incapable manpower, the irony is that institutions are weak, and Law enforcement agencies are overburdened (supported by Section 2.4.1 in Literature review). There are the issues of capacity and skills of manpower and weak institutions. The LEAs are also overburdened with work and the situation gets more complicated when the manpower is not equipped with the relevant skills and have capacity issues. These reasons are a major impediment in policy implementation as the implementors lack focus and consistency due to capacity issues.

However, it can be inferred that the political, social and economic structure of Pakistan deteriorated after the 9/11 attacks (supported by Section 2.1 in Literature Review and further in 4.2.2 Theme 2: Geostrategic importance and relationships to bordering countries) as the heroes who were involved in soviet disintegration were eventually declared as terrorists and coercive actions initiated against them because Pakistan decided to keep itself aligned with the western bloc. The North and South Waziristan and FATA (which is now under the administrative control of KPK Province) became terrorism hubs resulting in poverty, unemployment and instability in the region. Post 9/11, new policy initiatives were required including the challenge to stop the financing of terrorists/terrorist groups with international nexus. It is a disappointing fact that till now there is no clear policy direction for countering terrorism in the country. Although, variety of stakeholders/LEAs and government

institutions are involved in addressing the issue, according to their own local needs and without a coordinated framework. A well-coordinated framework and a revamped criminal justice system is urgently needed to fight the menace of terrorism effectively. The subsequent mess is the result of institutional weaknesses (details mentioned in Section 1.3.3 Barriers in CTF in Pakistan, 2.3.7 National Counter Terrorism Authority (NACTA) and 2.4.1 Capacities of Law enforcement agencies in Literature Review aided by the further discussion and analysis in chapter 4). There is a dire need of reforms in the Madrasah sector, intelligence sharing, border control, and regulation and collection of charities as these sectors are pointed out as vulnerable by the participants and in the discussion, it was found that these need to be addressed as a priority for consolidating an efficient policy plan against Terrorism Financing in Pakistan.

It has also been identified from the responses that the porous border with hostile neighbours and their conspiracies and vested interests increased TF activities in Pakistan. Afghanistan, which is a furnace of terrorism, has a drug economy, and the borders of Pakistan are exploited due to flexible border control and management. On the Eastern side, traditional opponent India undermines political, diplomatic, and economic efforts by Pakistan and hinders every positive step taken by the government at large, sometimes by aggravating atrocities in Kashmir or allegedly conspiring using agents like Kulbhushan Yadav. The proactive role of India and her vested interests in the region, besides other disputes and conventional hostilities, the issue of Kashmir and alleged funding for separatists' movements in Balochistan threaten the sovereignty and integrity of Pakistan. The cause of concern is that both countries are nuclear powers, and if the balance of power disturbs the region, the effects of it will not be limited. It is also an opinion that many countries are trying their best to promote conspiracies against CPEC which is the messenger of economic prosperity and power struggle in the region (Section 1.3.3 Barriers in CTF in Pakistan in Chapter Introduction and Section 2.5 in Chapter Literature Review concludes it along with 4.2.4 Theme 2 Geostrategic importance and relationships to bordering countries). Thus, it is clear that the policies in Pakistan are greatly affected in connection with its relations with neighbouring countries and their involvement in the internal matters of Pakistan, whether directly or indirectly, for their interests. It becomes difficult to please everyone as dictated owing to the dynamics of problems. Secondly, as highlighted by respondent no. 20 and 18 in chapter 4, 'Section 4.2.2 Theme 2: Geostrategic importance and relationships to bordering

countries' that the role of Afghanistan in cultivation and transportation of drugs to international markets is obvious but Afghanistan enjoys the status of 'White' on the FATF list. Still, Pakistan who is bringing all possible measures to cope with the issue has fallen into 'Grey'. India is playing a hostile role to push Pakistan into 'Black list'. Pakistan needs to reinvigorate its foreign policy following the US involvement in Afghanistan, US-Iran recent ties, and the growing role of China in the region. This will help CTF as a fresh perspective and review of foreign policy by Pakistan will convey to the international partners about the interest, priority and focus of Pakistan on the issue of CTF.

It is also true that Pakistan is an ideological state based on religion, and the charities and donations are appreciated on festivals and events. Respondents are of the view that the exploitation of the collected money on charity can never be underestimated. Although the government has now made several checks in receiving or collecting funds domestically and internationally, a very clear mechanism is required in this regard. A seasonal collection of charities and donations must be monitored by institutions, and the masses should be provided with adequate education in understanding TF risks. A matter of fact is that legitimate funds may be illegitimately exploited under cover of charities and donations (as supported under Section 2.1.2 Terrorism Financing, Section 2.4.2 Madrasahs – Islamic Religious Seminaries and 2.4.3 Religious Organisations Related to TF in Pakistan). There must be a record of the origin of cash transactions, beyond a certain amount and track of the final destination of the cash transaction. FATF has suggested penalties which include confiscation falsely or undeclared cash, possible present terms etc.

