PAKISTAN STOCK BROKERS ASSOCIATION
(A company setup under section 42 of the Companies Act 2017)
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PSBA/Notice-123 November 30, 2023

NOTICE FOR MEMBERS

OUTREACH SESSION ON NATIONAL RISK ASSESSMENT 2023

Respected Members,

Please be apprised that the National Risk Assessment 2023 (NRA 2023) has been completed and published.

To ensure wide spread dissemination of the NRA 2023, the SECP AML Department is organizing an Outreach Session for PSX and PMEX Brokers according to the details below:

Date/Day:	**December 4, 2023 (Monday)**
Time:	**10:30 AM – 11:30 AM**
Link:	https://us02web.zoom.us/j/88222842828?pwd=eERKRWd0NVAzbnkwb0NLOVFiYlRPdz09
Passcode:	**790963**

Look forward to your active participation.

Thank you,

_______**sd**_________
AKBER ALI
Officer - Secretariat

Encl: NRA 2023

Copy to: PSBA Website

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FOREWORD

Pakistan has suffered from the menaces of terrorism, terrorism financing (TF) and various other heinous crimes, including money laundering (ML), for many years, which has badly affected our economic and social well-being. The Government of Pakistan understands the significance of putting a strong regime for AML/CFT in place by ensuring pre-emptive improvements in the system. Hence it provided a clear national policy under which several initiatives were taken to strengthen the AML/CFT regime to make Pakistan an unattractive jurisdiction for criminals involved in ML and TF activities. Ultimately, this would lead to a more prosperous and economically developed Pakistan.

The National Risk Assessment (NRA) is the critical component in achieving the goal of a sustainable and vibrant AML/CFT regime, as it helps the country identify, understand, assess and effectively mitigate the evolving ML/TF risks. This is Pakistan's third round of the National Risk Assessment exercise. Pakistan recognizes that it is not enough to merely identify the inherent risks of money laundering and financing of terrorism. It is crucial to implement the comprehensive measures to mitigate these risks effectively.

Based on the results of the previous rounds (NRA 2017 and NRA 2019), several important initiatives were undertaken, such as: restructuring and effectively implementing AML/CFT laws and regulations, improving rigorous ML/TF investigations and prosecutions along with freezing and confiscation of properties, capacity building of Law Enforcement Agencies (LEAs), Regulators, Supervisors and Reporting Entities (REs) for improved ML/TF risk understanding and adopting a risk-based supervisory approach, prioritising TF investigations and effective implementation of targeted financial sanctions and enhancing inter-agency cooperation and coordination. In addition, effective border control measures were implemented, including fencing the western border and increasing the number of check-posts along the borders to control the cross-border and transnational elements of ML/TF. These initiatives helped in better integration of the AML/CFT regime. They eradicated several terrorist organisations and improved ML/TF investigations and prosecutions, especially those involving complex and sophisticated ML/TF methods. This was indeed the beginning of the country's fundamental and sustained reform process.

Since Pakistan is no longer included in the FATF's 'list of jurisdictions under increased monitoring', this is the right time to ensure the sustainability of our AML/CFT regime looking beyond the white-listing, which is the basic theme of NRA-2023. The current NRA has been conducted while considering the evolving global and regional geo-political landscape and the emerging threats and risks. The objective is to educate the stakeholders on the inherent threats and vulnerabilities underpinning the ML/TF risks and to develop and implement a revised AML/CFT Internal Action Plan (IAP) to ensure that adequate controls and measures are in place to mitigate the identified risks over the next few years. The government of Pakistan is fully committed to providing its people with a safe, secure and prosperous environment. The prevention of money laundering and terror financing is an essential and indispensable component of this commitment.

I want to commend the enormous efforts of all the agencies and individuals from the public and private sectors that contributed to the compilation of this very comprehensive report. I am confident that the findings of this document and efforts to mitigate the identified risks will have far-reaching effects on strengthening the country's AML/CFT regime over the coming years.

Hina Rabbani Khar
Minister of State for Foreign Affairs

EXECUTIVE SUMMARY

Pakistan faces higher inherent ML/TF risk due to its geo-strategic location and other contextual factors. In line with Pakistan's political commitment, the National Risk Assessment 2023 (NRA 2023) builds upon the results of the previous two ML/TF risk assessments conducted in 2017 and 2019. It leverages an improved and broader understanding based on recent significant improvements to Pakistan's AML/ CFT regime, in order to set out a comprehensive and objective analysis of the evolving threats and vulnerabilities that constitute Pakistan's inherent ML/TF risks. As a result of this improved understanding, NRA 2023 includes a detailed assessment of sectors such as Designated Non-Financial Businesses and Professions (DNFBPs), National Savings (NS), LPLAs and NPOs.

Pakistan's geo-strategic location, economic and social dynamics and porous border with unstable Afghanistan must be taken into account when assessing the national inherent ML/TF risk, in addition to the more specific inherent ML/TF threats and Sectoral vulnerabilities being assessed in the NRA-2023. The contextual factors of Pakistan's demographics, economic situation, literacy rate, undocumented economy and other global, regional and domestic factors were considered while assessing ML & TF threats and vulnerabilities. The unregulated emerging area of virtual assets and virtual asset service providers was also evaluated to the extent of available data.

Chapter 1 of this document sets out the methodology by which inherent ML/TF threats and vulnerabilities were assessed. For the assessment of ML Threats, 23 major predicate offences were empirically examined in line with FATF methodology. ML threat ratings were assigned to 21 predicate offences. As per the assessment, corruption & bribery, illegal MVTS/ *hundi/ hawala*, tax crimes, smuggling and cash smuggling were rated as "very high" while illicit trafficking in narcotic drug & psychotropic substances, trafficking in human beings & migrant smuggling, frauds & forgeries and cyber-crimes were rated as "high". The remaining predicate offences were assessed as "medium" or "low" ML threats from Pakistan's perspective. Major channels used to launder proceeds generated from predicate offences included illegal MVTS/ *hundi/ hawala*, cash smuggling, real estate, front & shell companies etc.

Pakistan has been fighting the menace of terrorism for the last two decades. Although terrorism incidents have been declining over the past few years since 2016, except for 2022, there remains a threat of terrorism and its financing due to the presence of terrorist organisations (TOs) in the region. Current political circumstances in Afghanistan have adversely impacted its banking and trade sectors and exacerbated the refugee issue in Pakistan. This has enhanced pressure on border control measures and authorities, negatively impacting Pakistan's AML/CFT regime.

A detailed assessment of TF threats was carried out during the NRA process by assessing a total of 87 terrorist organisations (TOs) as compared to 41 TOs assessed during NRA 2019. Based on the data provided by LEAs and from the intelligence inputs, it was found that 41 terrorist organisations have been active in Pakistan with varying degrees of operations. The rest of the TOs have either been dismantled, merged into other organisations or inactive for long. However, NRA 2023 assesses all TOs proscribed under the ATA, 1997, and some other non-proscribed and UN-listed entities for completeness. Based on the assessment, the TF threat ratings of 04 TOs were considered as "very high", 08 as "high", and the remaining as "medium" or "low".

The inherent Sectoral Vulnerability Assessment examined ten sub-sectors in the Financial Institutions (FIs) sector, including four sectors regulated by SBP, five sectors regulated by SECP and the Central Directorate of National Savings. It also examined five sub-sectors in the Designated Non-Financial Businesses and

Professions (DNFBPs) sectors. These sectors have been assessed based on their clientele, the offered products and services, their geographic reach and the channels they operate through. While banks (very high) DFI (low) and Insurance sectors (Life Insurance "medium" and Non-life Insurance "low") have retained their previous vulnerability ratings, the MFB (high), EC (high), Securities (medium) and NBFC (medium) sectors' vulnerability ratings have improved by a notch. Moreover, since the 2019 NRA, previously unregulated sectors (CDNS and DNFBPs) have been brought under their respective supervisory ambits. Hence, vulnerability ratings for CDNS (medium), Accountants (low) and Lawyers (low) have improved, while Real Estate Dealers (very high) and DPMS (high) have retained their vulnerability ratings.

Pakistan has a large, diverse, and vibrant NPO sector with an estimated strength of 16,269 NPOs involved in various expressive and service types of activities, which are significant in delivering essential social services and disaster relief. In 2020, Pakistan promulgated the model Charity Law under which Charity Commissions were established in all the Provinces to supervise the NPOs sector. An online registration portal was also developed as a central registry to facilitate supervision by the charity commissions. A comprehensive mapping exercise assessed NPOs at risk of TF abuse using various risk indicators and detailed inspections, followed by appropriate enforcement actions. An overall assessment revealed that 6.75% of the NPOs are high-risk, whereas 43.64% consists of Medium-risk and 49.61% are Low-risk. Almost 75% of the charity collection and utilisation is carried out by the service-related NPOs.

A detailed analysis has also been conducted to assess the inherent vulnerability associated with Legal Persons and Legal Arrangements (LPLAs) and their formation. As of June 30, 2022, the total number of **legal persons** registered in Pakistan was over 198,738. The assessment results show that private limited companies (very high), public companies (low) and foreign companies (very-high) maintained the vulnerability ratings assigned to them in NRA 2019 whereas, ratings of companies limited by guarantee (low) and limited liability partnerships (medium) were improved. Two kinds of Legal Arrangements operate in Pakistan: 'Trusts' and '*Waqfs'* (a form of Islamic charitable trust). Both of these types are regulated at the provincial or territorial levels. As of June 30, 2022, the total number of trusts and *waqfs* registered in the country stood at 2,606 and 1,998, respectively. As a result of the risk assessment, the vulnerability of both 'Trusts' and '*Waqfs'* regarding ML/TF is rated as "medium".

Finally, the consequences of ML and TF for Pakistan are evident and serious. The high ML/TF risks, accompanied by Pakistan's placement on the enhanced monitoring list by FATF from June 2018 to October 2022, adversely affected the financial and non-financial sectors. According to a study, the real GDP in Pakistan witnessed a cumulative decline of about USD 38 billion due to grey listing[1]. The economic consequences of high ML/TF risk include: lowered capital inflows and remittances, deteriorating business environment, decrease in international trade, blow to the reputation and goodwill of the country, decreased tax revenues etc. The social consequences of high TF risk include: loss of precious lives, increase in internally displaced persons, unemployment and absence of education and health services in the conflict-ridden areas, blow to the tourism revenue and rise in sectarian sentiments. Whereas the social consequences of high ML risk include: a rise in corruption and bribery, political instability and governance issues. Mitigating the effects of ML/TF risks is crucial to developing and implementing a well-coordinated AML/CFT Internal Action Plan (IAP). Therefore, the stakeholders are encouraged to consider this report's findings while conducting their Sectoral risk assessments and developing strategies to combat ML/TF risks.

[1] https://dailytimes.com.pk/1016732/pakistans-exit-from-grey-list-business-community-sees-promising-economic-future

CHAPTER 1 : METHODOLOGY FOR CONDUCTING 2023 NATIONAL RISK ASSESSMENT

This is Pakistan's third National Risk Assessment (NRA) and assesses inherent ML/TF threats and vulnerabilities. The first NRA was conducted in 2017 using the World Bank's methodology. Subsequently, the NRA 2019 was achieved by using in-house hybrid methods. It was more focused on inherent ML/TF threats and vulnerabilities. Comparatively, NRA 2019 was more inclusive and comprehensive in scope as it made use of essential data, among other things, investigations and confiscations by LEAs, STRs reported, FMU's disclosures, expert opinions of both public and private sectors, open sources, research papers by academics and other experts, and other articles in reputable journals etc. Since NRA 2019, Pakistan has also conducted several other sectoral risk assessments and a terrorism financing risk assessment to incorporate improved information collection into its risk assessment.

Since 2019 Pakistan's AML/CFT regime has significantly improved, resulting in improved information collection and understanding of its threats and vulnerabilities. The 2023 NRA incorporates this enhanced understanding, resulting in updated risk assessments. The NRA 2023 updates Pakistan's ML/TF risk profile using in-house methodology aligned with international best practices and FATF recommendations. As per the adopted methodology, 04 rating scales were used to assess the risks of ML/TF threats and vulnerabilities compared to the 05 rating scales used in previous NRA. A snapshot of comparative rating scales along with colour coding is given as under;

	NRA 2019	NRA 2023
Rating Scales	High	Very High
	Medium High	High
	Medium	Medium
	Medium Low	Low
	Low	

The exercise aims to conduct an objective and comprehensive inherent risk assessment of the current and emerging ML/TF risks and develop an AML/CFT Internal Action Plan (IAP) to mitigate them based on the assessment results. The purpose of this document is to assess the inherent ML/TF threats and vulnerabilities. It will provide input for potential improvements to the AML/CFT regime and help prioritise and allocate AML/CFT resources by competent authorities. Additionally, it aims to feed into the AML/CFT risk assessments carried out by regulators/supervisors of financial institutions and DNFBPs. As an update over the previous NRAs, this round also highlights potential ML/TF risks associated with virtual assets (VA), virtual currency (VC) and virtual asset service providers (VASPs).

An NRA Core Committee comprised of senior members from all the relevant stakeholders was constituted by the General Committee on February 01, 2021, to identify and assess ML/TF risks, including emerging trends domestically and internationally and to finalise the report on National Risk Assessment. Centrally coordinated by the National FATF Secretariat of Pakistan, the Core Committee constituted and supervised working groups comprised of senior officers from the following agencies:

a. **LEAs:** FIA, NAB, ANF, FBR-Customs, FBR-IR, Provincial Police
b. **Regulators/ Supervisors:** SBP, SECP, DNFBPs, ICAP/ICMAP & MoLJ/ Bar Councils (SRBs), NSSB
c. **Intelligence Agencies:** IB, ISI
d. **Ministries/ Government Departments:** MoI, MoFA, MoLJ, FMU, NACTA, CTDs, NFATF Secretariat

The working groups undertook a detailed work plan to complete the National Inherent Risk Assessment. Key elements of this work plan Include;

i. Listing of all available data, reports and other information related to ML/TF threats, national and Sectoral vulnerabilities, and developing data management framework
ii. Developing ML threat profiles for each of the FATF-defined predicate offences
iii. Developing TF threat profiles for each group of terrorist actors suspected of conducting TF
iv. Developing Sectoral vulnerability profiles for each of the FI, VASPs, and DNFBP sectors and profiles for NPOs and LPLAs
v. Developing high-level national vulnerabilities and national consequences profiles for ML/TF
vi. Planning workshops with all competent authorities to share and validate the profiles and to rate and validate the ratings of the threats and Sectoral vulnerabilities
vii. Assess information gaps/confidence level of each rating result with experts

The data cut-off date for vulnerabilities was set as 30-06-2022 whereas, for assessment of threats, data for 31-12-2022 was used throughout this document unless otherwise specified. The parameters for assessing ML and TF threats include the capacity of actors, scope/ reach of activity and estimated amounts. In addition, other information, i.e. case studies, examples and local and international typologies, was also used to assess the level of threats. The inherent ML/TF vulnerabilities of all the sectors of FIs and DNFBPs were evaluated in the broader parameters, which include the sectors' inherent characteristics, nature of products and services, nature of the clientele, geographic reach of sector's activities and nature of delivery channels. Similar detailed parameters were used for profiling the inherent vulnerabilities of LPLA and NPOs and national vulnerabilities and consequences.

