

Law and Policy Review (LPR)

Volume 3 Issue 1, Spring 2024

ISSN(P): 2076-5614, ISSN(E): 3007-4290

Homepage: <https://journals.umt.edu.pk/index.php/lpr>



Article QR



- Title:** **Impact of Money Laundering on Economic System: International Legal Framework and Corresponding Development in Pakistan**
- Author (s):** Ali Hassan
- Affiliation (s):** National Accountability Bureau, Lahore, Pakistan
- DOI:** <https://doi.org/10.32350/lpr.31.05>
- History:** Received: March 05, 2024, Revised: May 21, 2024, Accepted: June 20, 2024, Published: June 28, 2024
- Citation:** Hassan, A. (2024). Impact of money laundering on economic system: International legal framework and corresponding development in Pakistan. *Law and Policy Review*, 3(1), 98–118. <https://doi.org/10.32350/lpr.31.05>
- Copyright:** © The Authors
- Licensing:**  This article is open access and is distributed under the terms of [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)
- Conflict of Interest:** Author(s) declared no conflict of interest



A publication of
School of Law and Policy
University of Management and Technology, Lahore, Pakistan

Impact of Money Laundering on Economic System: International Legal Framework and Corresponding Development in Pakistan

Ali Hassan*

National Accountability Bureau, Lahore, Pakistan

Abstract

This doctrinal mode study, based on the “Black Letter Law Method” aimed to identify the socio-economic existence, impacts, and severity of offence of Money Laundering (ML) and global regulatory response to cope with various emerging forms of ML. The study further aimed to analyze the legislative upgradations and legal setup of the Anti-Money Laundering (AML) regime in Pakistan. The operational and governance model of its Financial Intelligence Unit was also examined as well as its capacity to cope with trade-based ML offences in purview of modern practices. The study concluded that ML is an offence as much as a social norm affecting the economy through its various predicate and derivative offences and socially deep-rooted forms. Major over-hauling in operational and enforcement regime of the current Anti-Money Laundering Law of Pakistan is necessarily required. This is because it is not effective in timely detecting and combating the growing trends of ML related offences in a country striving for better economic performance, specifically offences pertaining to trade-based money laundering (TBML). The administrative model of the Financial Intelligence Unit of Pakistan, also known as the Financial Monitoring Unit (FMU), is governed under the AML Act 2020. It holds various lacunas in terms of the lack of horizontal coordination mechanism among the reporting entities, as well as centralized administrative control of FMU by the political representatives which hinders its operational, administrative, and regulatory autonomy. Moreover, there is insufficient technical expertise within the regulatory mechanism as well as incomplete and ineffective regulatory coverage over a number of business and financial sectors within the jurisdiction, coupled with the absence of standardized regulations, and non-enrollment of FMU by a global governing body.

Keywords: anti-money laundering, anti-money laundering framework, financial monitoring unit, financial intelligence, regulatory mechanism, socioeconomic crime, trade-based money laundering

*Corresponding Author: charlie.nab@gmail.com

Introduction

The history of Money Laundering (ML) offences dates back to the concept and practice of trade itself. Trade is among the earliest professions of mankind since the pre-historic era. Undoubtedly, it is among the earliest motives of human socialization which evolved and shaped human habits, norms, likes-dislikes, and behaviors. Additionally, it also transformed human habitats into settlements, towns, and ultimately into sovereign political states. Trade is among the most primitive sources of financing and funding of human societal arrangements including passé tribes, towns of the middle-ages, municipalities, and empires of the industrial era, as well as the sovereign states of present-day (Rutherford & Ahlgren, [1991](#)). In order to maintain law and order in human society, the regulation of the economic system and protection of the stakes of the bona-fide entrepreneurship engaged in various trades within the economic system is as important as the protection of political and geographical sovereignty in present days (Grant Thornton, [2021](#); Micallef, [2021](#)). The financing of state machinery operates through a system of facilitation, protection, evaluation, and enhancement of trade, as well as the promotion of corporate sector and governance of economic activities to generate revenues for the operation and social governance. With the advent and evolution of these regulatory efforts and practices, ML patterns and modes have also evolved with time to siphon-off state revenues by means of trade and corporate-based ML. It needs to be responded with equally effective legislation and efficient regulatory mechanisms under Anti-Money Laundering (AML) regime to maintain and uplift social justice, achieve the goals of bona-fide economic efforts, accelerated human betterment, and to block the abuse of the socio-economic system (Heslop, [n.d.](#)).

Money Laundering: An Elite Deviance or a Social Norm

ML is not only a crime against the state, however, it also affects and impacts each and every segment of the society in terms of economy (Claver et al., [2023](#)). It corrupts the state machinery by bypassing the legal vis-a-vis regulatory check and balance and control system, resists merit and fair play, usurps the state's financial resources, and nullifies the effectiveness of all the economic efforts of a governance system (Financial Action Task Force [FATF], [2006](#)). The temptation of easy outcomes through employing ML practices and methods defeats the ethical controls and dilutes the moral fiber of society. In the present age of technology-based ever-booming

advancement and cut-throat market competition, an economic system affected by ML not only fails to compete, however, it cannot even survive in the market. Thus, society as a whole suffers including human beings, specifically (Financial Crime Academy, [2024](#)). The traces of modern ML practices date back to some three thousand years. Chinese traders used to launder their incomes earned through illegitimate trading practices (earned out of certain trades banned by the government) to avoid legal consequences. They used to keep these funds undetected and hidden from the state's check and balance by converting them into movable assets and by moving cash and values out of that jurisdiction. The income proceeds of extortion, bribery, black marketing, and other similar financial crimes were also laundered in such a manner. The modern-day ML techniques include siphoning off of payable taxes, income generating from illegitimate businesses of hoarding and black marketing, and generating financial proceeds through bribe and extortion. Moreover, it also includes accumulation of valuables beyond known & legitimate sources of income, bulk cash smuggling, and relocation of ill-gotten wealth to safe-havens in order to hide its traces in a manner which is similar to above stated Chinese practices (Seagrave, [1995](#)).