An alternative remittance system is one of the key factors to count on when it comes to ML and TF. The Hawala or Hundi system maintains unique importance in Pakistan, among other forms of Money Value Transfer System (MVTS) or Money Service Businesses (MSBs) or Informal Value Transfer System (IVTS). Most of the blue-collar citizens of Pakistan use this method to transfer money from abroad. Funds either generated by direct support, funds collected from the public as charities or donations, or other criminal means are moved through this system of Hawala or Hundi. Pakistan has tried to address this through the Foreign Exchange Regulation Act 1947, but it has not proved to be an effective barrier, and this high-risk system still runs in Pakistan. This system is exploited by the criminals or terrorists because of the weakness of the institutions and the lack of interest from the responsible stakeholders. The availability and ease of access of the Hawala system make it a

risk for ML and TF in Pakistan. APG has mentioned in MER October 2019 that though the system is illegal in Pakistan, it operates openly in Karachi, Peshawar, and Chaman. There is a lack of understanding of the connection between terrorists, fundraisers, and end-users. It is estimated that 14% of the total suspicious transaction reports were generated on suspicion of Hawala/Hundi. It poses a high-risk factor in the National Risk Assessment, and the amount of PKR 2.656 billion (USD 19.67M) has been seized as per the FIA. Still, unfortunately, there is no targeted framework in the national strategy to deal with this factor. Undocumented Informal Value Transfer System (IVTS) of Hawala and Hundi contributed a great deal to terrorism financing. It is a preferred system in black markets because it is difficult to identify the money trails. Respondents generally were not in favour of Hawala/Hundi and suggested that an alternative mechanism needs to be developed.

It is also a fact that large part of the population uses this system for legitimate reasons and curtailing it will create problems for the common man, unless replaced by an equally or more efficient, simple and hassle-free system. The policymakers need to develop an indigenous mechanism which is transparent as well as can cater to the users. A great deal of legal money is transferred by Hawala and Hundi due to its cost-effectiveness. People working abroad usually adopt this method to transfer their money. It is a great challenge not only for Pakistani LEAs to monitor this mode of money transfer but other international institutions as well. One can never claim the actual figures and amount of money transfer by these conventional practices due to its informal mechanism and undocumented procedures (as discussed in Chapter 1, Section 1.3.3 Barriers in CTF in Pakistan, Section 2.3.2 National Risk Assessment in Chapter 2). Respondent no. 7 and 18 opined that tax evasion is very usual and common with the help of INGOs/NGOs, and, unfortunately, philanthropy is exploited by some individuals and groups for their vested interests, and this loophole is subsequently exploited to a far greater extent by terrorist organisations. INGOs/NGOs are usually not supervised or monitored by the government. Although Pakistan has taken strict measures and has banned several INGOs/NGOs due to their suspicious involvement in anti-state activities uniform criteria for INGOs/NGOs registration and their operations are required for effective checks and evaluation (explained in Section 2.4.4 NGOs and INGOs in Chapter 2).

Pakistan has been trying its best to comply with the United Nations Security Council Resolutions. It has banned organisations such as Jamaat-ud-Dawa (JuD) and Lashkar e Taiba (LeT) etc. which are also on the banned list of the UN. Similarly, the individuals like Hafiz

Saeed (arrested on 7th August 2019) who are accused of supporting terrorism or terrorism financing in this region as per their religious and political philosophy and agenda are also arrested by the government as discussed in Sections 2.2.4 and 2.2.5 of the literature review and Section 4.2.14 of Chapter 4 of this thesis. Anti-Pakistan forces led by India have been criticising the Government of Pakistan for patronising and protecting these organisations and their leadership (Section 4.2.4).

Another important contributor to terrorism financing is the proceeds of crime. To tackle this factor, there are LEAs in Pakistan. There is a dire need to enhance the capacity of officers of LEAs to deal with financial crime. Usually, the money trail is not seen in financial aspects of normal criminal cases in terms of how the accused deposit funds, how funds transfer, and how the money is laundered, etc. According to respondents, Police are primarily responsible for dealing with the crime. To curb crime, police arrest, interrogate, and investigate criminals, but unfortunately, there is a lack of capacity of police officers in conducting financial investigations. It is strongly recommended that financial investigators must understand the complications and technicalities of transactions, their origins, transfers, links with accounts, end-users, etc.