The following sources have been used to conduct the national risk assessment of Pakistan.

a. Relevant Statistics/data/records from the concerned agencies/departments.
b. Relevant surveys, strategic analysis reports and other research documents.
c. Published research/reports of relevant international forums/organisations/bodies.
d. Media reports and open-source surveys.
E. Focused meetings and discussions with relevant experts.

The results of the analysis conducted by the working groups have been synthesised into an overall NIRA compiled for internal use by Core Committee and WGs and a sanitised version for broader dissemination among other departments/agencies. The results were also shared with the private sector to enable them to include relevant findings in their business risk assessments.

After the completion of NIRA and acknowledgement of inherent risks in each sector, this document will form the basis for Pakistan's ongoing work to strengthen mitigating measures and controls throughout its AML/CFT regime. Accordingly, a comprehensive AML/CFT Internal Action Plan (IAP) will be formulated focusing on both short-term and long-term goals for strengthening the existing mitigating measures, introducing new controls wherever gaps were found, and setting up prioritised HR and other resources allocation in higher-risk areas, apart from that an extensive outreach drive will be initiated and the NAP will be effectively implemented.

CHAPTER 2 : NATIONAL ML/TF RISK AND CONTEXT

Pakistan is strategically important at the crossroads of South Asia, the Middle East, and Central Asia. Spanning over 881,913 square kilometres, its topography includes a coastline along the Arabian Sea, a maritime border with the Gulf of Oman in the south, and land borders with Afghanistan, Iran, China and India. Its central geographic areas include the northern highlands, the Indus River plain, and the *Balochistan* Plateau. The highlands of the north contain the Karakoram, Hindu Kush, and Pamir mountain ranges. The *Balochistan* Plateau lies in the west, and the *Thar* Desert in the east. The 1,609 km (1,000 mi) Indus River and its tributaries flow through the country from the Kashmir region to the Arabian Sea. Pakistan's geo-strategic location, economic and social dynamics and porous border with unstable Afghanistan pose extraordinary ML / TF threats.

With continued efforts of the Government of Pakistan and the adoption of a risk-based approach to align its AML / CFT regime, Pakistan exited the FATF list of high-risk jurisdictions in October 2022 after completing two TF and ML-related Action Plans. These efforts were greatly appreciated and acknowledged by FATF and global partners.

2.1 RISK OF MONEY LAUNDERING

2.1.1. Global Context

It is estimated that, globally, the sum of money laundered annually equates to as much as 3% of the global GDP, i.e., £1.8 trillion. In contrast, the estimate for OECD nations (38 member countries) is 1.9% of GDP. When each nation's GDP is considered, the United States, United Kingdom, France, Germany and Canada take the top five positions based on the estimated money laundering value in pounds[2]. On the other hand, Basel identified The Democratic Republic of the Congo, Haiti, Myanmar, Mozambique and Madagascar as the top five countries with a high risk of ML/TF. Various other reports, like the Financial Secrecy Index of 2022, identified countries like the United States, Switzerland, Singapore, Hong Kong and Luxembourg as the most complicit jurisdictions in helping individuals hide their finances from the rule of law.

2.1.2. Regional Context

Asia is home to the world's few biggest economies. China is the largest economy in Asia, followed by Japan, India, South Korea, and Indonesia. These five together hold a 76.5% share of the Asian economy. Asia also has several developing economies characterised by relatively low institutional capacities, political and economic instability, and high levels of corruption. These forces create both demand and opportunity for money laundering. Factors like the prevalence of cash transactions, alternative remittance systems, high level of criminal activity, availability of outside avenues to park proceeds of crime and confidentiality rules in a few jurisdictions contribute towards increased risk of money laundering. The Money Laundering risk of Pakistan is comparatively low in the region considering the size of the economy, politically challenging environment and less favourable conditions to launder the proceeds of crime.

2.1.3. Money Laundering Risk of Pakistan

The Basel AML Index placed Pakistan in its medium risk category with a Basel 2022 AML Index score of 6.16 while acknowledging the technical compliance achieved by Pakistan against FATF's 40 recommendations. Pakistan's geographic location emanates some specific money laundering risks that the country is exposed to. Longest borders with arch-rival India to the East (3171 km), Afghanistan to the West (2600 km) and Iran to the Southeast (909km) make Pakistan vulnerable to both ML and TF, as it increases the risks of

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[2] https://credas.co.uk/news/oecd-money-laundering-leader-board/

predicate crimes such as drug and human trafficking, cash couriers and illegal trade/smuggling. Pakistan is a transit country for drugs and precursor chemicals, whereby originating and destination countries are different, and funds are not necessarily required to be routed through transit routes. Additionally, the 1001 km long coastline remains vulnerable to smuggling and illicit trafficking as scores of trespassers are frequently apprehended.

Pakistan is the fifth most populous country in the world, with a population of around 236 million with an average annual growth of 2.0%[3]. During the year 2022, the use of the Internet penetrated approximately 51% of Pakistan's total population jumping from 133,900 users in 2000 to 116 million users by July 2022[4]. With increased social media exposure came, the risk of being exploited by fraudsters and propagation of extremist ideologies, including crowdfunding. Further, the enforcement data validates using encrypted Person-to-Person communication apps for illegal MVTS. Due to the excessive use of ghost/fake accounts and virtual private networks (VPNs), it remains challenging for the LEAs to monitor such activities. Therefore, social media and special applications remain highly vulnerable to both ML/TF risks.

<u>Urban / Rural Population Risk Context:</u>

While the United Nations Development Programme (UNDP) has ranked Pakistan 161 out of 191 countries and territories in its 2021-22 Human Development Index (HDI) report[5], poor economic and social conditions like unemployment and poverty can boost the crime rate and thus amplifies ML/TF risks in the country. Since the urban-rural distribution of the population is 38% and 62%, respectively, the urban population is more vulnerable to the risk of ML than the rural population.

The per capita income of Pakistan is around USD 1,660 as of 2022; on that basis, the World Bank classifies Pakistan as a lower-middle-income country. A slow real GDP growth rate impacts employment opportunities for Pakistan's growing young population, making them vulnerable to exploitation for criminal activities. The World Bank estimated that as of 2021, the unemployment rate stood at 4.4% in Pakistan[6].

<u>Literacy Rate and its Risk:</u>

According to the Pakistan Demographics Survey 2020[7], the literacy rate of the population is around 61.38 %. High poverty and low literacy rate make the youth vulnerable to illegal activities, including falling prey to criminal and terrorist groups/organisations.

2.2 RISK OF TERRORISM/TERRORISM FINANCING

2.2.1. Global Context:

In 2022, global deaths from terrorism fell against the year 2021 by 9% to 6,701 and are now 38 percent lower than their peak in 2015. The fall in deaths was mirrored by a reduction in the number of incidents, with attacks declining by almost 28 percent from 5,463 in 2021 to 3,955 in 2022,[8] while Islamic State ('IS') remained the deadliest terror group globally for the eighth consecutive year. Terrorism is dynamic, and although the overall change in the last three years has been minimal, there have been sharp rises and falls

[3] https://population.un.org/dataportal/data/indicators/53,41,67,52,71,47,46,70,50,54,51,72,49/locations/586/start/2022/end/2022/table/pivotbylocation
[4] https://www.internetworldstats.com/stats3.htm
[5] https://hdr.undp.org/system/files/documents/global-report-document/hdr2021-22pdf_1.pdf
[6] https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=PK
[7] https://www.pbs.gov.pk/sites/default/files/population/publications/pds2020/Pakistan_Demographic_Survey-2020.pdf
[8] https://www.visionofhumanity.org/wp-content/uploads/2023/03/GTI-2023-web-170423.pdf

in terrorism in many countries during this period, notably in Niger, Myanmar and Iraq. The Sahel region in sub-Saharan Africa is now known to be the epicentre of terrorism, with the Sahel accounting for more terrorism deaths in 2022 than both South Asia and the Middle East and North Africa (MENA) combined.

2.2.2. Regional Context:

South Asia remains the region with the worst average Global Terrorism Index ('GTI') score in 2022. It continues to be the most impacted region globally by terrorism, a position it has held since 2007. The area recorded 1,354 deaths from terrorism in 2022, a 30 per cent decrease compared to the previous year. In Afghanistan, both the *Khorasan* chapter of IS and the emerging National Resistance Front (NRF) pose a severe threat. Afghanistan and Pakistan remain among the ten countries most affected by terrorism in 2022. Over the past four years, terrorist activity has been concentrated in South Asia and sub-Saharan Africa, with both regions recording more terrorism deaths than MENA although South Asia recorded a fall of 30 per cent in deaths from terrorism. As per the GTI report of 2023, 20 terror groups were active in the region during 2022, with ISK accounting for the most attacks of any group, with 138 attacks.

2.2.3. Risk of Terrorism and Terrorism Financing in Pakistan

Countering Terrorism and Terrorism Financing continues to be the highest priority for Pakistan, and the same has been reflected by way of CTF-centric policies and controls put in place. Pakistan remained the second most impacted country in the region in 2022. The risk of Terrorism and Terrorism financing continues to be of prime importance, considering that the impact of terrorism in the years 2021 and 2022 has increased due to the unstable political situation in Afghanistan.

Regional Context and Effect of Afghanistan Situation:

The Afghanistan war in the last four decades has had devastating consequences for Pakistan. It resulted in religious extremism, suicide bombings, involvement of foreign terrorist organisations and internal displacement in Pakistan[9]. The direct and indirect cost to the economy of Pakistan was huge. The rugged mountainous terrain on the western and northern borders provides isolated routes to organised international militant groups/organisations and smugglers, thus making it more vulnerable to ML / TF risks.

The deteriorating security situation in Afghanistan and the withdrawal of NATO troops from Afghanistan in August 2021 without ensuring a smooth power transfer to a legitimate government had dire consequences for the region. The political instability that could lead to civil war and the involvement of various stakeholders in Afghanistan is expected to have dire consequences for Pakistan. In addition, in September 2022, the terrorist organization TTP ended the indefinite ceasefire agreement with Pakistan, which has resulted in a recent spike in terrorist attacks within Pakistan. Furthermore, terrorist proxies of neighbouring countries, especially of Indian and Afghan origins, have also been used by the enemies of Pakistan to cause instability inside the country. As per UNHCR published statistics, Pakistan hosts approximately 1.3 million registered Afghan refugees as of 30th June 2022[10], of which about 20% fall in the age bracket of 18-59 years. KPK and *Balochistan* host most refugees (i.e. 52.2% and 24.5% respectively), thus increasing these provinces' ML/TF vulnerability. The erstwhile Federally Administered Tribal Area (FATA) became host to domestic and foreign terrorist organisations that would execute politically motivated terrorist attacks on the general public, the military and paramilitary forces.

The case of *Balochistan* is particular, however. It is the largest province of Pakistan and has comparatively the lowest score on the human development index. As a result, people residing along the border areas

[9] https://sciresol.s3.us-east-2.amazonaws.com/IJST/Articles/Jan/2nd%20issue/146113.pdf
[10] https://data.unhcr.org/en/country/pak

close to Afghanistan and Iran resort to smuggling of all kinds, thus amplifying the risk of ML/TF. Over the years, *Balochistan* has been a victim of militancy and separatist movements. Several *Baloch* nationalist militant groups operate in the province, targeting the LEAs, civilians, foreigners, and the infrastructure. *Balochistan* has also historically suffered from ethno-sectarian tensions and politically motivated violence, presumably funded by groups linked with hostile intelligence agencies, particularly of India, Afghanistan, Iran, and other international terrorist groups. This makes the province of *Balochistan* prone to ML/TF risks.

<u>Demographic Context</u>

According to the 2017 census, Pakistan has over 96% Muslim population, 1.59% Christian population, 1.6% Hindu population, 0.22% *Ahmadi* population and 3.32% others (including Sikhs, *Parsis*, Baha'i and Buddhists). Muslims are divided into two main sects (Sunni and Shia), of which 85% are Sunni Muslims. However, many Sunnis and Shias have common ties and family relations. The diverse religious norms at the time also lead to sectarian violence.

Additionally, several Punjabi sectarian groups in the south of Punjab province carry out attacks in all provincial capitals, specifically in Karachi and Quetta. A large Hazara Shias'a population in Quetta, the provincial capital of Balochistan, has historically been a target of sectarian violence. In Karachi, too, the provincial capital of Sindh and the economic hub of Pakistan, economic conflicts among different ethnic groups also cause law and order problems that cause massive losses to the economy. Poverty and low literacy rate fuel the existing challenges of terrorism and terrorism financing.

<u>Domestic Context</u>

The concept of person-to-person charity, *khairat*, *sadqa*, zakat or helping orphans/widows or religious organisations serving Islam stems from Pakistan's socio-economic and religious culture. Local and international donations are a principal source of funding for nearly all assessed NPOs in Pakistan which deals with charities and creates a significant risk of ML/TF. International reports and open source information suggest that many terrorist organisations derive their funding from illegal sources such as narcotics, extortion, smuggling of goods, kidnapping for ransom, robbery & dacoities etc. However, some terrorist organisations were also deriving their funding through donations or fund-raising campaigns.

The government of Pakistan has taken multiple steps to counter the threat, including adopting a National Action Plan, conducting military operations, merger of FATA with Khyber *Pakhtunkhwa* province and regulating the NPO sector. Nevertheless, the areas remained prone to high TF risk because of the transnational TF threats.

UNDOCUMENTED ECONOMY AND FINANCIAL INCLUSION

Banks hold a significant share in the financial markets, with 71.45% of the market share as on June 2022, followed by Securities / future brokerages (14.14%) and Central Directorate of National Savings (7.44%).

The DNFBP sector in Pakistan comprises real estate dealers, dealers in precious metals and stones (mostly jewellers), auditors and accountants, lawyers and notaries. Lawyers also provide Trust or Company Service Provider (TCSP) services. The Real Estate Sector (REs) and Dealers in Precious Metals and Stones (DPMS) had the maximum number of entities, with 68% and 31% market share, respectively. The sector's size contributes to these sectors' vulnerability to the risk of being exploited for ML/TF. Although the same is countered by mitigation strategies adopted by these sectors that are discussed in detail later in the NRA.

World Bank reports that over 21% of Pakistan's population is financially included[11]. Women constitute the majority of the unbanked population in Pakistan, as 13% of women are financially included compared to 28% of men. Women face socio-economic and cultural barriers, which, coupled with limited mobility and lack of education, disallow them from accessing financial services[12]. Furthermore, approximately 27% of Pakistan's population comprises youth in the 15 to 29 age group[13] who are expected to have the capacity to access financial services digitally through their mobiles.