With industrialization resulting in socio-economic harmony in American society in the early twentieth century, voices were raised to address the ills caused by civic enrichment. These included epidemic alcoholism, child abandonment, domestic violence, prostitution, health and well-being crisis, loss of skills and deterioration of sober norms of society at the cost of “saloon-league” and liquor consumption vis-à-vis a parallel booming liquor industry. Hence the decades-old “Temperance Movement in USA” resulted in the enactment of 18th Amendment in United States Constitution, ratified on 16th January of 1919 and went into effect on 17th January of 1920 (Levine, [1984](#)).

The “*National Prohibition Act*” also called “*Volstead Act 1919*” contains a long title described as:

An Act to prohibit intoxicating beverages, and to regulate the manufacture, production, use, and sale of high-proof spirits for other than beverage purposes, and to ensure an ample supply of alcohol and promote its use in scientific research and in the development of fuel, dye, and other lawful industries.

The said legislation seldom gained public acceptance and failed to discourage liquor consumption, rather gave ways and encouragement to rumrunning and smuggling of drugs and ultimately generated social acceptance of ML practices. Drug Lords, particularly Al Capone used various non-document-based legitimate businesses including laundries, saloons, and restaurants to launder his huge illegal incomes from narcotics trading, gambling, and protection rackets for personal and unlawful enrichment (KYC-Chain, [2021](#)).

The “*Volstead Act*” banned the possession of alcoholic drinks, however, it exempted the possession of the same in one’s private property for the purpose of consumption by the owner, family, and guests. In addition to that, sacramental wine and medicinal usage were also permitted (Jack & Blocker, [2006](#)). These freedoms for drinking were among the reasons that continued the stable demand for liquor. It paved way to a multipart surge of extensively inter-linked illegal practices in society and gave birth to evolved forms and social acceptance of more complex socio-economic crimes including ML (Training & Intervention Procedures, [TIPS], [2022](#)). Thus, it ultimately resulted in repealing of the 18th Amendment in 1933 (Edge, [1923](#)).

Similarly, in the 1970s and early 80s, the active commission of ML practices by usage of electoral funds for criminal activities, that is, financing of illegal wiretapping expenses and purchase of hardware and supplies by the elite of the country unearthed during the infamous “*Watergate scandal*”. This scandal resulted in the resignation by an elected President of United States of America (USA) despite his historic landslide victory which also speaks of the heinousness of the offence of ML and its threat upon the society. In 1986, the “*US Money Laundering Control Act 1986*” recognized ML as a federal offence enacted by the United States. The said legal instrument is often considered among the first legislation to criminalize the act of ML (Congress.Gov, [n.d.](#)).

International Response towards Money Laundering

ML has not only been admitted as one of the most complex forms of crimes, however, it is also regarded as a predicate offense of tens of other heinous crimes as well as a derivative of a series of crimes connected with it. The distinctive feature of ML is that it covers up the other crimes associated with it (Organisation for Economic Co-operation and Development, [OECD],

[2009](#)). Due to the significance and threat of this socio-economic crime upon the global economic systems, the world has responded in the following manner:

Global Conventions

The need to curb the acts giving way to offences of ML has been reflected in various conventions adopted by the United Nations which include “*United Nations Convention Against Illicit Traffic in Narcotic Drugs & Psychotropic Substances 1988 - The Vienna Convention 1988*”, “*United Nations Convention Against Transnational Organized Crime 2000 - The Palermo Convention 2000*” along with three protocols collectively called the “*Palermo Protocols*” including “*Protocol to Prevent, Suppress & Punish Trafficking in Persons*”, “*Especially Women & Children*”, “*Protocol Against the Smuggling of Migrants by Land, Sea and Air*” & “*Protocol Against the Illicit Manufacturing of and Trafficking in Firearms*”. In 2003, “*United Nations Convention Against Corruption - Merida Convention 2003*” was also adopted by the member nations to recognize the severity of corruption and related offences as a global concern and to affirm the need for global activism against the said complex crime. The Council of Europe; an international organization working for the provisions of human rights, democracy, and rule of law in society since 1949 also adopted a similar convention “*Convention on Laundering, Search, Seizure and Confiscation of the proceeds from Crime*” in 1990.

Financial Action Task Force

In 1989, the “Financial Action Task Force” on ML (FATF), an intergovernmental body was formed in Paris to counter the growing trends of ML during the era when the world was facing various corporate crisis and scams. FATF was commissioned to standardize the mechanisms for the effective implementation of legal and operational measures to control ML.