Further, to address terrorism financing, the financial investigation does not lie under the domain of local police stations. Still, the task has been given to the provincial CTDs who are also not trained to conduct financial investigations. Financial investigations in Pakistan are carried mainly by the Federal Investigation Agency and other agencies plus the provincial Counter Terrorism Departments (Section 2.6.5 & 4.2.12). The laws of Pakistan do not provide any directions to LEAs for parallel terrorism financing/money laundering investigations when a predicate crime is under investigation. This point is also noticed in the MER of October 2019 of APG. To counter TF LEAs specifically, local police must conduct parallel financial investigations in cases of predicate offences as there are bright prospects of getting evidence when the case is fresh.

In the detection of terrorism financing cases communication is equally important – if it is quick and technology-based information sharing among stakeholders dealing with terrorism financing and money laundering cases, the detection would be easier. For example, it is valuable if a police officer who is investigating a predicate crime informs other responsible LEAs about the same for parallel TF investigations. Subsequently that

department communicates with the financial institutions, informs the intelligence agencies and counter-terrorism department, etc. and likewise all departments when and where they receive any information regarding terrorism financing. Allowing that to happen would make sure that the information sharing mechanism would further strengthen and increase efficiency of LEAs (Section 2.3.8 and 4.2.11). Lack of coordination is also highlighted in MER of October 2019 of APG.

There is a consensus that Pakistan has a plethora of policies on every imaginable subject. The dilemma, however, is that there is lack of implementation thus the core objectives of the policy are not being met. This issue becomes more complex in the presence of the enormous civil, military, law enforcement, and other forms of bureaucracy that are trained and experienced in the implementation of the policy. There is an absolute disconnect between policy formulation and its implementation. Findings of this study indicate that the reasons for this are numerous and multiple such as:

1. Lack of understanding of the policy objective.
2. Serious issues of capacity and necessary experience/education at the implementation level.
3. Multiple layers of decision making.
4. Lack of ownership for the implementation of decisions.
5. Crisscross and multiple layers of communication, chain of command, and authority.

Most of the respondents suggest that other factors responsible for deficiencies in legislative mechanism and implementation of existing counter-terrorism policies are lack of understanding due to miscommunication, lack of understanding due to capacity, lack of resources to implement, not assigning the priority, corruption, policy being in conflict with the reality on the ground, different political parties have different priorities and agenda and lack of responses and cooperation from masses.

The cross-border money declaration system is not effective, which can identify cash at the border. The State Bank of Pakistan is improving its capacity and is executing a risk-based approach, which includes conducting regular AML/CFT supervision activities (2.6.2

and 4.2.9) but with low monetary sanctions imposed. The Securities and Exchange Commission of Pakistan has an inadequate understanding of ML/TF risks and AML/CFT supervision, which only includes KYC/CDD requirements. There is no formal structure of MLA in Pakistan; there is no mechanism for LEAs to seek information from FMU regarding financial intelligence from foreign FIUs. Pakistan has limited capacity to share information on beneficial ownership information.

Conscious of its international obligation, Pakistan is striving to bring about domestic enabling legislation, rules, laws, and procedures to make the country compliant with international laws and Security Council Resolutions on combatting terrorism and its financing, border security, and countering extremism. Endeavours are likewise made to control terrorists, abuse of internet and social media platforms, through law enforcement mechanisms and legislative measures. This research also concludes that it is necessary to fortify community bonds, create critical thinking ability of youth, and teach the sense of civic responsibilities to minimise the effects of extremist ideologies as discussed in theme 1, chapter 4.

### **5.3 Contribution to Knowledge**

The study contributes to a great extent in exploring the issue of Counter-Terrorism Financing in Pakistan with various perspectives. The foremost thing is that Pakistan lacks professionals and expertise in considering the study of terrorism as a distinct discipline and as it is a developing nation, the diversified educational standards, unstable economy, political de-stability and lack of will, the issue of terrorism financing has not been addressed at the state level like other issues. Unfortunately, our researchers and academicians have not imparted their role in addressing the issue due to its associated limitations. This research will not only explore the study of terrorism financing in Pakistan but serve as a guideline for further research and study in the domain of terrorism financing in Pakistan. The views and ideas shared by counter-terrorism professionals, policymakers, and experts will exceptionally narrate and identify the problematic areas. This work is also understandable to the global audience to explain that Pakistan has tried her best within the available but scant resources in the war against terrorism and the implementation of CTF policies.