Financial inclusion is the access to formal financial services by individuals & firms with dignity and fairness[14]. As part of the World Bank Universal Financial Access 2020 initiative and a member of the Alliance for Financial Inclusion, Pakistan strives to provide the unbanked population access to a transaction account as one of its development priorities. To digitise financial services infrastructure, the priorities of the Government of Pakistan (GoP) and SBP remain coherent to provide financial services at customers' doorsteps through digital means and financial literacy in under-served areas to increase account uptake.

Over the years, SBP has taken numerous policy and market development measures to support financial inclusion, including through the introduction of branchless banking (BB) in 2008, which allowed financial institutions to offer cost-effective alternatives by using delivery channels like retail agents, mobile phones, etc. In 2015, SBP launched *Asaan* Accounts to offer deposit accounts to unbanked and under-banked population segments with fewer documentary requirements based on lower risks. SBP continued to build on the *Asaan* Account product suite, adding *Asaan* Remittance Accounts (ARA), *Asaan* Mobile Account (AMA), and *Asaan* Digital Accounts (ADA) to the portfolio. Lately, digitising payment infrastructure has been a critical priority for SBP. SBP has launched "*Raast*", Pakistan's instant payment system to facilitate free-of-cost digital payments infrastructure to persuade the adoption of digital payment means.

Similarly, GOP launched National Financial Inclusion Strategy (NFIS) in 2015, revamped in November 2018, with over 30 implementing partners and covering deposit mobilisation, digital transaction accounts, digitising payment infrastructure and provision of finance to priority sectors.

2.4 VIRTUAL ASSETS

Virtual Assets (VAs) are currently an unregulated sector in Pakistan although they have not been observed to be involved in any of the ML investigations so far. However, in a few TF related cases, links of VAs related transactions were found which are being investigated. The inherent vulnerability of VAs for ML and TF is considered high due to anonymity, regulatory framework mismatches, global internet access, P2P transactions through unregulated domains/ mobile applications, etc. Besides, VAs also tend to breach exchange controls, facilitate settlement for value transfers and defraud the public through Ponzi schemes.

In Pakistan, VAs-related activity is insignificant as the regulated financial sector prohibits facilitating transactions/ trade. However, P2P transactions for trade settlement in VAs using various banking products and services, including debit/ credit cards, online banking, etc., have been reported. This sector is gaining momentum with time as multiple products are introduced with varied complexities. The Government of Pakistan is in process of enacting required legislations for this emerging sector.

Keeping in view the importance of the emerging risks posed by this sector, detailed assessment of VAs and VASPs was carried out during the NRA process. The impact of this sector is assessed against all the ML and TF threats as well as vulnerabilities of various sectors.

[11] The Global Findex Database 2021, World Bank https://globalfindex.worldbank.org/
[12] State of Financial Inclusion of Women in Pakistan 2018, World Bank
[13] National Human Development Report Pakistan, United Nations Development Program
[14] https://www.worldbank.org/en/topic/financialinclusion/overview

CHAPTER 3 : ASSESSMENT OF MONEY LAUNDERING THREATS

3.1 Introduction

Money laundering (ML) is a cognisable offence under the Anti-Money Laundering Act (AMLA) 2010. The Schedule-I to AMLA lists roughly 200 offences as the predicate to ML, 103 of which are part of the Pakistan Penal Code (PPC), with the remainder covered in various local and special laws. The Federal Investigation Agency (FIA) is mandated to investigate and prosecute most of the predicate offences. Other ML-designated LEAs include the National Accountability Bureau (NAB) for corruption, the Federal Board of Revenue-Inland Revenue (FBR-IR) for tax crimes, the Federal Board of Revenue-Customs (FBR-Customs) for smuggling and tax-related crimes, and the Anti-Narcotics Force (ANF) for Narcotics, Drugs & Psychotropic Substances (NDPS) associated crimes. Provincial counter-terrorism departments (CTDs) are also empowered to investigate and prosecute money laundering concerning terrorism and terrorism financing (TF).

The provincial police forces in Pakistan have the power to investigate PPC offences. If any ML aspect is found during an investigation of a PPC offence, the provincial police refer the case to the ML-designated LEA with the relevant mandate.

3.2 Assessment of ML Threats

During this NRA process, a detailed assessment was carried out for 23 predicate offences in line with the FATF methodology. Out of these 23 predicate offences, ML threat ratings were assigned to 21 predicate offences. The predicate offence of **Organized Crimes** was not separately assigned any rating as its impact has been considered in the assessment of all other predicates, to the extent of the involvement of organised groups in the commission of those crimes. Similarly, **Terrorism and Terrorism Financing** were not rated as their impact was covered under the TF Threats part of this NRA.

Rating Factors: The assessment of ML threats includes; (i) a review of all the incidents based on the seriousness and magnitude of domestic and international crimes; (ii) the estimated amount of proceeds generated and the potential of money laundering; (iii) the capacity and resources of criminal actors and their level of sophistication to launder proceeds (including third-party launderers); (iv) the level of criminal actors to continue committing a crime sustainably, and (v) the sectors and channels used to launder proceeds.

3.3 Predicate Offence Wise Rating of ML Threats

The comparison of threat ratings assigned to various predicate offences during the current NRA depicted that ten predicate offences maintained their previous ratings assigned during NRA-2019. In contrast, ratings of 10 predicate offences were improved. Rating of only 01 predicate offence was relegated during the current NRA compared to NRA-2019. Major ML threats identified in Pakistan, along with their detailed assessment and assigned ratings, are tabulated below, comparing the current ratings with the previous NRA of 2019, while a detailed description in respect of each predicate offence and its level of threat is provided under the subsequent title:

Table 3.1: Ratings of ML Threats by Predicate Offence

Sr. No.	Type of Crime in Pakistan	ML Threat Rating		
		2019	2023	Change
1	Corruption and Bribery	H	VH	↔
2	Illegal MVTS/Hawala/Hundi	H	VH	↔
3	Tax Crimes (Related to Direct Taxes and Indirect Taxes)	H	VH	↔
4	Smuggling; (Including Customs Duties and Taxes)	H	VH	↔
5	Cash Smuggling	H	VH	↔
6	Illicit Trafficking in Narcotic Drugs and Psychotropic Substances	H	H	↓
7	Trafficking in Human Beings and Migrant Smuggling	MH	H	↔
8	Fraud and Forgery	MH	H	↔
9	Cyber Crime	MH	H	↔
10	Kidnapping, Illegal Restraint and Hostage-Taking	MH	M	↓
11	Illicit Arms Trafficking	MH	M	↓
12	Extortion	MH	M	↓
13	Insider Trading and Market Manipulation	MH	M	↓
14	Counterfeiting and Piracy of Products	M	M	↔
15	Environmental Crimes	ML	M	↑
16	Robbery or Theft	MH	M	↓
17	Sexual Exploitation, Including Sexual Exploitation of Children	M	L	↓
18	Illicit Trafficking in Stolen and Other Goods	M	L	↓
19	Counterfeiting Currency	M	L	↓
20	Murder, Grievous Bodily Injury	M	L	↓
21	Maritime Piracy	ML	L	↔

3.4 Description of ML Threat Ratings

A detailed assessment of each predicate offence, along with a description of the factors considered in assigning ML risk ratings to offences, is listed in the following section:

3.4.1 Predicate Offences with 'Very High' ML Threat

1. Corruption and Bribery (Very High)

A. Background & Impact

Corruption and bribery are pervasive problems globally that have far-reaching impacts. They undermine the rule of law, compromise the principles of fairness, accountability, and transparency, erode public trust in government institutions, distort resource allocation, and hinder sustainable economic growth & development of a country. In Pakistan also, corruption and bribery have similar significant social, cultural, moral, and economic implications.

Both of these offences generate illicit funds, which corrupt elements launder using their position of power through various means, creating a cycle of illegal activity and money laundering. As per Transparency International's Corruption Perception Index 2019, Pakistan was placed in 120th place among the least corrupt countries out of 180 and scored 32 on a scale from 100 (very clean) to 0 (highly corrupt). This standing was downgraded to 140th place out of 180 with a score of 27 on the Corruption Perception Index 2022.[15] The magnitude of corruption in Pakistan for 2019, calculated based on the UN's global cost of corruption of a minimum of 5% of GDP (320.9 billion US dollars), was 16.045 billion USD. Thus, corruption and bribery were assessed as "**high**" threats for money laundering in the NRA, 2019.

Since 2019, Pakistan's score has declined from 32 to 27 on a scale from 100 (very clean) to 0 (highly corrupt) assessed in 2022, and Pakistan has now dropped to 140th place on the list of least corrupt countries out of 180[16]. Media reports also indicate that corruption has increased in Pakistan during the period under assessment. The increase in corruption and bribery implies that corrupt elements are succeeding in avoiding the forfeiture of their proceeds of crime, thus eliminating the deterrent effect.

B. Crime Trend

Both the ratio of registration of predicate offence and ML investigations have dropped over the last 4 years mainly due to a rigorous drive against corruption since 2018. However, the ML prosecutions have substantially improved over the NRA period. According to data, overall money laundering investigations have been initiated in 31% of instances involving predicate offences; of those, 11% have resulted in criminal prosecutions. The conviction rate also substantially improved over the NRA period especially during 2019 to 2021.

C. Scope of ML

Corruption and money laundering benefit one another since corrupt individuals require vulnerable industries and channels to launder their money and help others do the same. Due to the pervasiveness of corruption in all facets of society, a lax regulatory environment, a sizable informal sector, and the abuse of authority by dishonest people, money laundering of the proceeds of corruption is a severe problem in Pakistan. The country's geographic location makes it simpler for criminals to transfer money across borders

[15] https://www.transparency.org/en/cpi/2022
[16] https://www.transparency.org/en/countries/pakistan

and finance their illegal activities. The cash-based economy has a worldwide reach since there are many facilitators, such as illegal MVTS.

i. Sources of POC

Corrupt elements acquire illicit funds from embezzlement, kickbacks, commissions, bribes, extortions, and other illegal activities through abuse of power or authority.

ii. Channels for Laundering Money

Channels for laundering POC of corruption and bribery include illegal MVTS, *benami* accounts and properties, cash smuggling, money mules, shell companies, offshore bank accounts etc. The offenders may also misuse the regulated financial system of the country in a sophisticated manner. The offenders may also use VAs to move or launder proceeds of crime across jurisdictions.

iii. Vulnerable Sectors/ Destinations

The banking sector, real estate, construction industry, cash-intensive businesses, informal money exchange networks, foreign jurisdictions, and DPMS are among the sectors identified as vulnerable to ML predicated on corruption and bribery in Pakistan. The services of professional services providers, i.e. lawyers, accountants, and financial advisors, may also be abused for money laundering with or without their knowledge. Virtual assets and online platforms are also becoming increasingly vulnerable to laundering proceeds.

D. Criminal Actors and Their Capacity

The criminal actors involved in laundering proceeds acquired through corruption and bribery are mostly corrupt officials such as public servants, politically exposed persons, and high net-worth individuals & businesses etc. These actors are facilitated by lawyers, accountants, financial advisors, and other professionals by providing expertise and services to create complex structures, transactions, and accounts that conceal the origin and ownership of illicit funds. They are also helped by intermediaries, i.e. individuals or entities that are used to transfer illegal funds, open bank accounts, make deposits or withdrawals, or conduct transactions on behalf of criminals. The offshore service providers, including offshore banks, other financial entities, and other legal persons and legal arrangements operating in non-cooperative jurisdictions, also get involved in high-profile cases.

According to statistics and expert opinions, around 80% of corruption and bribery cases in Pakistan are committed by individuals, out of which in 30% of cases, these individuals have been found involved in an organised or institutionalised manner collaborating with peers and superiors of the organisations. Kickbacks and commissions in developmental works are prime examples of organised corruption wherein all tiers of the executant organisation participate. The remaining 20% of cases involve legal entities, such as companies, consortiums, cooperative housing societies, firms, partnerships, and Associations of Persons (AOPs). While a small percentage (less than 5%) of these cases have links in foreign jurisdictions. Most ML activities in corruption cases involve self-laundering, while a few involve third-party laundering.

E. Conclusion & Rating

Despite reduction in cases of corruption and bribery-related crimes, keeping in view the continued deterioration in the corruption perception index and other elements indicated above, the ML threat associated with corruption and bribery has been rated as "**Very High**."

2. Illegal Money or Value Transfer Services (MVTS) (Very High)

A. Background & Impact

An illegal MVTS, an alternative or informal remittance system or a hawala/hundi is a money transfer system that does not adhere to the legal and regulatory frameworks. Illegal MVTS undermine economic integrity, facilitate and nurture all types of financial crimes and money laundering, pose risks to its consumers, hinder financial inclusion efforts, perpetuate socioeconomic disparities and present regulatory challenges. Since illicit MVTS has been utilised for decades in South Asia, Pakistan is currently dealing with all the above mentioned concerns.

Illegal MVTS are highly susceptible to being used for money laundering and financing illegal operations due to their inherent characteristics of accessibility, ease of use, actor's intent, difficulty in detection, and lack of disincentive. As a result, they pose a serious threat to national security and impede efforts to combat financial crime, terrorism and money laundering. Due to the factors above, the NRA assessed illegal MVTS as a "**high**" threat to ML in 2019.

The World Bank[17] estimates that $500 billion in remittances were sent through illicit means worldwide, and Pakistan participates in the informal remittance system by sending out about $7 billion annually. The World Bank stated that loss of confidence contributed to migrants' preference for the parallel exchange market and informal money transfer channels. Hence, it expects a decline in remittances in Pakistan to drop by 7.4 per cent to $29 billion in 2022 from $31 billion in 2021[18].

B. Crime Trend

There is a positive trend in predicate investigations and related ML investigations and prosecutions. However, the number of convictions required to be improved. As per data, ML investigations have been launched in 33% of instances involving the predicate offence of illegal MVTS; of those, 68% have resulted in criminal prosecutions and in 4% of all ML investigations, convictions have been secured.

C. Scope of ML

Illegal MVTS has a large, extensive, and pervasive potential for money laundering. It presents a significant challenge for anti-money laundering efforts due to the lack of documentation, monitoring, and regulation, the high volume of transactions, and the informal nature of the system, which give criminals the perfect channel to launder proceeds from various illegal activities. Because of this lack of transparency, criminals can hide the source of the transferred funds and use them to pay for multiple other unlawful acts. The *hawala* system utilises a vast network of *hawaladars (hawala* brokers) dispersed over numerous countries and regions, including Pakistan. It is difficult for authorities to monitor and identify suspicious activity since these transactions frequently include many currencies and intricate levels of transfers.

i. Sources of Funds

Illegal MVTS can also be used to transmit legal funds; money sent through illegal MVTS is not always considered part of the crime proceeds. However, criminals utilise these services to transfer money obtained through unlawful means, including drug trafficking, human trafficking, corruption, smuggling, fraud, extortion, embezzlement, and other crimes. It is also used to transfer the proceeds of organised crime, including the financing of terrorism, illegal gambling, the smuggling of people and weapons etc.