In 1990, FATF issued “*40 Recommendations*”, a comprehensive plan of action to combat ML. Furthermore, FATF also issued eight special recommendations in 2001 regarding the anti-terror financing. In 2012, FATF issued the revised recommendations on terror financing with special focus on weapons of mass destruction (WMDs). Furthermore, recommendations on regulation of virtual/crypto assets in 2019 and rules regarding the disclosure of ultimate beneficial owners were also issued by FATF in 2022 (FATF, [2024a](#)).

Since the year 2000, FATF being the policymaking body is defining and benchmarking the performance indicators regarding AML/CFT governance. FATF has also been categorizing the member countries into “White List”, “Grey List” or “Black List” on the basis of compliance status of its legal, regulatory, and operational recommendations by each country and by evaluating & assessing the steps taken against the ML/FT related crimes by the concerned country. As of now, 38 countries are members of FATF including China, India, Indonesia, Malaysia, Saudi Arabia and Mexico (FATF, [2024b](#)). Additionally, six Gulf countries including Kuwait, Oman, Qatar, United Arab Emirates, Saudi Arabia and Bahrain are members of the FATF through the Gulf Cooperation Council for the Arab states of the Gulf (FATF, [2024b](#)).

The Egmont Group

In 1995, an international organization namely “Egmont Group of International Financial Intelligence Units” (Egmont Group, [2024a](#)) was formed at Egmont Palace Brussels – Belgium as an informal network of 24 Financial Intelligence Units (FIUs) of founding member nations. The purposes and core functions of the Egmont Group include expanding the international financial information sharing, systemizing the exchange of information, capacity building, and development of expertise of member FIUs by exchange of personnel and training programs, fostering secured information sharing system by adopting technology “(*Egmont Secure Web*)” and encouraging operational autonomy of member FIUs. Presently, 170 countries are enrolled as members of Egmont Group through their respective FIUs including India (2007), Bangladesh (2013), Bhutan (2020), Indonesia (2004), Iraq (2023), Lebanon (2003), Nepal (2015), Nigeria (2007), and Sri Lanka (2009) (Egmont Group, [2024b](#)). Pakistan’s FIU has not been admitted as a member of Egmont Group so far, owing to certain legal shortcomings including lack of freedom of sharing information as per the required EG standards, despite serious efforts for over a decade (Business Recorder, [2017](#); Rana, [2017](#)).

Money Laundering Defined

In Pakistan, Anti-Money Laundering (AML) ordinance was promulgated in 2007, which criminalized the act of knowingly acquiring, converting, possessing, and transferring the proceeds of crime as an act of ML.

Rendering assistance to another person for the acquisition, conversion, possession or transfer of, or for concealing or disguising the true nature, origin, location, disposition, movement or ownership of property, knowing or having reason to believe that such property is proceeds of crime

was also defined as an act of ML. In general terms, ML includes and involves disguising the proceeds of a crime and introducing it into financial system in such a manner that it does not hold its traces of being a proceed of crime, rather becoming an asset with a legal and legitimate source. Elements of ML offence include placement, that is, introduction of proceeds of crime into financial system in a disguised manner concealing its true nature and source; layering (of funds) to de-trace its original/illegitimate source, and integration of valuable assets into financial system (Ahmad et al., [2013](#)).

Trade-based Money Laundering: The Socioeconomic Evil

Trade-based ML methods and practices include market operations and economic activities to introduce and inject back the ill-gotten money and crime proceeds into the financial system after laundering its illegal source (FATF, Interpol, & Egmont Group, [2023](#)). It also includes abuse of trade system to obtain illegal financial benefits. Hence, the ultimate purpose of trade-based ML includes the movement of ill-gotten money or crime proceeds and not the mobility of goods or services in the market (FATF & Egmont Group, [2020](#)).

Trade-based Money Laundering Activities

Trade-based ML methods include over/under invoicing of export and imports, misdeclaration of quantity and quality of goods (Zdanowicz, [2009](#)), non-observance of basic and legal provisions of arm's length transaction, manipulation of bills of lading, miscalculation and doctored valuation of intangible business assets including goodwill, copyrights, trademarks, and others (McSkimming, [2010](#)); abuse of trade financing facilities by means of misrepresentation of identity and purpose of financing and quality or quantity of traded articles, off the shelf trade of securities and bonds to evade imposts, cash based transactions leaving no traces of cross verification, unfair or false assessment and over valuation of business expenses and under declaration of documented business incomes to avoid taxes, abuse of statutory duties, taxation and similar concessions, usage of

non-regulated and non-routine payment methods for business transactions to hide the traces of transactions (OECD, [2019](#)), miscalculation of transfer pricing (Pak, [2012](#)) by corporations operating in different tax jurisdictions, fake and over selling of non-cash based charitable collections, proceeds of ponzi schemes, (Government of Pakistan, [2018](#)) and other illegal businesses.

Complex Forms of Trade-based Money Laundering

Some complex forms of trade-based ML practices include surrogate shopping, exploitation of financial institutions by closing the trade transactions in other head(s) of accounts instead of trade/business accounts violating Accounting and Financial reporting standards, abuse and unauthorized use of pre-paid vouchers, and Hawala/ *Hundi* system of payments.