## **5.4 Contribution to Practice**

The research intends to help international institutions understand local problems and perspectives about policymaking and implementation for Counter-Terrorism financing in Pakistan. It also highlights practical hindrances faced by Pakistani institutions in general and law enforcement agencies in particular in dealing with counter-terrorism financing from the grass-roots level. The identified gaps, as identified in this work, will aid stakeholders in addressing them in broader and long-term perspectives and make just policies with pragmatism mitigating the vulnerable risk factors. Furthermore, keeping in view the sensitivity of the issue and sanctity of the institutions and participants, the research serves as a platform for further exploratory studies as the factors encompassed in the study are considered to be the domains with a greater scope and implications. It will also help students, researchers and academicians who are associated with the studies of criminology and criminal justice system to expand this study further.

## **5.5 Recommendations for Policy Formulation**

Pakistan must meet all the requirements set out by the APG and endorsed by the FATF. Instead of meeting requirements after global pressure showing the reactive approach, Pakistan has to shift to a proactive working approach to get timely results. As National Action Plan (NAP) is a localised version of FATF, Government of Pakistan may consider these 4 recommendations for policy formulation. The recommendations are in accordance with FATF and NAP respectively.

### **1. Empowering NACTA**

Point No. 4 of the National Action Plan (NAP) strongly stressed the requirement to empower NACTA and Recommendation No. 2 of FATF i.e., National Co-operation and Co-ordination supports this stance. A pragmatic and uniform national policy with the consensus of all stakeholders will be needed to respond to the changing shape of terrorism and its funding in Pakistan.

For a considerable length of time, successive governments have exploited the police and the civil administration to advance political agendas instead of national interest. NACTA was mandated to do this, but the results are below expectations. NACTA should establish a

joint mechanism taking all agencies, including Police, on board to curb terrorism. Digital evidence, video conferencing, in-camera trial, should all be made part of the legal system. Digital evidence and forensic evidence is not something that is desired, it is something that is needed. In my opinion, it is mandatory to make that an essential part of all terrorism related investigations as it should be in general law.

This country has to unite on one plan that terrorism has to be eliminated and this requires a holistic approach. Pakistan does not have a national consensus to carry various interests to a common platform to get backing for a new policy to fight terrorism. The supporters of this accord have demanded that the parliament must begin this activity. Besides the parliament, intellectual and notable citizens must also be made part of the national security debate. Such an alliance can help in formulating new national security policy. NACTA can take the lead for this holistic approach.

## **2. Improvement in Laws and Criminal Justice System**

As per the Point No. 20 of National Action Plan (NAP), “Revamping and reforming the criminal justice system” and highlighted by Chapter 3 in MER 2019 OF APG, “Legal System and Operational Issues”, there is a need to improve the existing Criminal Justice System and introduce new and specific laws on countering terrorism and its financing. Corruption, which is also identified as a problem in the MER of Pakistan by APG in October 2019, needs to be addressed effectively. Strict policies are required, which can deter officers from indulging in corrupt practices. Post 9/11 terrorism evolved in Pakistan due to the poor economic system. Unemployment and poverty paved the way for the opportunists who found Pakistan to be the ideal place for terrorism activities. Thus, to overcome such a problem in the future, there should be sound education and employment policies in Pakistan.

Strict check on movements of funds is required by monitoring the financial transactions through the formal and informal channels. In commercial banks, there is a mechanism already in place to raise red flags in case of suspicious transfer of files. As for the informal channels, intelligence-based actions and random checks are proposed till the informal channels are brought into the mainstream financial system. Effective policies in this matter may also be prioritised. Similarly, strict checks on the activities of NGOs and INGOs

are required, and for these effective policies with the consultation of all LEAs are required. Eastern borders of Pakistan need to be monitored not just in documents but in real terms. Narcotics movement from Afghanistan and the smuggling of goods from Iran are not new things to hear. Strict border policies are essential to stop the influx and efflux of commodities and individuals to and from Pakistan. Stakeholders who are not taking this matter seriously must be taken to task. The State Bank of Pakistan must take some extraordinary measures to regulate Hawala/Hundi mechanisms. This system needs to be documented as it is widely used in Pakistan for the transfer of money because of its cheaper service charges and quick delivery of money. Formulation of new laws to stabilise institutions and operationalisation of NAP in its true spirit would hinder this menace. Ministry of Law, in consultation with the Ministry of Interior and SBP, can make effective policy on this.

Pakistan has developed mechanisms to monitor a large number of suspicious transactions. However, this needs further improvement and better implementation. The existing mechanisms are showing positive results as they are in line with the FATF guidelines and international best practices.