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17 https://medcraveonline.com/FRCIJ/the-hawala-system-in-pakistan-a-catalyst-for-money-laundering-amp-terrorist-financing.html
18 https://propakistani.pk/2022/12/01/world-bank-expects-pakistans-remittances-to-decline-by-over-7/

ii. Channels for Laundering Money

By offering a platform for quick, covert money transfers between jurisdictions, illegal MVTS itself serve as a vector for money laundering. However, they utilise a variety of channels for settlement, such as cryptocurrency transactions, payment through intermediaries/ third parties, trade-based funds transfers, and cash smuggling to balance their accounts.

iii. Vulnerable Sectors/ Destinations

The most vulnerable sector concerning illicit MVTS is the sizeable informal remittance industry, dominated by individuals and businesses working as *hawaladars* or informal remittance agents. Businesses that deal with enormous sums of cash, like money exchange services, currency dealers, and other establishments, are susceptible to money laundering through illicit MVTS. Additionally, Pakistan has a sizable expatriate community, and carrying out unlawful MVTS-based cross-border transactions makes them susceptible to money laundering. Pakistan has a substantial informal trade and smuggling industry close to its borders with neighbouring nations. Criminals utilise illicit MVTS to move and launder cash earned from smuggling activities and illegal goods, including drugs and firearms, because these unofficial trade channels lack transparency and oversight. Illegal MVTS may also be used for money laundering through online channels including VASPs and digital wallets. The most common destinations for illegal MVTS activities from Pakistan include the UK, USA, Afghanistan and Middle Eastern countries, especially UAE.

D. Criminal Actors and Their Capacity

The actors involved in illegal MVTS include *hawaladars* acting as intermediaries, agents or sub-brokers carrying out the transfers, and people maintaining covert communication channels like word-of-mouth and encrypted messaging apps to transmit instructions and confirm transactions. Experts generate codes, passwords, or other encrypted methods to authenticate and verify transactions. In the context of their mutual settlement, the actors involved can be anyone from cash smugglers to legal business people.

Illegal MVTS are frequently arranged through an organised network of individuals cooperating to transfer and launder money. This service cannot be provided without an organised network, having links in two or more jurisdictions, or their facilitation. In some cases, employees of legal persons, e.g. registered foreign exchange companies have also been found running an informal system alongside the legitimate one. Most of the time, especially in situations with small networks of illegal MVTS, it offers an unapproved conduit for transferring illicit funds from a foreign country.

E. Ratings and Conclusions

Due to its inherent vulnerabilities, the unlawful use of MVTS for money laundering in Pakistan presents a significant problem for regulatory and law enforcement agencies. The risk of money laundering has increased due to the increased use of illegal MVTS consumption. Keeping in view all the factors mentioned above, the ML threat of illegal MVTS has been rated as "**Very High**".

3. Tax Crimes (Related to Direct Taxes and Indirect Taxes) (Very High)

A. Background & Impact

Globally, "tax crimes" describes illegal actions that entail evading, dodging, or manipulating tax laws and regulations to avoid paying taxes or getting unauthorised tax benefits. This includes both direct and indirect taxes. People and businesses can take advantage of loopholes, participate in cross-border tax evasion, and lower their tax obligations by using differing tax systems and rules in other nations and jurisdictions. The consequences of tax crimes are serious and pervasive, including lost tax income, social injustice, a decline in public trust, rising expenses associated with enforcement, economic inefficiencies, including unfair competition, and the undermining of legitimate businesses and international relations.

Illicit money is accumulated when taxes are not paid or underpaid; this money is then laundered through many channels, including asset purchases and investments in legal companies. Criminals hide the source of their money and avoid being caught by authorities by filing fake or fraudulent tax returns. In addition, tax offences are frequently perpetrated with other financial crimes like fraud or embezzlement to raise money for money laundering.

Pakistan's cash-based and informal/undocumented economy makes it highly prone to tax fraud, especially in the indirect tax category. As per the Federal Board of Revenue (FBR), only 1% of the citizens in Pakistan were paying direct taxes in the year 2019. Given the above, tax crimes were rated as a "**high**" threat for ML in the NRA, 2019.

As per the working paper of the International Centre for Public Policy[19] published in January 2021, tax evasion is an inherent problem in the Pakistani economy. A research study indicates that Pakistan has the potential to double its tax revenue as a share of GDP (Cevik, 2018); however, because of tax evasion and avoidance, Pakistan's tax collection remains lower than comparable countries. This study report indicates that the tax gap for sales tax/ VAT in Pakistan is estimated at around 67% while simultaneously pointing out that a sizeable amount of revenue is also lost due to smuggling. A study by IPSOS, a French-based research forum on the magnitude of tax evasion in Pakistan in only five key sectors, estimates an annual loss of more than PKR 310 billion[20]. According to FBR data, from 2019 to 2022, the number of registered taxpayers increased, and people filing returns and declarations reached 4 million milestones in 2023 compared to less than 2 million in 2018. Increased declarations have boosted revenue while intensifying investigations into tax fraud and money laundering.

B. Crime Trend

Predicate investigations, ML investigations, and ML prosecutions have increased during the year 2020 but dropped afterwards. More efforts are required to secure convictions in ML cases, as there was only one conviction during the NRA period.

C. Scope of ML

Money laundering is closely associated with tax crimes. By directing undeclared income or assets through complex financial transactions and structures, both locally and internationally, ML is used to hide the proceeds of tax offences, such as tax evasion or fraud. The extent of money laundering regarding tax offences is wide-ranging and complex, encompassing cutting-edge techniques and networks to conceal the money's shady origins and evade taxes.

Regarding the connection with a foreign jurisdiction, some cases were reported with links to foreign jurisdictions, including UAE. International connections were seen in manipulating invoices, packing lists, and other documents regarding customs-related charges of tax crimes. For instance, aberrant over-invoicing and export remittances have occasionally been seen in the export of items by foreign people and businesses. Similar under-invoicing of perishable products exported to Afghanistan was noted in some cases. As per data and feedback of experts, the scope of tax crimes in Pakistan is elaborated as under;

i. Sources of Funds

The proceeds of tax crimes come from a variety of illegal activities or fraudulent schemes intended to evade or avoid taxes, including undeclared income from illicit activities like smuggling, money laundering, fraud, corruption, bribery, drug trafficking, human trafficking, etc., as well as unreported income from legal activities like underreporting business income, trade volume, wages, or investments, as well as hiding assets or funds in offshore accounts or other undeclared financial irregularities. Additionally, it can be obtained through fraudulent schemes that try to

[19] (https://icepp.gsu.edu/files/2021/01/2102-VAT-Evasion-in-Pakistan.pdf)
[20] https://tribune.com.pk/story/2302336/pakistan-losing-revenue-due-to-tax-evasion

receive unauthorised tax benefits or refunds, as well as through tax avoidance plans, offshore tax evasion, and false claims, credits, or refunds.

ii. Channels for Laundering Money

Money earned through tax evasion is placed in offshore bank accounts in tax havens or invested in shell corporations, trusts, and other legal entities. Illegal MVTS or trade-based products or services can move money over international borders to launder or utilise it to buy luxury products, real estate, or other high-value assets. Bank accounts, cash purchases of pricey items like real estate, designer goods, or precious metals, as well as conversions into other forms of value like virtual currencies, as well as investments in reputable businesses or financial instruments like stocks, bonds, investment funds, can all be used to obscure the source of the funds further.

iii. Vulnerable Sectors/ Destinations

Real estate, informal money transfer networks (*Hawala/Hundi*), cash-intensive businesses like currency exchange dealers, gold and jewellery shops, retail companies, securities sector, international trade, particularly import/export businesses, professional service providers, and cryptocurrency are among the sectors that are vulnerable to ML related to tax crimes.

D. Criminal Actors' and Their Capacity

In Pakistan, money laundering related to the proceeds of tax crimes involves a variety of criminal actors, including tax evaders (individuals or legal entities), fraudsters who facilitate the filing of false tax returns, the fake invoices and false claims for tax credits. Additionally, it involves professional money launderers and enablers like attorneys, accountants, financial advisors, consultants, and corrupt officials from the government, the tax authority, or the public sector. It also involves organised criminal groups and entities.

The data exhibits that in more than 90% of cases, tax evaders are helped by financial advisors or consultants or even officials of tax authorities; therefore, it can be termed as a semi-organized crime involving assistance from other persons. Whereas, in 10% of cases wherein legal entities have been found involved, it has been observed that they were helped by organised groups comprising professional money launderers and public servants. In the case of customs duties, the involvement of foreign sellers or buyers, along with networks of intermediaries and experts in the fabrication of documents, has been found. Cash deposits are the primary methods used by criminals involved in income tax and VAT offences, although they also occasionally use offshore shell firms and third-party money launderers. They employ foreign jurisdictions' established firms for under-invoicing and over-invoicing traded goods, and *hundi/hawala* transactions are used for payments.

E. Ratings and Conclusion

Given the level and volume of tax crimes, its trends and scope over NRA period and capacity of the criminal actors, it can be concluded that tax crime as a predicate offence has exhibited a high risk; therefore, the ML threat concerning tax crimes has been rated as "**Very high**".

4. Smuggling; (Including Customs and Excise Duties and Taxes) (Very High)

A. Background & Impact

The illegal transit of products across borders without the required authorisation or payment of customs duties and taxes is known as smuggling, often known as illegal or illicit trade. It is a complicated and diverse problem affecting many facets of society, including the economy, domestic industries, and social welfare. Products like narcotics, guns, and counterfeit items can endanger public safety, security, and health. Smuggling is a major problem in Pakistan, primarily because of the long porous borders with Afghanistan and Iran. Additionally, to avoid customs and associated fees, products are frequently trafficked under the pretence of Afghan Transit Trade.

Smuggling and trade-based money laundering are closely related because of the undocumented economic sectors, poor infrastructure, inadequate border crossing procedures, and lack of an information and communication technology (ICT)-based system for adequate surveillance and monitoring. These factors contribute in Pakistan's high smuggling-to-GDP ratio. From 2014 to 2018, Pakistan's smuggling to GDP ratio remained at 11.25 percent, more significant than other countries with comparable GDPs[21]. Accordingly, smuggling was rated as a "**high**" threat for ML in the NRA, 2019.

According to a study report of May 2021, commodities such as fabrics, tires, tiles, black tea, high-end electronics like mobiles and laptops, and cosmetics are highly susceptible to smuggling[22]. A report compiled by a team of Harvard economists and senior commerce ministry officials during the year 2020 revealed that the top dozen commodities smuggled into Pakistan generate as much as $3.3 billion a year, while authorities in the country are only able to seize a meagre 5% of the goods smuggled into Pakistan[23].

B. Crime Trend

Smuggling-related predicate investigations have increased over the past 03 years with a significant rise in the year 2022. Although there has been a noticeable increase in ML investigations and prosecutions, no convictions have yet been obtained. As per data, money laundering investigations have been launched in 11% of instances involving primary offences; of those, 40% have resulted in criminal prosecutions. From 2019 to 2022, goods worth $810 million were seized by the field formations of Pakistan Customs. The goods include currency, high-valued consumer items, tires, contrabands, Petroleum, Oil and lubricants (POL) etc. The inflow of smuggled goods into Pakistan is mainly from Iran and Afghanistan using sea shores and western borders, while some cases of inflow from India were also observed.

C. Scope of ML

Money laundering and smuggling products are both unlawful acts and are closely intertwined. Selling illegal products can result in significant earnings, mainly if they are high-priced or in-demand things like drugs, weapons, or luxury goods. Known forms of trade-based money laundering include manipulating trade transactions, such as over or under-invoicing products, utilising smuggled items to conduct transactions across jurisdictions, and using the POC to buy legitimate assets.

i. Sources of Funds

Smugglers can profit by transporting illegal products, including drugs, counterfeit goods, endangered animals, weapons, or other forbidden items.

ii. Channels for Laundering Money

Smugglers use a variety of methods to launder the proceeds of their crimes, including moving the money directly to another country, engaging in illegal or overpriced trade transactions to transfer the funds through the international trade system, setting up front import & export companies or shell companies to disguise the actual owners and controllers of the money, and investing in real estate, designer goods, and precious metals.

iii. Vulnerable Sectors/ Destinations

Trade and import & export businesses, employees of the authorities tasked with controlling smuggling, traders, non-profit organisations and the real estate sector, money remittance services, currency exchange services, and precious metal dealers are vulnerable to smuggling and the ensuing money laundering.

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21 https://tribune.com.pk/story/2273439/how-smuggling-is-bleeding-pakistans-revenue-dry - :~:text=According to the report, from 2014 to 2018,,to achieve a slight decline, the report added.
22 https://www.dawn.com/news/1623855
23 https://tribune.com.pk/story/2273439/how-smuggling-is-bleeding-pakistans-revenue-dry

D. Criminal Actors and their Capacity

Individual smugglers, smuggling networks, drug cartels, corrupt government officials, financial intermediaries like money transfer agents, currency exchange operators, and other financial service providers, professionals like attorneys, accountants, financial advisors, and other consultants, business owners, especially those in cash-intensive industries, traders and import/export businesses and other criminal actors have all been found to be involved in smuggling-related money laundering.

Border crossing is committed mainly by individuals being part of semi-organized groups operating in various places. The FBR and the Directorate of Cross Border Currency Movement (CBCM) have collected data showing that many persons engaged in smuggling were utilising a chain-like strategy where one group transports the goods in one location before passing them on to another group, and so on. On the other hand, semi-organized groups are centred on a single natural person who manages the activities of intermediaries like escorts, money handlers, and drivers and has a covert relationship with border patrol agents. Thus, as these individuals develop into semi-structured groups, they create a network of smugglers organised and governed by prominent natural persons. Numerous similar networks operate in the field, centring on a particular region, area or commodity. Involvement of legal persons in smuggling is minimal.

E. Ratings and Conclusions

The smuggling is a challenge for enforcement agencies in Pakistan. The country is facing the risk of illegal goods transportation through unregulated parts of its long coastal belt and borders, particularly with a massive volume of passengers and vehicles at the *Torkham*, *Chaman*, and *Taftan* borders. The possibility of ML due to smuggling is further increased by Pakistan's growing trade deficit and rising import demand. Given its volume and above factors, the risk of ML associated with smuggling is assessed as **"Very High"**.

5. Cash Smuggling (Very High)

A. Background & Impact

Cash smuggling is the illicit movement of large sums of cash across international borders without the necessary documentation or approval. It is a worldwide threat that undermines national security because it can finance criminal and terrorist organisations, enabling them to carry out their operations and endangering the public's safety. It also increases income inequality by allowing the wealthy to evade taxes and hoard money abroad. Pakistan's long borders with Iran and Afghanistan, spanning 2,430 km and 909 km, respectively, and the tribal culture in border areas present a tremendous challenge to maintaining security and controlling smuggling. Additionally, vast coastline of Pakistan poses a concern for the transfer of illicit cash. Pakistan's cash-based economy worsens the issue as smuggled money can be easily justified.

Smuggling cash is one of the main ways for criminals to launder proceeds of crimes before investing them in real estate and legal businesses, and carry out other financial transactions. Since tracking and tracing cash smuggling across international boundaries is difficult, it poses a significant risk for money laundering. The offence of cash smuggling was identified as a "**high**" risk threat for money laundering in NRA, 2019.