Sectors Highly Prone to Trade-based Money Laundering

Business sectors prone to high risk towards trade-based ML include firms engaged in the provision of financial settlements of liabilities through non-related third parties, businesses dealing in the trade of gold, gems, paintings, chemicals, arms and ammunition, nuclear material, currency and other financial commodities, technical and sensitive data, precious metals, stones and antiques, that is, items having arbitrary, precious, incomparable and proxy values and arbitrary prices (FATF & Egmont Group, [2013](#)); business concerns engaged in dealing with non-registered businesses, businesses dealing in goods and services with wide pricing margins or having parallel demand in black markets, goods and services with extended trade cycles, goods which are difficult to assess or inspect by concerned customs or regulatory and assessing authorities, that is, used clothes, electronic gadgets, automobile accessories, unique artifacts, archeological antiques, luxury or used vehicles and spare parts, digital products and software, used electronics, and edible items having lesser shelf life (Delston & Walls, [2009](#)).

Business Models Prone to Money Laundering

Business models likely to indulge in ML include businesses not covered by AML regulatory regime, businesses engaged in payment settlements through third party situated in different cross border jurisdictions (United States Attorneys Office, [2013](#)), businesses operating through unnecessarily complex manufacturing and supply chains processes, and companies

simultaneously involved in more than one market sectors transacting mutually and without complying with the primary provisions of arm's length transaction.

Service Sectors Prone to Money Laundering

Trade-based service sectors prone to ML include law firms engaged in services related to matters about intangible assets of businesses, including goodwill, patents, copyrights, valuations, liquidations, mergers and acquisitions. Audit firms conducting compliance-related mandatory audits of corporations, businesses engaged in consultancy and advisory services, casino services, freight forwarders, cargo companies, shipping companies, courier and postal services, customs brokerages and clearing agents, commercial valuers of goods, services and assets; real estate brokers and developers, junk dealerships, brokerages of used merchandise, and event organizing and management services (Wahid et al., [2021](#)).

Anti-Money Laundering Regime in Pakistan

Being a country primarily relying on agriculture-based economy, Pakistan inherited countable corporations and banking companies upon partition in 1947. With the expansion of financial sector in the country, financial governance regime and regulatory practices also evolved. The documentation of economic system, adoption and usage of banking channel for regular transactions, broadening of the tax net, and implementation of regulatory tax laws have always been a challenge for the state departments of Pakistan as well as in other parts of the world (Murphy, [2008](#)). Inflation, economic frustration, unfavorable balance of payment, import oriented and aid dependent economic culture, chronic political instability, lesser literacy regarding taxation compliance and state financing system, security crisis and socio-cultural acceptance and usage of arms and drugs, and lack of socio-political priority have been the de-catalyzing and retarding factors for operational efficiency of state machinery engaged in enforcement of AML laws.

Criminalizing the Economy-related Offences

Legislative efforts to criminalize the socio-economic offences include the establishment of Law Enforcement Agency through “*Federal Investigation Agency (FIA) Act, 1974*” to investigate trade-linked offences including Foreign Exchange and Copyrights. Trade-related activities of prohibited narcotic substances by individuals and corporations was

criminalized through the legislation in 1997 through “*Control of Narcotics Substances Act of 1997*”, Terror Financing (TF) was criminalized in 1997 under “*Anti-Terrorism Act 1997*”, embezzlement of public exchequer through corrupt practices and dishonest means were banned through “*National Accountability Ordinance 1999*”, and re-forcing the provisions governing taxes by “*Income Tax Ordinance 2001*”.

Pakistan also joined Asia-Pacific Group (APG) on ML, a regional body and an associate member of FATF (FATF, [2024b](#)) in the year 2000 (Asia Pacific Group on Money Laundering, [2024](#)). Subsequently, in order to consolidate the number of predicate offences of ML and forfeiture of crime proceeds of ML, the President of Pakistan issued “*Anti-Money Laundering Ordinance 2007*” which was later amended and enforced as “*Anti-Money Laundering Act (AMLA) 2010*”. Later on, law governing disclosure of Benami Assets and Transactions, that is, “*Benami Transactions (Prohibition) Act 2017*” and law governing global legal assistances and cooperation in investigation of crimes involving cross border jurisdictions, that is, “*The Mutual Legal Assistance Criminal Matters Act, 2020*” were also enacted in the year 2020.

The Financial Monitoring Unit (FMU)

The “*Financial Monitoring Unit (FMU)*”, designated Financial Intelligence Unit (FIU) of the Government of Pakistan was also established under the said AML Ordinance 2007 with the mandate to receive Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs) from the concerned reporting entities under “*Know Your Customer*” (KYC), “*Know Your Customers’ Customer*” (KYCC), and “*Customers Due Diligence*” (CDD) regulatory regime, maintain the record, analyze and/or disseminate the same to concerned quarters or concerned investigation and prosecution agency to proceed as per mandate. FMU is further mandated to represent and cooperate with FIUs of other countries on behalf of Pakistan for AML/CFT-related coordination and to frame regulations regarding AML/CFT regime to meet the purpose of AML Act 2010.

National Policy Statement on “Following the Money” Concept

The Government of Pakistan has issued and adopted “*National Policy Statement on Follow the Money*” (Financial Monitoring Unit [FMU], [n.d.](#)) to prioritize the tracing, recovery of money, and values during investigation, prosecution, and subsequent confiscation in all ML/FT and high-risk

predicate crimes including trade-related ML. The statement further affirms the national resolve to maintain risk-sensitive-based AML/CFT regime among all the stakeholders to protect the financial system and broader the economy of country as well as concerned international stakeholders.