Cyber security is also an important part of the financial security programme. In case of attacks on the cyber systems, transactions worth millions can be blocked or misused. Pakistan, being a developing country does not have secure cyber systems at both, the government and private sector. Recent example is the hacking of the website of the Federal Board of Revenue (FBR), Government of Pakistan. Pakistan's cyber security can be strengthened if the computer systems are updated regularly and the latest firewalls are used. This should be made mandatory by the government so any kind of breach is prevented. There is also need for greater coordination and information sharing with other countries to secure the important cyber systems for broader anti money laundering.

Furthermore, documentation of the whole economy is very important. When all the financial transactions, properties, bank accounts, businesses are documented and monitored, then it will not be easy for terrorists to carry out their activities as there will be a good chance of them being indicated. All concerned offices like FBR, Income Tax, SBP, SECP, etc. should make policies.

This research also concludes that to ensure compliance with international AML/CTF standards, Pakistan would have to implement the cashless policy aggressively; another aspect

of the cashless policy is the imposition of charges on deposits in addition to already existing charges on withdrawals. In my opinion, the cashless policy would also improve transparency in financial dealing and reduction in crime, such as advancing frauds, grafts, ransom payments, and extortion. It is also stated that the cashless policy in Pakistan is not new, and the electronic payment already exists in the form of financial access points, ATM, POS, Agents, and mobile cash facilitation applications across each major city. However, there is huge room for improvement. SBP can take the lead. Weaknesses in the banking sector cannot be addressed only with the participation of the banking sector; it should be a national plan with the inclusion of all stakeholders, including citizens. Technology is a tool to remove hindrances in the system, but mind-set and perception are more important than technology. Individuals would have to set their mind-set towards digitalisation. SBP should introduce digitalisation.

The conviction should be considered a priority. If a person is involved in financing terrorism, the maximum punishment should be awarded as discussed in theme 4 of precedent chapter. If there are new laws like for prevention of Hawala/Hundi, etc., and if there is proper implementation of the laws and quicker and higher conviction rate in the court of law, it would serve as deterrence in the minds of the people who are involved in the illegal activities. The Ministry of Law and the Supreme Court of Pakistan can take the lead.

### **3. Capacity Building of Law Enforcement Agencies**

The Point No. 8 of NAP suggests “Establishing and deploying a dedicated counter-terrorism force” which is further linked with Recommendation 30 – Responsibilities of law enforcement and investigative authorities” and “Recommendation 31 - Powers of law enforcement and investigative authorities. Proper implementation of laws can only be possible if the officers are well versed and trained in the laws and procedures. The induction of officers on merit and their substantial training, i.e., professional and technical to deal with the dynamics of terrorism, are essential. Further, in my opinion the load of cases on investigation officers and the judiciary must be kept reasonable so that they can give due time and energy to cases. Policies in this regard are missing.

There should be effective communication among all stakeholders, especially LEAs, in dealing with terrorism and counter-terrorism cases by establishing compliance departments like that of commercial banks who are responsible for quick and early communication and

coordination of information. Joint Operation Centres may also be established by NACTA at the provincial level, which should be monitored by the federal capital. Documentation, scrutiny, and accountability of the money generated or received by NGOs, NPOs, religious parties, or other groups should be done on a priority basis by the government institutions.

The research highlighted a lack of coordination between federal and provincial institutions. Intelligence sharing must be centralised, and there must be a coordinated response mechanism of every agency, including Police, CTD, FIA, State Bank, SECP, FMU, and others. NACTA should be extended to the provincial level, and experts from every agency must be taken to work jointly for a collaborated response. FIA must be mandated to lodge cases without special requests and powers to be dedicated to all agencies to access data and information whenever required without having bureaucratic hurdles. All stakeholders, including LEAs, banks, securities, and exchange commissions, intelligence institutions, must have a shared understanding to identify the processes, procedures, and people who are funding terrorism and are involved in it directly or indirectly. The civil-military disconnect should end. TF is a multi-dimensional and multi-faceted phenomenon and requires the same response. Overall consensus between all law enforcement agencies to be on the lookout for grass-roots level funding is substantial.

It is suggested that reporting institutions, including FIUs and policymakers, embrace unconventional and futuristic approaches. It is recommended to equip Law Enforcement Agencies, especially provincial Police and Counter-Terrorism Departments, to deal with terrorism financing cases with the provision of adequate resources and trainings for capacity building in AML/CTF. The role and domain of provincial police should be extended to deal with terrorism financing offences besides issuing circulars or amending laws for the provision of parallel financial investigations in cases of predicate crimes. The financial investigations of the predicate offences wherein there is a doubt that the case may be attached to TF must be started from the local police station on the same pattern as the other cases. When the case is fresh, there are many shreds of evidence available, and there would be more chance of catching the culprits at the very start of their activities. To have complete control over terrorism, its financing has to be stopped, and for this, the Ministry of Interior has to make effective policies.