As per various estimates of experts, cash amount in the range of $300 million to $500 million is being smuggled out of Pakistan through the illicit movement of currency across borders annually. The recent fall of the Afghanistan Government has also resulted in increased foreign currency smuggling to Afghanistan due to the seizure of Afghan foreign reserves. It has been estimated that $2 million[24] was being smuggled to Afghanistan daily, which may increase the overall amount of cash smuggling in the coming months[25].

[24] http://www.thenews.com.pk/print/1039126-dollar-smuggling
[25] https://www.brecorder.com/news/40214433

B. Crime Trend

The numbers of predicate and ML investigations have declined from 2019 to 2021 in Pakistan. However, the trend of predicate investigations shows an increase again in the year 2022. On the other side, only 5 ML prosecutions were reported during the NRA period with no convictions so far, suggesting a potential difficulty in effectively combating the problem of cash smuggling in Pakistan. According to data, money laundering investigations have been launched in 39% of instances involving primary offences; of those, 17% have resulted in criminal prosecutions as yet.

C. Scope of ML

Cash smuggling frequently lets criminals launder millions or even billions of rupees or foreign currency. Cash transactions are more difficult to track than paper or electronic transactions. Lack of transparency, ease in mobility and adaptability, anonymity and confidentiality, simplicity of usage, and weaknesses in border and customs surveillance mechanisms are the main justifications for using this method for money laundering. Due to the prevalence of the informal economy and corruption, the scope of money laundering through cash smuggling in Pakistan is increasingly substantial.

i. Sources of Funds

Cash smuggling-related money laundering can involve funds obtained from illegal or illicit activities such as drug trafficking, corruption, tax evasion, fraud, *hawala* settlement, proceeds from other organised crimes and the black market, funds used to finance terrorism, etc. as observed in some cases of cash smuggling.

ii. Channels for Laundering Money

Money laundering occurs through various methods, including cross-border smuggling, money mules, trade-based money laundering, and illegal MVTS networks. In addition, cryptocurrencies or virtual assets are emerging as a contemporary method of channelling criminal gains.

iii. Vulnerable Sectors/ Destinations

Along with the real estate sector, cash-intensive industries, including retail outlets, wholesalers, *hundi/ hawala* operators and money changers, are prone to cash smuggling. In addition, exchange companies and international trade are also vulnerable sectors in this regard. Despite Pakistan's cash-based and unregulated economy, the risk of currency smuggling through airports is seen as medium due to the regulatory structure in place. The central locations for smuggling cash are the UAE and Afghanistan. US dollars are mainly used, followed by UAE Dirhams and Saudi Riyals. Local currency smuggling was also reported, particularly for outflows to Afghanistan.

D. Criminal Actors and their Capacity

Individuals and small-scale operators/smugglers, money mules, corrupt officials, traders in cash-intensive industries, and *Hawala/Hundi* operators are among the criminal actors involved in cash smuggling and related money laundering activities in Pakistan. Transnational criminal organisations, including drug trafficking networks, human smuggling rings, and terrorist organisations, may also engage in money laundering and cash smuggling in Pakistan. However, they also use people and money mules who are already involved in the cash smuggling business.

According to data maintained by the Directorate of Cross Border Currency Movement (CBCM), most currency smuggling in Pakistan is carried out by individuals or small groups working semi-organised. However, the recent increase in money smuggling, mainly to Afghanistan, appears to be a well-coordinated, orchestrated effort.

E. Ratings and Conclusions

Given the above, Cash smuggling has been rated as a "**Very High**" threat to money laundering.

3.4.2 Predicate Offences with 'High' ML Threat

1. Illicit Trafficking in Narcotic Drugs and Psychotropic Substances (High)

A. Background & Impact

The illegal trafficking of Narcotic Drugs and Psychotropic Substances has significant social and cultural effects. The costs of law enforcement, healthcare, and social services burden the economy due to drug addiction and drug-related crimes. Since 2001, Pakistan has maintained its status as a poppy-free country, and there have been no reports of local labs producing illegal drugs. However, Pakistan has served as a transit nation for the movement of Afghan opiates and drugs to foreign locations and markets due to its proximity to Afghanistan. According to the International Narcotics Control Board Report of 2021, the most significant quantities of opium and morphine seized globally in 2019 were recorded in Afghanistan, Iran and Pakistan, accounting for 98 per cent of those substances seized globally. Iran, Pakistan and Turkey accounted for 48 per cent of the global total of heroin seized in 2019[26].

Due to the enormous sums of money generated by the crime, the illegality of the activity, and the necessity to hide the funds' unlawful sources, drug trafficking carries a high risk of money laundering. As a result, the NRA, 2019 classified drug trafficking as a "**high**" risk offence for ML.

Experts believe that due to various measures taken by Pakistan, including border fencing, targeted military operations and the merger of tribal areas, the activity has shifted from Pakistan to other alternate routes in recent years. However, POC from illegal trade in Narcotics in Pakistan is still estimated to be between $500 million to $1 billion as of 2021. According to ANF, 40% of Afghan Drug trafficking utilises drug trade routes passing from Pakistan. Moreover, about 7 million Pakistanis are using Drugs and getting them from other countries since they are not manufactured in Pakistan[27].

B. Crime Trend

The number of drug trafficking investigations in Pakistan remained lower during the COVID-hit years of 2020 and 2021; however, these numbers increased again during the year 2022. Contrary to it, the numbers of ML investigations and prosecutions have shown an increase till 2021 but have drastically fallen in 2022. Convictions are very low during the NRA period. According to data, money laundering investigations have been launched in 8% of instances involving primary offences; of those, 66% have resulted in criminal prosecutions whereas, convictions have been obtained in only 2 cases so far.

C. Scope of ML

Drug proceeds are laundered to conceal the illegal origin of the funds, which is how money laundering and drug trafficking are related. Drug trafficking in Pakistan is carried out by intricate webs of organised criminal groups who frequently use money laundering to legalise the selling of drugs. Offenders also use drug trafficking to raise funds for terrorist activities. Identifying and analysing these networks can be challenging because they frequently involve numerous financial activities, including cash smuggling, trade-based money laundering, and the employment of shell corporations. Money laundering associated with drug trafficking can occur in a substantial cash-based and informal economy. It is challenging to obtain precise quantitative data on the volume of money laundering related to drug trafficking in Pakistan due to the covert nature of these operations. However, according to ANF, estimated proceeds generated in a year from this offence come to around $6 million.

[26] https://www.incb.org/documents/Publications/AnnualReports/AR2021/Annual_Report/E_INCB_2021_1_eng.pdf

[27] http://anf.gov.pk/qf.php

i. Sources of Funds

The substantial revenues and proceeds from selling illegal narcotics are the primary funding source laundered in Pakistan regarding drug trafficking.

ii. Channels for Laundering Money

Narcotics dealers in Pakistan employ various methods to launder their funds, mainly through cash smuggling that occurs concurrently with drug trafficking. They invest in real estate, precious metals, diamonds, and other lawful businesses in addition to using illegal MVTS and trade-based money laundering. However, the most popular strategy is to keep the money liquid in safe locations or invest it in cash-intensive companies, and offshore bank accounts.

iii. Vulnerable Sectors/ Destinations

Sectors that are vulnerable to money laundering of the proceeds of drug trafficking are comparable to sectors that are vulnerable to other types of crime. Real estate projects, offshore locations or jurisdictions, and high-value assets are used more frequently in drug trafficking. Drug cartels exploit foreign jurisdictions with lax regulatory systems, highly cash-based economies, and even virtual currencies to hide or park their money.

D. Criminal Actors and their Capacity

Organised crime groups with connections to other countries, drug cartels, single drug dealers or small criminal groups engaged in drug trafficking, dishonest public officials, cash smugglers, individuals or groups involved in money laundering who operate independently or as part of more extensive criminal networks, front companies, and shell corporations are examples of specific actors.

Drug trafficking operations are inherently organised by organised or partially organised groups, often involving a source of supply, numerous facilitators, and carriers of various nationalities. However, only 5% of drug prosecutions target organised or semi-organized gangs and typically prosecute individuals involved in organised activities. The organised crime groups that trade drugs are often made up of affluent people who employ a variety of important industries to launder their money, including real estate, cars, and gold.

E. Ratings and Conclusions

Despite the mitigating measures, narcotics smuggling is still a significant threat for ML in Pakistan given its societal impact, involvement of organised groups belonging to different nationalities and geography of Pakistan, and rated as **"High"**.

2. Trafficking in Persons and Smuggling of Migrants (TiP and SoM) (High)

A. Background & Impact

Recruiting, transporting, and harbouring people for exploitation is known as "trafficking in persons". The exploitation includes forced labour, slavery, organ removal, or sex trafficking can occur domestically or internationally. In Pakistan, industries including brick kilns, agriculture, and domestic work, where employees frequently receive little pay and are subjected to exploitation, are particularly prone to human trafficking. The traffickers often use violence or fraudulent employment agencies and fake promises of education and job opportunities to trick and coerce their victims[28].

Migrant smuggling assists people to enter or stay in another country illegally and only occurs across borders. Pakistan ranks fifth in population and has one of the highest proportions of young people worldwide. The growing vulnerable population is being preyed upon by criminals engaged in migrant smuggling due to higher unemployment rates and a rising population.

[28] https://www.unodc.org/unodc/en/human-trafficking/human-trafficking.html

These crimes are also one of the fastest-growing forms of international organised crime. The analysts estimate that in 2019, some 240,000 Pakistanis were trafficked or carried abroad, and around 80,000 Pakistanis were deported from other countries in 2019 alone[29].

Human traffickers and migrant smugglers make significant sums of money, and to prevent their activities from being discovered, this money must be laundered. These offences are closely associated with money laundering because it is believed that between $20 and $50 million is produced from them annually in Pakistan. Human trafficking was assessed as a "**medium-high**" threat for ML in NRA, 2019.

According to US States Department's Report for the year 2022 on Pakistan's Trafficking in Persons, police referred 18,543 trafficking victims to the government or NGOs for care; a significant increase from 11,803 trafficking victims referred to care in the previous reporting period[30].

B. Crime Trend

As per data, there is a decline in predicate investigations while ML investigations and prosecutions have significantly improved; however, only one conviction has been secured so far, which needs substantial improvement. According to data, money laundering investigations have been launched in 2% of instances involving primary offences; of those, 38% have resulted in prosecutions.

C. Scope of ML

The US State Department, in its Trafficking in Persons (TIP) Report, 2022,[31] kept Pakistan on Tier 2 but upgraded in status by taking it off the "watch list".[32] The sources and experts predict that using 2019 as the base year, migration from Pakistan for each person to the Gulf States will cost about $1,000, Turkey will cost about 2,500 dollars, and Europe, the United States, and Australia will cost between $5,000 and $18,000. It is important to note that most of the time, foreign transit jurisdictions and individuals play a role in receiving funds in foreign jurisdictions. Considering those above, this primary offence in Pakistan is anticipated to generate between $20 and $50 million in total earnings annually. This money is laundered to be used legally while avoiding LEA detection. It has been reported that organised groups and people from other countries help facilitate the victims' transfer and money laundering. These countries mainly include Iran, Turkey, Greece, Sudan, Libya, Swaziland, Kenya, Lesotho, Muscat, etc.

i. Sources of Funds

The recruitment fees, or fees from people looking to be trafficked or smuggled out of Pakistan, loans or debts to be repaid through forced labour or exploitation, and sale of human beings, such as in the case of bonded labour or illegal organ removal, are included in sources of funds. Moreover, traffickers and smugglers may pretend to be legitimate employment agencies or recruiters, promising people jobs abroad and charging fees for their services.

ii. Channels for Laundering Money

Cash smuggling is a popular way for human traffickers and smugglers to launder money since it fits their work line. They also use *hundi/ hawala* and remittances to launder their proceeds and invest in real estate or other lucrative businesses.

iii. Vulnerable Sectors/ Destinations

The commercial sex industry, including online sex trade, child labour, bonded labour, hazardous work, forced marriages, particularly of women and girls, and street begging, is all considered

[29] https://www.thenews.com.pk/print/854253-283-pakistanis-being-deported-every-day-since-2015
[30] https://www.state.gov/reports/2022-trafficking-in-persons-report/pakistan/
[31] https://www.state.gov/reports/2022-trafficking-in-persons-report/pakistan/
[32] https://tribune.com.pk/story/2366859/pakistans-human-trafficking-rating-improves-as-us-takes-it-off-watchlist

vulnerable to human trafficking in Pakistan. These sectors are also characterised by poverty, a lack of education and employment opportunities, social and cultural vulnerabilities, and migrant labour, particularly in low-skilled and informal sectors and less developed geographical regions.

D. Criminal Actors and their Capacity

Criminal actors commonly associated with trafficking in persons and human smuggling, and related money laundering in Pakistan are traffickers, smugglers, facilitators, i.e. individuals who provide various services like recruitment, transportation, accommodation, and document forging, i.e. who prey upon vulnerable individuals, corrupt officials and individuals or groups that facilitate the concealment of the proceeds of trafficking in persons and human smuggling.

Networks of people from different nations are responsible for these crimes. In 60% of these instances, organised or semi-organized groups were found to be involved, while individuals were involved in the remaining. In the majority of the cases of migrant smuggling, the perpetrators are connected internationally. They pay exorbitant fees to transport those who wish to travel overseas via air, land, and sea routes. They maintain a representative in each country of transit to accept partial payments and to transfer individuals to other nations until they reach the intended or agreed-upon destination. On the other hand, in cases of human trafficking, individuals are primarily involved in domestic trafficking, while trends in out-of-country trafficking are similar to migrant smuggling. This demonstrates the highly structured nature of migrant smuggling and human trafficking in Pakistan. In some cases, little participation of legal persons was observed to the extent of travel agencies and consultants.

E. Rating & Conclusion

Human trafficking and migrant smuggling cases show a declining trend. However, the impact of trafficking in person and migrant smuggling on Pakistan's economy is high, and the proceeds generated through this crime are also significant. Keeping in view the above assessment, Trafficking in Persons and Migrant Smuggling have been rated as **"High"** threat for ML.

3. Fraud and Forgery (High)

A. Background & Impact

The effects of fraud and forgeries on a nation are extensive. They can undermine social trust, collaboration and cohesion, harm cultural norms and values, promote a culture of corruption, and normalise dishonesty and unethical behaviour. Fraud and forgery can cause substantial financial losses that could affect people, corporations, and the government.

Fraud and forgeries offer ways to acquire illicit funds and techniques to hide their illegal origin. Fraudulent activities produce significant quantities of unlawful revenue through deceiving people or organisations, similar to how fake documents are used to evade restrictions and gather and legitimise illegal funds. Fraud and forgery are the most frequently reported crimes based on a thorough examination of numerous sources, including enquiries, investigations, media reports, and feedback from experienced investigators from NAB, FIA, and the police. This can be ascribed to several variables, including Pakistanis' lower levels of education and undocumented economy, which make them more susceptible to scams, especially in lucrative real estate and Ponzi schemes. This offence was rated as "**medium-high**" in the NRA 2019.