Offences under Anti-Money Laundering (AML) Act

Number of existing offences covered under following laws enforced in Pakistan has been linked as predicate offences under AML Act 2010 (as amended up to 2020):

01. *“The Pakistan Penal Code, 1860”*
02. *“The Arms Act, 1878”*
03. *“The Foreigners Act, 1946”*
04. *“Prevention of Corruption Act, 1947”*
05. *“Foreign Exchange Regulation Act, 1947”*
06. *“The Copyright Ordinance, 1962”*
07. *“The Pakistan Arms Ordinance, 1965”*
08. *“The Customs Act, 1969”*
09. *“The Emigration Ordinance, 1979”*
10. *“The Sales Tax Act, 1990”*
11. *“The Control of Narcotic Substances Act, 1997”*
12. *“The Anti-Terrorism Act, 1997”*
13. *“The Pakistan Environmental Protection Act, 1997”*
14. *“National Accountability Ordinance, 1999”*
15. *“The Registered Designs Ordinance, 2000”*
16. *“The Trademarks Ordinance, 2001”*
17. *“The Income Tax Ordinance, 2001”*
18. *“The Prevention & Control of Human Trafficking Ordinance, 2002”*
19. *“The Federal Excise Act, 2005”*
20. *“The Securities Act, 2015”*

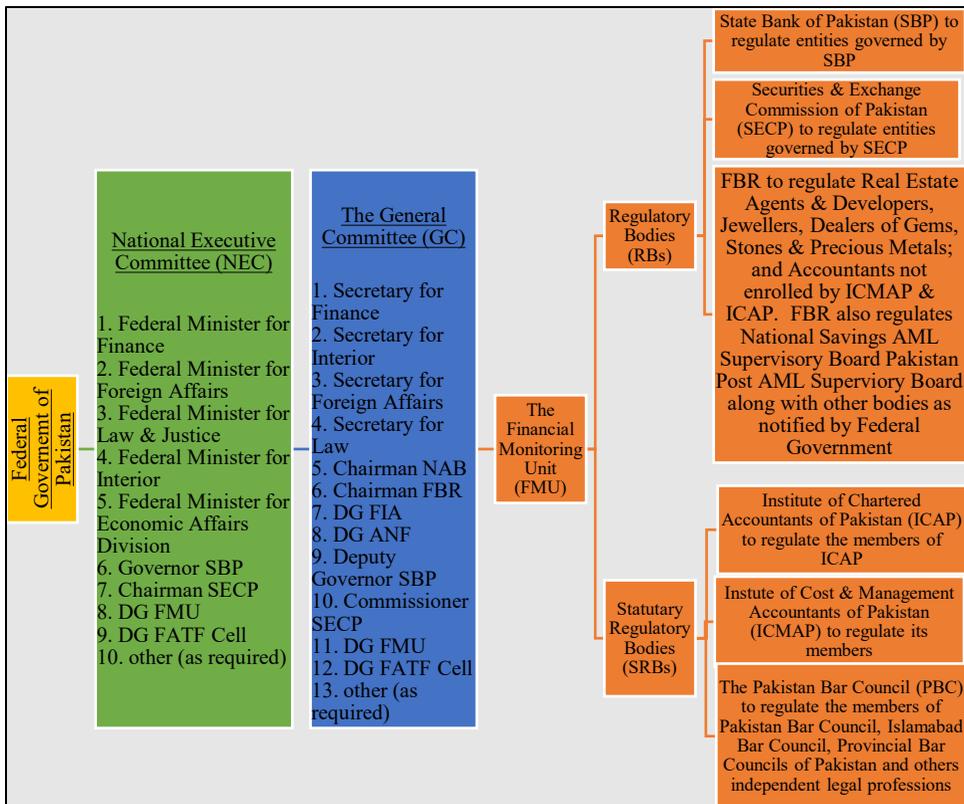
Operational Hierarchy of Financial Monitoring Unit of Pakistan

The FMU of Pakistan operates as an administrative model of FIU (International Monetary Fund, [2004](#)). AML Act 2010 has acknowledged and declared various trade-based services engaged in the facilitation of trade

(prone or exposed to be used in trade-based ML as “*Designated Non-Financial Businesses and Professions*” (DNFBPs) for regulatory, reporting, and compliance purposes of the Act including KYC, KYCC, and CDD. These economic sectors include real estate agents, builders, developers, dealers of precious stones, gems and jewel dealers, notaries, accountants, lawyers, trust, and company service providers. These trade-related business services are regulated through the regulators and statutory regulatory bodies collectively called “*the regulators*” of the reporting entities including DNFBPs.

Figure 1

Operational and Legislative Hierarchy of Financial Monitoring Unit (FMU) under AML Act 2010 of Pakistan – Depicting the Regulatory Hierarchy of AML Regime in Pakistan



Note. construed from Anti-Money Laundering Act 2010 (as amended up-to September 2020).

Conclusion

The multi-layered, centralized, and administrative model of FMU in Pakistan which is centrally controlled by political representatives, needs to be revitalized to carry out a coordinated, timely, and proactive action to prevent ML. This is because its centrally controlled mandate is generally based on defining, communicating, and observing the regulations and compliance regarding KYC, KYCC, and CDD-based approaches relevant to AML/CFT. Thus, it lacks prevention mechanism as well as the ability to respond the ever-evolving AML trends and patterns proactively.