#### **4. Action against Proscribed Organisations and Reforms for Madrasahs**

According to Point No.10, “Registration and regulation of religious seminaries” and Point No.7, “Ensuring against re-emergence of proscribed organizations” of NAP which are further aided by FATF Recommendation 6 – “Targeted financial sanctions related to terrorism and terrorist financing” and Recommendation 8, “Non-Profit Organisations”, it is imperative to bring reformation in the mode and curricula of Madrasahs and take stern actions against Proscribed Organisations. To get meaningful results, the mind-set of people in general needs to be changed and for this purpose the ideologies have to be replaced by better substitutes in the long term, i.e., revising the traditional curriculum specifically in religious seminaries (Madrasahs) and educating the masses technologically and professionally is the solution to bring them into a progressive state. For the regularisation of Madrasahs, it is recommended that the curricula of Madrasahs may be compared with those of international Madrasahs to analyse them critically and restructure, revise and reform them so that a standard curriculum may be made for all Madrasahs in Pakistan. The Ministry of Education may take the lead in policy formulation for curriculum development for Madrasahs.

Terrorism Financing can only be beaten back when all the sections of society join hands. Unfortunately, in Pakistan, the counter narrative is not there, people are not taken on board, and even in Police Department, it is considered that this is the job of the agencies or the counter-terrorism department. NACTA must lead in making a counter narrative. The government of Pakistan has to bring the people of Pakistan on the same page in the battle against terrorism and terrorism financing. As long as the people of Pakistan do not stand with the government, the desired results are far from being achieved. There is a need to raise awareness among people. Pakistan Electronic Media Regulatory Authority can play a positive role.

Summing up, lack of vision on long term future policies of education, poverty alleviation, economic prosperity, creating jobs for youth/citizens, ignoring and closing eyes on collective financial, political, economic and moral issues are the areas that need immediate attention. Furthermore, the element of corruption, capacity issues and self-interest of stakeholders along with lack of supervision on implementation etc. are the factors that need to be addressed.

## **5.6 Reflection**

By completing this study, I was able to learn from a variety of new things besides refreshing my memory about the things that I already knew. My aim in conducting this study was to identify the barriers that are becoming hurdles in the effective policymaking in CT and the implementation of existing CT policies in Pakistan. It was important because as the matter is sensitive to international pressure coming in, it was a need to find where the problems lie to address counter-terrorism and terrorism financing in Pakistan. The findings of this study are conclusive and highlight all of the barriers that, if addressed, can make a visible change in the CTF arena in Pakistan. The core point of my findings is that the overburdened courts and unresponsive governments, coupled with under-resourced law enforcement agencies, serve as a barrier in structuring effective policies for CTF in Pakistan. Time management was one of the biggest problems for me as I completed this work while discharging my duties as a senior police officer, which is a full-time duty requiring more time than most of the professions of this world. So completing assignments in time always remained a problem for me, but to contribute my share of work in CTF activities in Pakistan, it was essential. With this study, I discovered new strengths in myself as a manager as I managed to get the ideas and experiences of senior officers who I included in the study. However, in this journey, to get the views on this very sensitive national issue was a problem, as many were reluctant to be a part of this study. Still, I managed to convince enough participants necessary for my study. I would like to extend my thanks to all of them.

## **5.7 Conclusion**

The chapter provided the contribution of this thesis to address the gaps in knowledge regarding the barriers in the implementation of existing CTF policies and why new CTF policies are not made in Pakistan. What contributions the study will make in knowledge and practice are also mentioned. Further, some recommendations are given, which, if adopted, can make a change in the CTF environment of Pakistan. Finally, the conclusion of the thesis is given to provide what has been achieved by the conduct of this extensive research study.

## **5.8 Conclusion of the Thesis**

This study critically evaluates the constraints in formulating counter-terrorism financing policies in Pakistan. Besides following and implementing UNSC Resolutions and FATF Recommendations, Pakistan is still facing the loopholes and streamlining the system to achieve the desired goal to curb terrorism. The commitment of Law Enforcement Agencies and Government, supported by public cooperation is essential to curb terrorism and TF. Although, due to some vulnerable factors, there is a dire need to reform some institutions like Madrasahs, INGOs, and NGOs to create awareness among the masses and financial institutions. Furthermore, capacity building and training of LEAs with their strong coordination within themselves and other stakeholders under the umbrella of NACTA are also essential to implement existing counter-terrorism financing policies and their subsequent implementation with strong political resolution. This will pave the way in formulating effective counter-terrorism financing policies in Pakistan. The adoption of the recommendations proposed in this thesis will positively assist in the development of policies for an efficient counter TF mechanism in Pakistan.