B. Crime Trend

Overall, the trend shows a rise in the number of investigations related to fraud and forgery in 2020 and then a nosedive drop in 2021. However, ML investigations, prosecutions and convictions have steadily increased over time. Despite an increasing trend, the convictions are not up to the mark. According to data, money laundering investigations have been launched in 20% of instances involving primary offences; of those, 26% have resulted in criminal prosecutions. Only 7 convictions have been obtained so far.

C. Scope of ML

Frauds and forgeries are widespread crimes throughout various sectors of the economy, which range from low-level frauds of individuals to mega fraud cases of *Ponzi* schemes, real estate products, online banking frauds and other investment products. Several high-value fraud schemes have been exposed, involving con artists and developers who pose as legal companies to deceive people into investing in developed pieces of land or flats or investing in their high-profit investment schemes. Once they acquire the trust of their victims, these people steal from them and violate their trust, which causes the public to suffer substantial losses. As per 'The Financial Cost of Fraud Report, 2021, developed by national audit, tax, advisory and risk firm Crowe, "Fraud is costing businesses and individuals worldwide $4.37 trillion yearly while in 2019, this was $3.89 trillion[33]. According to estimates, proceeds in the range of $200 million and $500 million are generated in Pakistan annually through frauds and forgeries, with a sizable portion of that amount being laundered.

i. Sources of Funds

Through various sorts of frauds and forgeries, such as cheating, and frauds relating to investments, insurance, tax, immigration, credit card, banking, illicit foreign exchange operations etc., money is taken from individuals, legal persons, or even from governments.

ii. Channels for Laundering Money

Most often, individuals with fewer resources commit fraud and forgeries, and they consume or, at most, invest the money they have wrongfully obtained in various schemes and real estate or put it in a bank in their name or the name of friends and family. However, criminals who defraud the public on a massive scale use illegal MVTS or cash smuggling to move money abroad and invest in legitimate enterprises, among other things, locally.

iii. Vulnerable Sectors/ Destinations

The general public, informal or unregulated money transfer systems, the real estate industry, businesses that deal with large sums of cash, investment firms, non-profit organisations, corrupt officials within government agencies, and precious metal and stone trading are the sectors most susceptible to money laundering concerning fraud and forgery.

D. Criminal Actors and their Capacity

Individual criminals or small-scale criminal organisations, organised crime syndicates such as criminal networks, gangs, and cartels, corrupt officials within government organisations such as customs, tax authorities, and financial institutions, money laundering facilitators and even terrorist organisations are among the criminal actors involved in fraud, forgery, and related money laundering activities.

Speaking with specialists from LEAs and different economic sectors revealed that more than 70% of frauds and forgeries in Pakistan are carried out by disorganised people using smaller amounts of money for their consumption. Frauds committed by AOPs, cooperative housing societies, partnership firms, and other unregistered similar entities, ranging in size from small to large, comprise the remaining 30% of organised and semi-organized groupings. The larger-scale frauds involved in these organised and semi-organized groups include real estate, Ponzi schemes, and illegally soliciting money through various investment schemes.

E. Rating & Conclusion

Based on the factors mentioned in above assessment especially the volume of proceeds generated through this crime, its scope and capacity of criminal actors, the ML Threat of fraud and forgeries has been rated as a "**High**".

33 https://reputationup.com/wp-content/uploads/2022/04/Global-Financial-Cost-of-Fraud-2021.pdf

4. Cybercrime (High)

A. Background & Impact

Cybercrime encompasses all types of illegal activities carried out online or through computer networks to gain unauthorised access, steal or manipulate data, disrupt or damage systems, commit fraud, spread malware or viruses, commit identity theft, engage in online harassment or stalking, and engage in other illegal activities. Cybercrime has significant economic effects that range from money losses to higher security costs. Social impacts include loss of privacy, increased fear and distrust, violations of digital rights, and online harassment.

Because cybercriminals employ sophisticated methods to hide the illegal source of their income from cybercrime activities, money laundering and cybercrime are closely related crimes. For instance, to cover the trail of the money and make it seem legitimate, money collected from ransomware attacks or financial scams is laundered through internet platforms, virtual currencies, or other digital means. It is more challenging for law enforcement organisations to track down and reclaim the proceeds of cybercrime when criminals use sophisticated money laundering techniques to transform their illicit riches into assets that appear to be genuine. Cybercrime Magazine estimates that during the next five years, the cost of cybercrime will increase by 15% yearly, reaching USD 10.5 trillion in annual expenses by 2025[34]. The offence was assessed as a "**medium**" risk for ML in the NRA, 2019.

According to reports, cybercrime in Pakistan has increased in the past years, with financial fraud on social platforms at the top[35]. Because of the widespread use of technology and the proliferation of smartphones and other devices, the FIA received more than 100,000 complaints about cybercrimes nationwide in 2021[36]. According to these reports, cybercrime is quickly becoming a serious threat to Pakistani society, with powerful tools to launder proceeds.

B. Crime Trend

The data shows a consistently increasing trend in predicate investigations for cybercrime in Pakistan from 2019 to 2022. However, the number of ML investigations and prosecutions has been relatively low despite showing an increasing trend especially during last two years. So far, no convictions relating to Cybercrime offences have been reported in ML cases. According to data, money laundering investigations have been launched in 8% of total predicate cases; of those, 45% have resulted in prosecutions.

C. Scope with ML

Money laundering through cybercrime is a significant and growing concern in Pakistan. Online financial services are widely used, and people rely increasingly on digital transactions, offering fraudsters more avenues to carry out money-laundering operations. Cybercriminals in Pakistan may also use the virtual assets to launder money. Its scope is further increased by lacking a robust regulatory framework to prevent money laundering concerning cybercrime.

i. Sources of Funds

Cybercriminals generate funds through various illegal activities such as hacking, identity theft, credit card fraud, ransom-ware attacks, phishing, sexual or other types of blackmailing and other forms of online fraud.

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[34] https://cybersecurityventures.com/hackerpocalypse-cybercrime-report-2016/
[35] https://www.thenews.com.pk/print/884453-cybercrime-increases-by-83pc-in-three-years
https://pakobserver.net/increasing-cyber-crimes-in-pakistan-by-m-nadeem-bhatti/
[36] https://www.dawn.com/news/1667248

ii. Channels for Laundering Money

Cybercriminals specifically use cryptocurrencies and virtual assets due to their pseudonymous nature and ease of transfer across borders for money laundering. They can also use conventional channels after changing the proceeds into fiat currency.

iii. Vulnerable Sectors/ Destinations

Because they are unaware of the new types of fraud cyber criminals commit, the general public is the most susceptible to cybercrimes. Government agencies, including sensitive divisions and critical infrastructure, financial institutions, e-commerce and online marketplaces, telecommunications and information technology sectors, internet service providers (ISPs) and technology companies, and small and medium-sized enterprises (SMEs) are also vulnerable.

D. Criminal Actors and their Capacity

Individual hackers, organised cybercrime groups, insiders, including employees or contractors of organisations, who have privileged access to systems and data, cybercriminals who engage in online fraud, such as phishing, identity theft, credit card fraud, and other forms of financial fraud are among the criminal actors involved in cybercrimes and related money laundering.

Most cybercrimes in Pakistan are committed by lone actors or small groups who earn little money and use them for living costs. However, some organised or semi-organized groups are also active in cybercrimes with higher profits. These groups usually consist of four to 10 people, including foreigners. Each member of the group is responsible for a particular task. Although the offenders are dispersed throughout the country, especially in big cities primarily concentrated in Islamabad. At the same time, local *Odhs* (a nomadic tribe) are typically found in central Punjab.

E. Rating & Conclusion

Due to increasing trends of this predicate offence, its wider scope and ever improving capacity of its offenders, the ML threat level of cybercrimes has been upgraded to "**High**."

3.4.3 Predicate Offences with 'Medium' ML Threat

1. Kidnapping, Illegal Restraint and Hostage-Taking (Medium)

A. Background & Impact

In Pakistan, kidnapping for ransom (KFR) is a severe problem, typically involving organised or semi-organized groups. In certain instances, people commit this crime to resolve personal or professional conflicts. The offenders usually receive a ransom in cash, though they may also obtain non-monetary advantages in family disputes. Criminal groups with ties to Afghanistan and connected to terrorism have historically been involved in high-profile cases. The average global ransom demand of $368,901 in 2021 was 43% higher than the pre-pandemic average recorded in 2019[37]. KFR was rated as a "**medium-high**" risk threat for ML in NRA, 2019.

B. Crime Trend

The number of predicate investigations has remained relatively stable all along with a slight decrease. ML investigations and prosecutions increased from 0 in 2020 to 11 and 6 in 2022, respectively; indicating a higher focus on money laundering related to kidnapping for ransom. However, no ML convictions have been secured, so far. Money laundering investigations have been launched in 11 % of instances involving primary offences; of those, 58 % have resulted in criminal prosecutions.

[37] https://www.controlrisks.com/our-thinking/insights/kidnap-for-ransom-in-2022?utm_referrer=https://www.google.com

C. Scope of ML

In Pakistan, money laundering in connection with kidnapping for ransom is a serious issue since the primary goal of abduction in these cases is to extract ransom money from the family, typically given in cash, and the kidnappers try to hide its source by laundering it through various methods. The money paid as ransom is the primary source of funding. However, third parties occasionally gather money to hurt the victimised family. Since ransom is typically paid in cash, ML methods may include illegal MVTS, cash-intensive businesses, cash smuggling, structuring financial transactions, investing in real estate and virtual assets, and transferring money to consolidated funds at home or abroad in the case of terrorist entities.

Targets of criminals and terrorist organisations include businesspeople, professionals, and sometimes foreign nationals. In addition, corrupt officials, informal networks for money transfers, the real estate industry, cash-based businesses and gold and jewellery stores are also potential targets of criminals. Most of the proceeds are utilised or laundered domestically; however, Afghanistan, the UK, the United Arab Emirates and foreign states with lax financial regulations may also be destinations for laundering money of ransom. Although most of the kidnappings are carried out by local offenders, the use of Afghanistan cellular service numbers and the involvement of Afghan nationals were also found in some cases.

D. Criminal Actors and their Capacity

The criminals participating in kidnapping for ransom and related ML include individuals, semi-organized and organised groups, terrorist organisations including nationalist separation movements, business rivals, cash smugglers and illegal MVTS operators. Organised and semi-organized groups, like the Chotu gang in the district of Rajanpur, carry out most high-level kidnappings for ransom. However, most of these groups are neither long-lasting nor well-organized enough to carry out this crime consistently. Smaller groups of offenders consisting of two to five persons have started a recent trend in which they kidnap people for shorter periods in exchange for smaller ransom payments, typically made with credit or debit cards or cash. Such crimes are predominately committed in DG Khan, Karachi, Rural Sindh, and other urban areas. While local offenders perpetrate the crime frequently, Afghan nationals occasionally play a role.

E. Rating & Conclusion

In addition to overall reduction in KFR cases, there is a substantial reduction in high-value KFR crimes especially those which are related to TF activities during the NRA period. Keeping in view the assessment mentioned above, the ML threat of KFR has been downgraded to **"Medium"**.

2. Illicit Arms Trafficking (Medium)

A. Background & Impact

Illegal arms trafficking refers to the illicit trade, sale, and transfer of firearms and other military weapons across borders or within countries. It is considered a global menace due to its severe consequences, including fuelling armed conflicts, contributing to terrorism and organised crime, and posing a threat to public safety and security. In Pakistan, the trafficking of arms is a serious problem. Being the neighbour of the decades-long war-hit Afghanistan, there has been a greater risk of illicit arms trafficking for Pakistan, especially through its former tribal areas. In Pakistan, over 75 per cent of privately owned weapons are unregistered. In *Darra Adam Khel*, one of the nation's most important armaments centres, low-quality weapons are made, making them accessible to terrorists and criminals. As per a study report weapons worth Rs.3 to 4 billion ($15-20 million) are being smuggled into Pakistan after an import ban[38].

The illegal arms trade generates substantial profits, and these illicit funds need to be integrated into the legitimate financial system to avoid detection and prosecution. Illicit arms trafficking was assessed as a "**medium-high**" risk concerning money laundering in NRA 2019.

[38] https://tribune.com.pk/story/2093657/illegal-industry-thrives-pakistan-amid-ban-firearms-import

As per Global Organized Crime Index, Pakistan's arms trafficking market seems to decline due to increased efforts to contain domestic militancy and organised crime in recent years[39].

B. Crime Trend

As per data collected from LEAs, a total of 1298 cases of illegal arms trafficking were registered during the years 2019 to 2022, and 1,359 persons were arrested. The number of persons convicted is 248, while PKR 1.91 million was seized during investigations. These data show that in most cases, an individual was apprehended carrying arms without the licence required because of the government's relentless drive against terrorism and illegal arms. Overall, the predicate offence of illicit arms trafficking reduced in the country due to the changing situation in Afghanistan and control measures, including fencing borders.

C. Scope of ML

Illegal arms trafficking possesses significant scope of money laundering as a means to conceal the proceeds generated through illicit arms sales. Funds are generated through smuggling, sale and trading of illegal arms. Mainly trafficking in illegal arms is paid in cash; money laundering channels include illegal MVTS, businesses that depend heavily on cash, smuggling including cash smuggling and investing in real estate. In addition, channel of VAs may also be used by the offenders.

The vulnerable sectors for illegal arms trafficking are the youth of Pakistan fascinated by action films, individual criminals, criminal groups and organisations, border control authorities, and licensed arms dealers who, in parallel, sell illicit arms etc. Cash-intensive businesses, importers, and border areas with Afghanistan and Iran are more vulnerable to illegal arms trafficking.

D. Criminal Actors and their Capacity

The criminal players include smugglers of arms, border guards, intermediaries, vendors, traffickers, importers of mis-declared quantities of components and officials who connive with them and illicit arms manufacturers who primarily operate in tribal areas. Additionally, entities like illegal MVTS, smugglers including cash smugglers, money mules, crypto exchanges, etc., help the money laundering of earnings from the trafficking of weapons. Mostly this offence is committed by individuals or semi-organized groups of individuals. However, the possibility of the involvement of more organised groups cannot be ruled out. There was also an element of foreign offenders, especially in networks across borders.

E. Rating & Conclusion

Due to overall reduction in cases, limited capacity of offenders to launder proceeds and reducing scope, the ML threat rating of Illicit Arms Trafficking offence has been relegated to **"Medium"**.

3. Extortion (Medium)

A. Background & Impact

Extortion is a global issue that threatens developed and developing countries alike. Extortion can be defined as the extraction of money, goods, services or loyalty through the threat of force. Extortion is a prevalent form of organised crime in Pakistan, where perpetrators use threats, violence, or other means to coerce individuals or businesses into paying money or providing additional resources. Extortion results in significant monetary losses and damage to a victim's well-being. Extortion also has broader social impacts, including undermining public trust in institutions and erosion of confidence in the rule of law, a sense of fear and uncertainty within communities and the potential for corruption. Extortion is most common in metropolitan cities, especially in Karachi. Another sort of extortion which is increasing in Pakistan relates to

[39] https://ocindex.net/assets/downloads/english/ocindex_profile_pakistan.pdf

cybercrimes through which people, especially women, are victims who are blackmailed through cyberspace.