Pakistan, being the flagship of the Chinese Belt and Road Initiative (BRI), tail-ender and major potential beneficiary of China Pakistan Economic Corridor–CPEC (Hussain, [2018](#)), needs meticulous and result-orienting actions to protect the fruits of this trade link from being usurped by socio-economic offence of ML due to systematic and regulatory incapacity and governance friction and limitations. The country should avail this economic opportunity by synchronizing its executive, legislative, and enforcement framework as per international standard regarding AML/CFT regime to ensure maximum economic benefits and to catalyze socio-economic uplift, ultimately benefitting balance of payment and trade surplus (Hussain et al., [2021](#)). The study concludes by high-lighting the following issues which need to be addressed to establish efficient and effective AML governance mechanism in Pakistan:

Lack of Executive Priority, Technical Capacity, and Technology-based Integrated Database Management System regarding Anti-Money Laundering

The AML regulation mechanism in Pakistan is not sufficient and effective as it primarily focuses upon only complying with processes and mechanisms, as well as supervising the reporting of the same. In such an economic system where ML and corruption have strong socioeconomic roots against the rare and limited legal remedies, and in an economy of more than 240 million people with just less than 10 million registered tax filers (mostly salaried class or filers with zero tax liability and exempted income class), the compliance related actions taken by reporting entities under AML Act 2010 specially regulated under SRBs reflects lack of technical capacity and executive priority. The non-availability of technical and skilled resources raises serious questions regarding the effectiveness of this

compliance-based AML model, and makes it highly prone to abuse of AML regulatory system by inventive and unscrupulous elements within the system.

Technology and artificial intelligence-based integrated database management system (iDBMS) needs to be implemented in order to maintain a centralized record and economic profiling, risk scoring, anomaly prediction and detection model to distinguish red-flags, proactively (Cassara, [2016](#)). The administrative model of FIUs performs best, generally in economies and regulatory systems where business processes and procedures are legally and culturally compliant, documented, adaptive, and responsive through a well-aligned regulatory and responsive mechanism. Sitting back as a policymaking and supervising body in a non-documented system would seldom catalyze the process of effective AML/CFT governance. Furthermore, referring the investigation and prosecution function of AML/CFT to other investigating/prosecuting bodies with limited exposure about AML/CFT related offences and relevant evolving patterns would only add to load on outmoded and over-burdened criminal prosecution system (Khan & Akhtar, [2021](#)).

Red-tapism, Centralization, and Non-enrollment with EGMONT Group

The centralized model of FIU of Pakistan (the FMU) is a retarding factor due to its efficiency and responsiveness. Moreover, it also limits and impedes its performance at par with the other FIUs of partnering countries; as such authority-centered politically administrated model has exposed it to short-term political experiments and political abuse of FMU models (“SC Questions Legality of Assets”, [2020](#)). An overall upgradation of FMU and enabling it with operational, financial, personnel, and regulatory autonomy is required to make it an effective and responsible institution. The regulatory and reporting bodies merely rely on the issuance of prudential regulations, permitting the discretion for reporting entities to merely observe self-construed prudence while carrying out financial transactions and reporting the suspicious ones, after conducting the same (Morris-Cotterill, [2001](#)). Non-enrollment of Pakistan as a member of Egmont Group is a source of suspicion for foreign investors looking for economic opportunities in Pakistan. Moreover, it is also a hinderance in evolution of AML regime through skill exchange and technical synchronization with other member nations of Egmont Group. The instant matter needs to be prioritized to

facilitate and exchange of technological, technical, and capacity upgradation of FMU of Pakistan. Furthermore, it is also necessary for the greater good of national economy, AML governance, and harnessing international trade opportunities in the country (Ahmed, [2014](#)).

Non-regulated Sectors of Economy in AML Regime and Lack of Mechanism regarding the Management of Confiscated Assets and Properties

Regulating a few sectors and leaving the others unattended and unregulated renders the whole system ineffective. The alternate trade facilitating services which are not regulated under the AML Act 2010 are highly prone to cause ineffective regulatory regime and may defeat the purpose of the AML measures. These evolving sectors include financial markets and trade facilitation sectors, such as financial clearance service providers, charitable organizations linked with trade, not-for-profit organizations (NPOs), non-government organizations (NGOs), land record management authorities duly entrusted with revenue collection, land development authorities (Wahid et al., [2021](#)), authorities and persons engaged in dealing of treasury stamps, stamp papers and relevant revenues, Board(s) of Revenue, commodity exchange and future trading companies, foreign currency dealerships and persons/entities engaged in buying and selling of currency for non-business purposes (Ahmed, [2014](#)), prize bond vendor(s), prepaid cash vouchers/debit cards, plastic currency transaction portals, POSs, private shipping and courier companies, digital currency platforms and digital/ cellular banking channels, and relevant digital applications (Cheema & Cheema, [2022](#)) should also be regulated under AML/CFT regime to safeguard the effectiveness of the whole AML governance system (Hussain, [2019](#)). The mechanism for the management of confiscated properties and businesses needs to be chalked and implemented in light of the policy statement regarding “Follow the Money” in order to maintain economic efficiency and timely benefitting from the provisions of AML/CFT regime (Ali, [2018](#)) with minimized potential economic losses.