## **Appendices**

Appendix 1	Copy of approval letter from University Ethics Committee
Appendix 2	Copy of Informed Consent Form
Appendix 3	Pilot Study Questions
Appendix 4	Final Interview Questions

**Copy of approval letter from University Ethics Committee**

**Appendix 1**

27.02.2018

EthicsOnline@Northumbria

Research Ethics: Your submission has been approved

Dear maqsood.ahmed,

Submission Ref: 4227

Following independent peer review of the above proposal\*, I am pleased to inform you that **APPROVAL** has been granted on the basis of this proposal and subject to continued compliance with the University policies on ethics, informed consent, and any other policies applicable to your individual research. You should also have current Disclosure & Barring Service (DBS) clearance if your research involves working with children and/or vulnerable adults.

\* note: Staff Low Risk applications are auto-approved without independent peer review.

The University's Policies and Procedures are [here](#)

All researchers must also notify this office of the following:

- Any significant changes to the study design, by submitting an 'Ethics Amendment Form'
- Any incidents which have an adverse effect on participants, researchers or study outcomes, by submitting an 'Ethical incident Form'
- Any suspension or abandonment of the study.

**Please check your approved proposal for any Approval Conditions upon which approval has been made.**

Use this link to view the submission: [View Submission](#)

Research Ethics Home: [Research Ethics Home](#)

**Please do not reply to this email. This is an unmonitored mailbox. If you are a student, queries should be discussed with your Module Tutor/Supervisor. If you are a member of staff please consult your Department Ethics Lead.**

## Informed Consent Form for research participants

## Appendix 2

### Faculty of Business and Law



Title of Study:	Exploratory Study of Terrorism Financing in Pakistan
Person(s) conducting the research:	Maqsood Ahmed
Programme of study:	Doctor of Business Administration - DBA
Address of the researcher for correspondence:	Police Headquarter, Hassan Square, Gulshan-e-Iqbal, Block 15, Karachi Pakistan Postal Code: 75300
Telephone:	00923213777707
E-mail:	<a href="mailto:m.ahmed.psp@googlemail.com">m.ahmed.psp@googlemail.com</a>

<p>Description of the broad nature of the research:</p>	<p>The research on the topic “Exploratory Study of Terrorism Financing in Pakistan” is intended to highlight the procedures by which terrorists use funds for terrorist activities successfully under the legal and regulatory framework of Pakistan. The research will highlight the factors that influence making of effective counter terrorism financing policies in Pakistan.</p> <p>The finding of this research will help in assessing the existing legal framework of counter terrorism policies in Pakistan and comparing them with international standards of combatting terrorist financing. It will also assess Pakistan’s compliance to the international body standards to counter terrorism and the shortcomings and hurdles in the implementation of counter terrorism laws in Pakistan. It will help in establishing the best practice framework for Pakistan based on international best practices in combating terrorism-financing.</p> <p>Furthermore, it will expand cognizance and responses to, developing terrorism financing risks in public and private sectors and provision of effective guideline to the private sector to improve their monitoring, screening and reporting processes regarding terrorist financing. It will also help in increasing the capability of Law Enforcement Agencies in their inspective thoughtfulness on the actual beneficiaries of the funds, rather than just the sources of funds.</p>
<p>Description of the involvement expected of participants including the broad nature of questions to be answered or events to be observed or activities to be undertaken, and the expected time commitment:</p>	<p>This research will be completed with above mentioned aims and the research paper will be prepared on the basis of information obtained. The more responses received, the greater will be the strength of the research. For this purpose you are requested for your volunteer participation in this study as a respondent. Your cooperation and responses in this regard would help in generating valuable knowledge with respects to domains under investigation. You will be interviewed for approximately one to two hours and voice recordings of interviews will be made for the purpose of data collection. You will be requested to provide relevant information on research topic during interview by elaborating the following questions:</p> <ol style="list-style-type: none"> <li>1. <i>What considerable changes in terrorism were witnessed in Pakistan after the incident of 9/11?</i></li> <li>2. <i>How do the neighbouring countries of Pakistan</i></li> </ol>