Money laundering is closely related to extortion in Pakistan, as extortion payments are laundered by criminals to alienate them from the crime and to use them as legitimate money. Extortion was rated as a "**medium-high**" threat for money laundering in NRA, 2019.

B. Crime Trend

The trend shows that cases of extortions have declined over time. Although ML investigations and prosecutions started increasing in 2022, the conviction still needs to be secured. According to trends, money laundering investigations have not been launched in any case during 2019 and 2020; however, in 2022, ML investigations were initiated in nearly 10% of total predicate crimes. Overall, ML investigations were initiated in 2% of instances involving primary offences; 37% have resulted in criminal prosecutions.

C. Scope of ML

In most of the cases of extortion committed by individuals in Pakistan, the involved amount is not significant. However, in cases where semi-organized or organised groups have been engaged, the proceeds generated could be substantial, which is then laundered. Funds are acquired from victims by exerting different types of extortion techniques. Extortion money is primarily collected in the shape of cash, which in most cases is utilised by criminals for their basic needs; however, in case of higher amounts, proceeds are usually laundered through investment in cash-intensive businesses, Illegal MVTS, cash smuggling or the real estate sector. In case of extortion through cybercrimes, money is collected through online payment platforms and crypto exchanges. Sectors vulnerable to money laundering of funds emanating through extortion include cash-intensive businesses, illegal MVTS etc. In some cases, foreign jurisdictions, including Afghanistan and UAE, may also be the ultimate destinations of proceeds.

D. Criminal Actors and their Capacity

Primarily Individuals, semi-organized criminal groups, and dishonest law enforcement agents are participants in extortion and related money laundering in Pakistan. This offence is done by individuals, semi-organized and organised groups. A significant element of this offence was linked with terrorism in the past. Still, with the reduction in terrorist activities due to Government's efforts, this crime and the involvement of more organised groups have significantly reduced.

E. Rating & Conclusion

Extortion was one of the significant challenges in the previous years. Still, due to the strong measures LEAs took, the number of reported extortion cases has declined over the NRA period. Therefore, extortion has been relegated as a **'Medium'** ML threat.

4. Insider Trading and Market Manipulation (Medium)

A. Background & Impact

In the securities markets, the threats of market manipulation, insider trading and other market abuse exist, and these markets may also be used for laundering criminal proceeds. The SECP is the apex regulator of the Pakistan Stock Exchange (PSX) and is responsible for investigating insider trading and market manipulation. The illicit proceeds in the securities market correlate with price manipulation and insider trading, resulting in ill-gotten benefits from the capital market.

Considering the volume of the PSX, the number of cases under investigation and world-over trends, it is estimated that proceeds generated in Pakistan through this predicate offence will be $5-10 million per annum. Insider trading and market manipulation were rated as a “**medium-high**” risk threat for ML.

B. Crime Trend

From 2019 to 2022, only one criminal case of market manipulation and 3 cases of insider trading have been registered involving total reported amount of PKR 192.28 million or approximately $940,000. However, no ML investigation was initiated against this predicate offence from 2019 to 2022.

C. Scope of ML

As the proceeds are typically already within the banking system, funds generated from these crimes are usually laundered through Pakistani banks. Based on initial investigations of the predicate offence conducted by SECP, criminal complaints were lodged with NAB for 4 cases. All these cases are at the initial inquiry stage in NAB, and any angle of parallel ML is likely to be covered once formal investigations are started. Therefore, there are currently no cases of ML investigations. The use of cash in the securities industry is not permissible, and funds are only routed via banking channels.

D. Criminal Actors and their Capacity

"Criminal actors" refers to corporate insiders, such as employees, who reveal non-public information to offenders, friends, family members, or associates. Examples of such individuals include executives, directors, and employees of publicly traded companies with access to non-public information about their company's financial performance, upcoming announcements, or other material events. Additionally, people engage in fraudulent activities to manipulate the stock market, including spreading false rumours, conducting wash trades (simultaneously buying and selling the same security to create the appearance of action), engaging in spoofing (placing and quickly cancelling large orders to deceive other traders) can also play a role in this crime.

E. Rating & Conclusion

Insider trading and market manipulation have been lowered to a "**Medium**" threat for money laundering because no money laundering cases have been reported thus far in Pakistan.

5. Counterfeiting and Piracy of Products (Medium)

A. Background & Impact

Producing and distributing fake or imitation goods that violate the intellectual property rights of firms and companies, such as *phoney* designer goods, electronics, drugs, and other consumer goods, is known as counterfeiting. The illegal copying and dissemination of copyrighted products, such as pirated music, software, movies, and other digital content, is known as piracy. In Pakistan, the industries most affected by this offence are the business of consumer goods such as shampoo, soap, detergents and beverages, as well as books, CDs, pharmaceuticals, cosmetics and automobile oils. Poor quality of products not only tarnishes a brand’s image and causes loss to the country’s revenue. Although the number of incidents related to this predicate offence is relatively high, only a few cases are formally registered for investigation, mainly due to lack of awareness, lower education level and limited capacity of LEAs to enforce the relevant laws.

The total proceeds generated through counterfeiting and piracy of products in Pakistan which can be considered for ML threat, are in the range of $50 million to $100 million per annum, as per estimates by experts. While the proceeds of counterfeiting and piracy may not be as high, they still represent a significant loss for businesses and the economy as a whole and a threat to money laundering. The counterfeiting and piracy of products were rated a "**medium**" threat for ML in NRA, 2019.

B. Crime Trend

Predicate investigations of counterfeiting and piracy of products have slightly increased over the years 2019 to 2022, while LEAs have started investigating and prosecuting the money laundering aspect of it only for the last two years. They haven't succeeded in securing any conviction yet.

C. Scope of ML

In Pakistan, individuals and smaller groups carry out small-scale product piracy and counterfeiting activities for their living. However, in larger-scale organised offences, these criminal activities generate sizable revenues that offenders try to hide and provide legitimacy through various money laundering methods including investing in establishing counterfeit production facilities or the piracy of digital content or laundering through front/ shell companies or other intricate transactions. The global nature of these activities further amplifies the scope of money laundering as the counterfeited and pirated products can be manufactured in one country and distributed globally, making it challenging to trace the illicit proceeds.

D. Criminal Actors and their Capacity

The production, distribution, and sale of counterfeit and pirated goods are carried out by organised criminal networks, as well as by individual counterfeiters and pirates and the end users who knowingly purchase counterfeit or pirated goods. Counterfeiting and piracy of products in Pakistan are mainly carried out by individuals, with less than 5% of cases involving semi-organized groups. These groups tend to be less organised, with a few individuals working together.

E. Rating & Conclusion

The proceeds generated through Counterfeiting and Piracy of Products are not significantly high, and there is little potential for the proceeds to be laundered due to the fact that in majority of cases, criminals use these smaller amounts of proceeds for their day-to-day expenditure. Therefore, Counterfeiting and Piracy of Products are rated as **"Medium"** ML threats.

6. Environmental Crime (Medium)

A. Background & Impact

Environmental crimes involve illegal logging, wildlife trafficking, illegal fishing, illegal dumping of hazardous waste, and other activities that harm the environment. These activities generate significant profits for those involved, and as a result, they are associated with money laundering. Pakistan, a resource-rich country, is more prone to environmental crimes, which become more catastrophic, especially when there is a severe lack of resources to deal with such crimes. Environmental crimes significantly impact society, but these crimes are not reported and mostly remain unattended. According to Global Forest Watch, Pakistan has lost 9.68 KHA ['KHA` or kilo/hectare per annum] of trees from 2001 to 2020.

The ratio of deforestation through illegal logging is increasing day by day. Poaching also poses a threat to wildlife in Pakistan. The pangolin population has declined by an estimated 80% in the last five years due to poaching for consumption or use in traditional medicine. Corrupt government officials and elite landlords also organise hunting trips for wealthy visitors to Pakistan from the Middle East. Illegal hunting trips pose a significant threat to the *Houbara* bustard. According to Europol's Public Report on Environmental Crime in the Age of Climate Change[40], due to the ban in other countries, criminal networks of waste traffickers of

[40] https://www.europol.europa.eu › files › documents Plastic waste: a global illegal trade

plastic are now targeting Bangladesh, India, Laos, Pakistan, and mainland China. Environmental crimes generate enormous criminal proceeds each year. FATF estimates such crimes generate a range from USD 110 to 281 billion annually. Experts in Pakistan believe that environmental crimes generate estimated proceeds in the field of $10-20 million per year.

Without supporting data and fewer reported cases, environmental crimes were rated as a "**medium-low**" risk threat for ML in NRA 2019.

B. Crime Trend

Unfortunately, most environmental crimes are not reported to the authorities, so data and statistics on such crimes are hugely underestimated. Similarly, this is the case in Pakistan, as environmental crimes significantly impact society, but these crimes are not reported and mostly remain unattended. Although, according to the Financial Monitoring Unit of Pakistan (FMU), 32 STRs have been generated from 2019 to 2022, no parallel ML investigation against this predicate offence has been reported during the NRA period. Law enforcement agencies are seriously lacking in the capacity to track and combat these crimes.

C. Scope of ML

Although in Pakistan, the majority of offenders involved in such crimes are earning their basic living expenses through this crime, due to the potential for enormous earnings and the illegal nature of these actions, the scope of money laundering in environmental crimes is significant, especially when organised groups do it at a larger scale. In such cases, ML can happen in many ways, including using front businesses, shell companies, offshore accounts, or complicated financial transactions to hide the source and ownership of the funds. Weak regulatory frameworks or a lack of oversight in the environmental sector also makes money laundering easier.

D. Criminal Actors and their Capacity

Corrupting officials and staff to facilitate and benefit from unlawful activities is a strategy used by those involved in environmental crimes. Consumers and end users may also be affected knowingly or unknowingly. Individuals and small-scale criminals, traders, middlemen, and exporters engaged in the illegal trade of timber, wildlife products, or minerals may also participate in the offence and money laundering activities to hide the illicit proceeds.

E. Rating & Conclusion

In light of the above, Environmental Crimes are an emerging threat for ML and hence have been rated as a **'Medium'** ML threat.

7. Robbery and Theft (Medium)

A. Background & Impact

Robbery i.e. forcibly taking someone's property and theft i.e. unauthorized taking of another person's belongings includes armed robberies, burglaries, pickpocketing, or cybercrime that involves cash, valuable assets, or other forms of property. Both these offences generate illicit funds which are laundered using variety of means. As per the World Crimes Index, two Pakistani cities i.e. Karachi and Rawalpindi were ranked at 128th and 180th places respectively.[41]

To determine approximate annual proceeds generated through robbery and theft in Pakistan, periodic news reports and feedback of the experts along with actual data of registered cases were used. It is estimated that citizen are deprived of their assets worth $100 million to $ 200 million per year through

[41] https://www.kaggle.com/datasets/ahmadjalalmasood123/world-crime-index

armed robbery and theft incidents. These estimates, however, are based on the real worth of the assets involved, and when sold as proceeds of crime, the funds earned by these same assets are significantly less than their original value. Furthermore, as per data and assessment of experienced investigators, approximately 98% occurrences of robbery and theft involve amounts smaller than $1,000.

Robbery and theft were assessed as "**Medium High**" threat for money laundering in the NRA 2019.

B. Crime Trend

Since maximum number of robberies and thefts are of trivial nature mostly committed by individuals, there is lesser element of money laundering in majority of such cases. Resultantly, the number of ML investigations is very low compared to predicate offence.

C. Scope of ML

The scope of money laundering in robbery and theft can vary depending on various factors, including the scale of the criminal activities, the sophistication of the perpetrators, and the effectiveness of anti-money laundering measures in place. Small-scale robberies and thefts may involve relatively modest amounts of money, which may be easier for criminals to conceal and launder or in majority of cases such proceeds are used for personal consumption. On the other hand, large-scale operations, such as heists or organized robbery and theft syndicates, can result in substantial sums of illicit proceeds that require more sophisticated laundering mechanisms. While it's challenging to provide specific statistics or figures on the extent of money laundering specifically related to robbery and theft in Pakistan, it's important to understand the general dynamics involved.

Sources include stolen goods, cash, valuable articles including gold and jewellery, virtual assets and other properties. Channels for laundering POC of robbery and theft include *benami* accounts and properties etc. The regulated financial system of the country may also be misused by the offenders at smaller scale. The banking sector, real estate including construction industry, cash-intensive businesses and informal money exchange networks are among the sectors identified as vulnerable to ML predicated for robbery and theft in Pakistan. Virtual assets and online platforms may also become vulnerable to laundering of proceeds.

D. Criminal Actors and their Capacity

Majority of robberies and theft incidents pertain to street crimes and thefts from shops involving smaller amounts having limited avenues for money laundering. There are very limited cases which involve huge amounts with more sophisticated networks and element of money laundering. As per data available with provincial police and feedback of experts, individuals are found involved in these crimes in more than 95% cases whereas, in less than 5% cases, semi-organized groups are found involved with the exception of a few cases in which larger organized groups were involved.

E. Rating & Conclusion

In light of the above, robbery and theft have been rated as a **'Medium'** ML threat.

3.4.4 Predicate Offences with 'Low' ML Threat

1. Sexual Exploitation, Including Sexual Exploitation of Children (Low)

Sexual abuse is a phenomenon that occurs across all socio-economic classes and remains under-reported in Pakistan. Many factors, such as social, economic and family disputes, contribute to the commission of this crime, and sometimes for personal satisfaction or blackmailing but not for financial gains. Individuals are primarily involved in this crime. The overall rating is considered low since there is a lower level of proceeds generated through this predicate offence and a minimal scope of ML activity. This rating excludes child pornography which, in Pakistan, is a cybercrime under PECA 2016 and has already been covered under cybercrime as a predicate offence.

2. Illicit Trafficking in Stolen and Other Goods (Low)

In Pakistan, illicit traffic in stolen and other goods mainly comprises cultural heritage artefacts and antiquities. Pakistan has one of the richest histories of heritage and ages-old civilisations. The illegal trafficking of stolen goods of significant value remains a major challenge for Pakistan. However, the majority of such instances remain unidentified and unreported. Occasionally, instances surface where Pakistan-origin heritage items are found in various countries. Most such items are smuggled abroad after being stolen from Pakistan and their proceeds are generated abroad. As a recent example, a bronze-age iconic artefact was recently returned to Pakistan by the Australian Government, which had been sold online by an American citizen. Such instances are limited, as three examples were found from 2019 to 2022. The scope of ML activity is also on the lower side.