Recommendations

Pakistan, having a major portion of national economy as undocumented or unrecorded and a chronic economic counterculture of promoting non-compliance and lack of voluntary declaration trends; needs to upgrade its

AML framework with advanced technical and technological methods and procedures in line with the global best practices to document, digitize, and digitalize its economy. There is also an emergent need to regulate the non-regulated sectors including digital currencies, goods shipping and clearance services, postal and courier services, and public sector organizations engaged in revenue collection, mainly dealing through non-banking channels to yield the fruits of struggling economy and to avoid the leakage and pilferage of scarce economic resources through ML.

An exclusive capacity enhancement and awareness-driven approach is also required to upgrade the skillset and knowledge of reporting entities to aid timely and in the effective detection of ML-related patterns (FATF, [2006](#)). In order to upgrade the technical and technological skills and capacity of FMU and the whole AML enforcement framework of Pakistan, issues regarding red-tapism, centralization of authority with the non-technical persons, and non-enrollment with the EGMONT Group needs to be addressed to facilitate professional development, technological, and skill exchange to establish the trust of foreign investors in the socioeconomic governance system of Pakistan, and to make it an effective and efficient system to tackle the ever growing and ever evolving socioeconomic evil of ML.

Conflict of Interest

The author of the manuscript has no financial or non-financial conflict of interest in the subject matter or materials discussed in this manuscript.

Data Availability Statement

Data availability is not applicable as no new data was created.

References

- Ahmed, R., Siddiqui, K., & Choudhry, D. (2013). Money laundering in Pakistan. *International Journals of Marketing and Technology*, 3(9), 247–276.
- Ahmed, R. P. (2014). Global anti-money laundering regime and Pakistan. *Pakistan Journal of Criminology*, 6 (1), 317–333.
- Ali, I. (2018). Anti-money laundering act 2010: A critical analysis. *LUMS Law Journal*, 5, 127–140.

- Asia Pacific Group on Money Laundering. (2024). *Members & observers: Pakistan*. <https://apgml.org/members-and-observers/members/details.aspx?m=8fc0275d-5715-4c56-b06a-db4af266c11a>
- Business Recorder. (2017, October 04). *Egmont groups membership: US not actively taking up Pakistans case*. <https://www.brecorder.com/news/4541899>
- Cassara, J. A. (2016, June 23). *The next terrorist financiers: Stopping them before they start*. <https://financialservices.house.gov/uploadedfiles/hhrg-114-ba00-wstate-jcassara-20160623.pdf>
- Cheema, Z. I., & Cheema, M. A. (2022). Anti-money laundering regime in Pakistan: Deficiencies and the way forward. *Law and Policy Review*, 1(2), 1–16. <https://doi.org/10.32350/lpr.12.01>
- Claver, C., Khoury, C. E., & Weeks-Brow, R. (2023, December 12). *Financial crimes hurt economies and must be better understood and curbed*. IMF Blog. <https://www.imf.org/en/Blogs/Articles/2023/12/07/financial-crimes-hurt-economies-and-must-be-better-understood-and-curbed>
- Congress.Gov. (n.d.). *H.R.5077 - Money Laundering Control Act of 1986*. Retrieved January 28, 2024, from <https://www.congress.gov/bill/99th-congress/house-bill/5077>
- Delston, R. S., & Walls, S. C. (2009). Reaching beyond banks: How to target trade-based money laundering and terrorist financing. *Case Western Reserve Journal of International Law*, 41(01), 85–118.
- Edge, W. E. (1923). The non-effectiveness of the Volstead Act. *The Annals of the American Academy of Political and Social Science*, 109, 67–84.
- Egmont Group. (2024a). *Organization and structure*. <https://egmontgroup.org/about/organization-and-structure/>
- Egmont Group. (2024b). *Members by region*. <https://egmontgroup.org/members-by-region/>
- Financial Action Task Force, & Egmont Group. (2013). *Money laundering and terrorist financing through trade in diamonds*. <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/ML-TF-through-trade-in-diamonds.pdf.coredownload.inline.pdf>
- Financial Action Task Force, & Egmont Group. (2020, December 9). *Trade-based money laundering: Trends and developments*. <https://www.fatf->

[gafi.org/content/dam/fatf-gafi/reports/Trade-Based-Money-Laundering-Trends-and-Developments.pdf.coredownload.inline.pdf](https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Trade-Based-Money-Laundering-Trends-and-Developments.pdf.coredownload.inline.pdf)

Financial Action Task Force, Interpol, & Egmont Group. (2023, November 9). *Illicit financial flows from cyber-enabled fraud*. <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Illicit-financial-flows-cyber-enabled-fraud.pdf.coredownload.inline.pdf>

Financial Action Task Force. (2006). *Trade based money laundering*. FATF/OECD. <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Trade%20Based%20Money%20Laundering.pdf.coredownload.pdf>

Financial Action Task Force. (2024a). *History of the FATF*. <https://www.fatf-gafi.org/en/the-fatf/history-of-the-fatf.html>

Financial Action Task Force. (2024b). *Members*. <https://www.fatf-gafi.org/en/countries/fatf.html>

Financial Crime Academy. (2024, August 7). *Consequences of money laundering are: Understanding the social, economic, and penalties impacts*. <https://financialcrimeacademy.org/consequences-of-money-laundering-2/>

Financial Monitoring Unit. (n.d.). *National policy statement on follow the money*. Retrieved January 28, 2024, from <https://www.fmu.gov.pk/docs/2021/National-Policy-Statement-on-Follow-the-Money.pdf>