	<p><i>impact terrorism financing?</i></p> <p>3. <i>Which factors lead to ineffectiveness amongst the counter-terrorism financing policies in Pakistan?</i></p> <p>4. <i>What are the major barriers to the implementation of existing counter-terrorism financing policies in Pakistan?</i></p> <p>You may be asked for a follow-up interview after the initial interview and time commitment will be minimal keeping in view the following time frame:</p> <ul style="list-style-type: none"> <li>• An initial interview (approximately 1-2 hours).</li> <li>• A follow up interview (approximately 1-2 hours). will take place approximately 4 months from your initial interview if the need be</li> <li>• Any other meetings deemed necessary.</li> </ul>
<p>Description of how the data you provide will be securely stored and/or destroyed upon completion of the project.</p>	<p>The information provided by you including this consent form, voice recordings, soft and hard copies of transcribed data would remain confidential (i.e., it will not be passed to others) and anonymous (i.e., individuals and organisations will not be identified unless this is expressly excluded in the details given below). The soft copies will be saved in password protected computer and the hard copies will be saved in locked safe place and your identity will never be disclosed. However, if necessary, your nature of job and areas of responsibilities may be disclosed. After the completion of the research project the data so obtained will be destroyed as per university policy. The electronic record will be deleted and the hard copies will be destroyed using paper shredder.</p>

This research is based on two phases and your participation is required for both phases of study i.e., pilot and main. However, you have a right to withdraw from study at any time you feel uncomfortable during interview. Data obtained through this research may be reproduced and published in a variety of forms and for a variety of audiences related to the broad nature of the research detailed above. It will not be used for purposes other than those outlined above without your permission. If you are interested to know about analysis you can contact through given contact information in this form and findings would be shared after completion of the research project.

**Consent:**

**By signing this consent form, you are indicating that you fully understand the above information and agree to participate in this study voluntarily on the basis of the above information.**

**Participant Name:**

**Date:**

**Participant's signature:**

**Student's signature:**

**Date:**

**Pilot Study Questions**

**Appendix 3**

1. Please tell me about the nature of your duties and responsibilities?
2. What do you say about terrorism in Pakistan?
3. What is your personal experience about counter Terrorism?
4. What are main External and Internal factors of Terrorism in Pakistan?
5. What do you say about Terrorism financing in Pakistan?
6. How to stop Terrorism financing?
7. What are the funding methods used by terrorists/terrorist organisations in Pakistan?

8. What is the contribution of charities and donations in terrorism financing?
9. What are the effective laws in Pakistan to counter terrorism?
10. What are the weaknesses in existing laws?

**Supporting Questions:**

11. What do you suggest in improving the existing laws of Pakistan in combatting terrorism?
12. What are the steps taken by the Government in regulating the financing of terrorism?
13. How do you see the implementation of existing laws formulated to stop terrorism financing in Pakistan?
14. What hurdles did you face in fulfilment of your duties pertaining to counter terrorism?
15. What in your opinion should be done to trace and choke the financing of terrorists?

**Final Interview Questions**

**Appendix 4**

1. Please tell about the nature of your duties and responsibilities?
2. What do you say about terrorism in Pakistan?
3. Your personal experience about counter Terrorism?
4. What hurdles did you face in fulfilment of your duties pertaining to counter terrorism?
5. What are main External and Internal factors of Terrorism in Pakistan?
6. Your views about Terrorism financing in Pakistan?

7. What are the funding methods / sources used by terrorists/terrorist organisations in Pakistan?
8. Your views about alternative remittance system /Hundi /Hawala in Pakistan and their role in money laundering and terrorist financing?
9. What is your opinion about NGOs role in money laundering and terrorism financing in Pakistan?
10. What is the contribution of charities and donations in terrorism financing?
11. What is your stance about contribution of Madrasahs in terrorism and it's financing in Pakistan?
12. Your views about Pakistan's confrontation with India? Its role in Terrorism.
13. How do you see the control of Pakistan's borders with neighbouring countries Afghanistan, Iran and China and its contribution towards Terrorism financing?
14. Your views about criminal networks that play role in the transshipment of narcotics and smuggled goods from Afghanistan to international markets? Their contribution in Terrorism financing?
15. Your comments on Zarb e Azab and Raddul Fasaad counter terrorism operations? What effects they have on Terrorism and Terrorism financing?
16. How do you see the recent developments of FATF and placement of Pakistan in grey list?
17. What do you say about implementation of UNSC resolutions with reference to Pakistan?
18. What is your opinion regarding current legislative operating system of Pakistan regarding counter Terrorism Financing?
19. What are the effective laws in Pakistan to counter terrorism?
20. How do you see the implementation of existing laws formulated to stop terrorism financing in Pakistan?

21. What preventive measures would you suggest to be taken by government and private sector to regulate the Financing of terrorism?
22. How to stop Terrorism financing in Pakistan?
23. Any suggestions or final comments?

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