Government of Pakistan. (2018). *Defrauding the general public through a Ponzi scheme*. <https://www.fmu.gov.pk/defrauding-the-general-public-through-a-ponzi-scheme/>

Grant Thornton. (2021). *The evolution of money laundering from ancient China to the internet*. <https://www.grantthornton.com/mt/insights/the-evolution-of-money-laundering-from-ancient-china-to-the-internet>

Heslop, D. A. (n.d.). *The functions of government*. *Encyclopedia britannica*. Retrieved January 28, 2024, from <https://www.britannica.com/topic/political-system/Stable-political-systems>

Hussain, A. (2019). Pakistan on FATF's grey list: Terrorist financing perspective. *Global Regional Review*, 4(4), 281–290. [https://doi.org/10.31703/grr.2019\(IV-IV\).31](https://doi.org/10.31703/grr.2019(IV-IV).31)

- Hussain, I. (2018). *CPEC & Pakistani economy: An appraisal*. Institute of Business Administration Karachi.
- Hussain, S., Rafiq, M., Quddus, A., Ahmad, N., & Pham, T. P. (2021). China-Pakistan economic corridor: Cooperate investment development and economic modernization encouragement. *Journal of Contemporary Issues in Business and Government*, 27(1), 96–108.
- International Monetary Fund. (2004). *Financial intelligence units: An overview*. International Monetary Fund Publication Services. <https://www.imf.org/external/pubs/ft/FIU/index.htm>
- Jack, S. & Blocker, J. (2006). Did prohibition really work? alcohol prohibition as a public health innovation. *American Journal of Public Health*, 96(2), 233–243. <https://doi.org/10.2105/AJPH.2005.065409>
- Khan, A., & Akhtar, N. (2021). Legal, administrative and judicial framework in Pakistan to combat tax evasion and money laundering: An Analytical Study. *Review of Politics and Public Policy in Emerging Economies*, 3(1), 69–77.
- KYC-Chain. (2021). *The history of money laundering*. <https://kyc-chain.com/the-history-of-money-laundering/>
- Levine, H. G. (1984). The alcohol problem in America: From temperance to alcoholism. *British Journal of Addiction*, 79(04), 109–119. <https://doi.org/10.1111/j.1360-0443.1984.tb03845.x>
- McSkimming, S. (2010). Trade-based money laundering: Responding to an emerging threat. *Deakin Law Review*, 15(1), 37–63. <https://doi.org/10.21153/dlr2010vol15no1art116>
- Micallef, S. (2021). *The historical journey of money laundering, preceding and following Meyer Lansky, to todays transaction laundering* [Bachelor's dissertation, University of Malta]. Dissertations, FacSoWCri. <https://www.um.edu.mt/library/oar/handle/123456789/91209>
- Morris-Cotterill, N. (2001). Think again: Money laundering. *Foreign Policy*, (124), 16–22. <https://doi.org/10.2307/3183186>
- Murphy, K. (2008). Enforcing tax compliance: To punish or persuade? *Economic Analysis and Policy*, 38(1), 113–135. [https://doi.org/10.1016/S0313-5926\(08\)50009-9](https://doi.org/10.1016/S0313-5926(08)50009-9)
- Organisation for Economic Co-operation and Development. (2009, June 13). *Money laundering and terrorist financing awareness handbook for*

- tax examiners and tax auditors.
<https://www.oecd.org/tax/crime/money-laundering-and-terrorist-financing-awareness-handbook-for-tax-examiners-and-tax-auditors.pdf>
- Pak, S. J. (2012). *Lost Billions: Transfer pricing in the extractive industries*. Publish What You Pay Norway.
https://www.publishwhatyoupay.no/sites/default/files/import/1008a-PWYP_TransferPricing_ENG_DOWNLOAD.pdf
- Rana, S. (2017, October 04). Pakistan blames US for failure to curb money laundering. *The Express Tribune*.
<https://tribune.com.pk/story/1522318/pakistan-blames-us-failure-curb-money-laundering>
- Rutherford, F. J., & Ahlgren, A. (1991). *Science for all Americans*. Oxford University Press.
- Seagrave, S. (1995). *Lords of the rim*. G. P. Putnam's Sons.
- SC questions legality of assets recovery unit. (2020, January 22). *The Express Tribune*. <https://tribune.com.pk/story/2142555/sc-questions-legality-assets-recovery-unit>
- Training & Intervention Procedures. (2022, November 18). *The noble experiment: Why prohibition and the volstead act failed*.
<https://www.gettips.com/blog/noble-experiment>
- United States Attorneys Office. (2013, May 06). *Co-owner of Los Angeles county toy company sentenced to federal prison in drug money laundering case*. <https://www.justice.gov/usao-cdca/pr/co-owner-los-angeles-county-toy-company-sentenced-federal-prison-drug-money-laundering>
- Wahid, A., Mantell, E. H., & Mumtaz, M. Z. (2021). Under invoicing in the residential real estate market in Pakistan. *International Journal of Strategic Property Management*, 25(3), 190–203.
<https://doi.org/10.3846/ijspm.2021.14337>
- Zdanowicz, J. S. (2009). Trade-based money laundering & terror financing. *Review of Law & Economics*, 5(2), 855–878.
<https://doi.org/10.2202/1555-5879.1419>