3. Counterfeiting Currency (Low)

The scope of producing counterfeit currency remains low in Pakistan. In line with currency innovation, the bank notes issued by Pakistan comprise both overt and covert features, which enable the public to assess the banknotes' authenticity. In March 2017, security features in higher denomination banknotes were further augmented for manual and machine recognition, thus making counterfeiting currency less of a threat to Pakistan. Fake currency notes are mainly brought into circulation in the domestic informal loan business and the illegal gambling business. Individuals may also use fake currency notes while purchasing something, etc. However, such activity is limited to one or a few notes at a time. Investigations of counterfeiting currency decreased by around 50% during the NRA period, despite showing a slight increase in the year 2020. This offence has been rated low because of the low number of cases, low POC generation and low scope of ML activity.

4. Murder, Grievous Bodily Injury (Low)

The offence of murder and grievous bodily injury was usually noted in the context of individual/family disputes and was mainly committed by individuals. In less than 10% of the cases, semi-organized groups are involved. Financial motives are involved in an even lower percentage of these cases. In some cases, land grabbers used the services of organised / semi-organized groups to commit the offence against payments of financial benefits. The offence was mainly committed by the locals, with the involvement of Afghan refugees in limited cases.

5. Maritime Piracy (Low)

No case of maritime piracy was reported in Pakistan despite its long coastal line; therefore, this crime was considered Low.

CHAPTER 4: ASSESSMENT OF TERRORISM AND TERRORISM FINANCING THREATS

4.1 INTRODUCTION & BACKGROUND

Pakistan conducted its first terrorist financing threat assessment in 2018 using the World Bank methodology. National Counter Terrorism Authority (NACTA) played a lead role in conducting this TF threat assessment, with the coordination of all concerned stakeholders. The 2018 threat assessment accounted for information about various Terrorist Organisations (TOs) operating in different provinces of the country and in the regional context. It considered information and intelligence about global, regional, and domestic TOs and their funding operations relevant to Pakistan, including the sources and channels of their funding. Later TFRA addendum was adopted in April 2019 using the updated data and other related information, particularly concerning entities of concern. Moreover, the April 2019 updated assessment also considered international reports, risk assessments of several countries, and reliable open-source information such as UN Monitoring Team reports, Global Terrorism Index, etc. The updated data and information on all TOs were again collected in August 2019 to update further the assessment, which resulted in the "updated National Risk Assessment 2019".

Utilizing the expertise of NACTA, Pakistan formed a working group to conduct the assessment of terrorism and terrorism financing threats. The working group was led by NACTA and included federal and provincial authorities to make this document encompassing and reflect the complete picture. As a first step, data were collected from both federal and provincial LEAs and intelligence agencies by sending them Terrorism and Terrorism Financing Templates using the following assessment variables:

a) Terrorism cases registered by each LEA and the Terrorist Organisation responsible, the number of causalities, and other adverse effects (if any)
b) Level of sophistication of each TO, i.e., manpower, modus operandi, association with other groups, equipment used by them etc.
c) Threat alerts issued by concerned authorities against each TO
d) Proscription status of organisations
e) Future prediction based on TOs intelligence and their activities
f) Data on TF cases, including cases registered, convictions, and financial recoveries made.
g) Data on properties under use by each TO and the status of those properties
h) Financial Intelligence shared by Financial Monitoring Unit
i) The number of Mutual Legal Assistance documents, both inbound and outbound
j) Sources and channels used for income and movement of funds by the TOs.
k) Direction of funds movement

LEAs, including provincial CTDs and FIA, provided their input in the shape of data by filling in the templates for the last four years, i.e., 2019-2022, of all TF investigations they carried out. Moreover, the intelligence agencies provided their input on the overall landscape of terrorism and terrorism financing in the country, which has been duly incorporated. SBP, FMU and SECP were also members of the working group. They provided information on the financial sector, including frozen assets and financial intelligence reports based on suspicious transaction reports. Customs authorities and the ANF also shared their data on investigations being carried out by them related to TF offences. The assessment also took into account international reports and reliable open-source information.

4.1.1 Brief Overview of NRA 2019

In NRA 2019, Pakistan rated terrorist organisations using a 5-level scale of Low, Medium-low, Medium, Medium-high and High as follows:

Table 4.1: NRA 2019 Risk Ratings of TOs

No. of TOs	Risk	Names of Terrorist Organisations (TOs)
2	High	Daesh and TTP.
10	Medium-High	AQ, JeM, JuD/ FIF, TTA, LeT, HQN, JuA, BLA, LeJ and BLF.
8	Medium	SSP, LeJ-Al-Almi, UBA, BRA, BLT, BRAS, HuA and Unknown.
21	Medium-Low and Low	Jesh-ul-Islam, Lashkar-i-Islam, SMP, Lashkar-e-Balochistan, Balochistan Republican Guards, Self-radicalized (lone wolf) terrorists, Hazb-ul–Tahrir, Ahl-e-Sunnat Wal Jamat, Tehreek-e-Jafaria Pakistan, Jeay Sindh Mottahida Mahaz, Harkat-ul-Mujahideen, Tehreek - e- Taliban Swat, Al-Badar Mujahideen, Ansar-ul-Shariya, Balochistan Waja Liberation Army, Baloch Republican Party Azad, Balochistan United Army, Balochistan National Liberation Army, Balochistan Liberation United Front, Baloch Student Organisation Azad, Balochistan Muslla Defa Tanzeem.

The NRA 2019 concluded that Pakistan's highly active and porous borders were a major cause of illegal border crossings and were actively exploited by external terrorism and TF threats. Based on data and intelligence reports, the TF threat to Pakistan was determined to be significant and increasing. As a result, the overall TF threat for Pakistan was assessed as "High".

4.2 GENERAL TERRORISM IN PAKISTAN

Pakistan has been fighting the menace of terrorism for the past two decades. It has faced 4,047 terrorist incidents since 2016. Terrorism incidents have been declining over the last few years since 2016 (except for 2022) which is the result of the extended and continuous efforts of the Pakistan Army and other law enforcement agencies.

International reports have also confirmed this trend. The global terrorism index of Pakistan had fallen gradually from 9.05 in 2011 (as per the 2012 GTI Report) to 7.83 in 2021 (as per the 2022 GTI Report) when **Pakistan was ranked number 10 compared to its rank of 2 in 2011.** In 2022, a surge in terrorist activities was witnessed, and Pakistan now stands at rank 6 with a score of 8.16 (as per the 2023 GTI Report). Terrorist organisations like Tehreek e Taliban Pakistan (TTP), Islamic State/*Daesh*, *Baloch* Liberation Army (BLA) and other terrorist groups continue to pose considerable terrorism threats to Pakistan.

The decline in Pakistan's terrorism threat till 2021 can be attributed to successful operations by its security forces and the fact that Pakistan now has a comprehensive, extensive and well-embedded counter-terrorism regime. Counter-terrorism departments (CTDs) have been established in all provinces. Given that finances are the lifeline for any terrorist organisation, a particular emphasis was put on curbing the sources and channels for Terrorist Financing (TF) across the country, through the establishment of special Counter Financing of Terrorism Units (CFTU) in each CTD, with an oversight role by National Counter Terrorism Authority. Investigators were provided specialized training to carry out TF investigations and "Parallel Terrorist Financing investigations/Enquiries" for all predicate offences. These actions have helped to reduce the footprint of domestic TOs.

Nonetheless, a considerable threat remains posed by TOs having a regional presence. Pakistan has a highly active western border with fast-moving populations across the border because of shared history, cultures and blood ties. Recent political circumstances in Afghanistan have additionally exacerbated the refugee issue in Pakistan, as countless Afghans have rushed towards Pakistan's western border. This, in turn, has enhanced pressure on border control measures and authorities on the western border.

4.3 TF PROFILE OF TERRORIST ORGANISATIONS ACTIVE IN PAKISTAN

The working group gathered data from the Provincial Counter Terrorism Departments and other law enforcement agencies, including intelligence agencies, about the terrorist financing cases registered since 2019. The working group further analyzed data to identify which terrorist organisations have been active in Pakistan regarding TF activities during that period. TF threats were rated using a 4-level scale, i.e., Very High, High, Medium and Low, and assigned ratings to each assessed TO, sector and channel regarding TF.

Pakistan has proscribed 78 terrorist organisations under the Anti-Terrorism Act 1997, which is available publicly on the NACTA website (https://nacta.gov.pk/). During the NRA exercise, an assessment of all terrorist organisations proscribed under the ATA, 1997, as well as some other non-proscribed and UN-listed entities, have been made, totaling 87 TOs. However, from a detailed assessment of the data provided by LEAs and from the intelligence inputs, the working group has assessed that 41 terrorist organisations have been active in Pakistan during the last four years, though with varying degrees, some are directly carrying out terrorist activities while others are only involved in terrorism financing activities. This included the organisations against which even a single TF case was investigated by LEAs since 2019. The rest of the terrorist organisations have either been dismantled, merged into other organisations, or inactive.

4.4 OVERALL RATINGS OF TOs

The TFRA working group further analyzed the data and information populated in detailed threat profiles of TOs and allocated risk ratings to those TOs. The activities of each TO, including its capacity and scope to carry out terrorism activities, the latest trends in data on terrorism & terrorist financing investigations and prosecutions, sources and channels of funding, intelligence information, etc., were particularly considered and discussed by the Working Group before assigning ratings to TOs. Out of the total of 87 TOs assessed, there are varying patterns of involvement and threat levels posed by different organisations. Notwithstanding the significant declining trend in TF activities of some TOs, these organisations have been assigned risk ratings by considering their inherent risk factors and recent trends. The summary of risk ratings assigned to TOs in comparison to NRA 2019 is provided below:

Table 4.2: Comparative Risk Ratings of NRA 2019 & 2023

NRA 2019			NRA 2023		
Names of TOs	TOs	Risk	Risk	TOs	Names of TOs
Daesh/ISKP, TTP	2	High	Very High	4	TTP, Daesh/ISKP, BLA and MB
AQIS, JeM, JuD/ FIF, TTA, LeT, HQN, JuA, BLA, LeJ and BLF	10	Med High	High	8	BLF, AQIS, JeM, JuD/FiF, TTA, HQN, JuA and LeT
SSP, LeJ-Al-Almi, UBA, BRA, BLT, BRAS, HuA and Unknown	8	Medium	Medium	7	BRA, UBA, HuA, BNA, SRA, BRAS and BRG
21 others	21	Med Low/Low	Low	68	68 others
	41	Total		87	

The total number of TOs in the table has increased substantially from 2019 to 2022 because NRA 2023 considers all TOs proscribed domestically by Pakistan, regardless of whether they are active or dormant. By contrast, in NRA 2019, although all TOs were assessed, the risk assessment document focused only on those TOs which were active in Pakistan at that time. Therefore, the large number of TOs considered in the current NRA simply reflects the more expansive net cast in conducting the assessment and does not mean that the number of TOs active within Pakistan has increased over the past four years. As per Table 4.2, only 19 out of previously mentioned 41 active TOs are rated as medium or above, with the remainder 68 TOs rated as low, and have either minimal activity or a declining trend of TF activity.

Detailed profiles of terrorist organisations were prepared based on available data and various risk factors. The profiling criteria also consider the geographic reach, i.e. local, regional, national and transnational. Each organisation has been assessed concerning its ideology, leadership, listing/ proscription status, attributed activities, investigations against the entity, frozen assets, sources of funding, channels for transfer of funds and rating assigned by the working group. A summary of the profiles of "very high", "high", and "medium" rated TOs, along with their ratings, is provided hereunder:

1. ***Tahreek*-e-Taliban Pakistan (TTP)** TTP continues to pose a persistent threat. TTP is the largest component of foreign terrorist fighters in Afghanistan and, in recent years, has reunified with splinter groups that had previously splintered from it. The Global Terrorism Index Report 2023 also recognizes TTP as one of the deadliest terrorist groups in Pakistan. 387 TF cases have been registered against TTP during the last four years (2019-2022). TTP generates funds from narcotics, kidnapping for ransom, extortion, cash smuggling, smuggling of natural resources, bank robbery, reselling of arms & ammunition, as well as collecting funds from the sympathizers from their legitimate businesses, etc. and through the support of foreign Intelligence Agencies including from India. However, the quantum of coercive means for funding is usually higher than donation collections. There are instances of extortion from business people; however, many such cases are not disclosed/reported due to fear of reprisals. Some financial intelligence was reported to LEAs by FMU regarding individuals associated with TTP who were either on ATA proscribed list or on FIA's most wanted list, and they conducted or attempted to conduct transactions. Total of 471 bank accounts of proscribed and their associated persons of TTP valuing Rs. 17.75 million and 11 other financial assets valuing Rs. 0.691 million have been frozen overall. The use of *Hawala*, cash and banking has also been reported. TTP mostly use cash as a channel to transfer funds, while several TF cases in the banking sector in which members of the entity are suspected of using bank accounts to receive funds to distribute among the members. TTP presents enhanced transnational TF characteristics. Given these vital factors, the TF threat posed by TTP and its groups is rated as ***Very High.***

2. **Daesh/ISKP** originated in Iraq and Syria, but its local Chapter, Islamic State *Khurasan* Province (ISKP), has been carrying out terrorist acts in Pakistan. Local terrorists from TTP, *Lashkar e Jhangvi* and *Jesh ul Islam* have joined its ranks and conducted activities under its banner. ISKP is relevant in Pakistan's context due to the porous border regions and the highly likely spillover effect in Pakistan. A total of **90 TF cases** have been registered against the organisation since 2019. Daesh/ISKP generates funds through Criminal activities like extortions, narcotics smuggling, cash smuggling, kidnapping for ransom of business dignitaries, etc. and support from Hostile Intelligence Agencies HIAs. ISKP presents enhanced transnational TF characteristics. The entity has limited local sources of funding owing to ideological differences and a lack of organized funding mechanisms. Cash has been mostly used to transfer funds; however, a few cases of banking and virtual currencies have been reported. A total of 98 bank accounts of associated persons of Daesh/ISKP valuing Rs. 1.340 million and three other financial assets valuing Rs. 0.173 million have been frozen overall. Given these vital factors, the TF threat posed by Daesh/ISKP is rated as ***Very High.***

3. **Baloch Liberation Army (BLA):** BLA has been responsible for carrying out many terrorist activities, particularly in Balochistan, including 74 terrorist acts since 2019, including some sophisticated terrorist attacks with enhanced transnational TF linkages. A total of 77 TF cases have been registered against the organisation by CTDs since 2019. Primary sources for funds generation have been extortion, fundraising, narcotics trafficking and natural resources smuggling. Some Indian elements have also provided covert arms, financial support, and training support to the BLA, which has received funding

from other jurisdictions as well. The use of *Hawala* and cash to transfer funds by the entity has been reported. *Hawala* is relatively rare, but recovery of money in funds raising cases and subsequent domestic transfer of cash is frequent as per LEAs. 21 BLA bank accounts of associated persons valuing Rs. 1.198 million and one other financial assets (life insurance) valuing Rs. 0.054 million have been frozen. Given these vital factors, BLA's TF threat is rated ***Very High.***

4. ***Majeed* Brigade (MB)** has been responsible for carrying out many terrorist activities, particularly in Balochistan and Karachi, including sophisticated suicidal attacks with enhanced transnational TF linkages. A total of 8 TF cases have been registered against the entity by CTDs since 2019. The active financing sources of MB consist of a vast network of *Baloch* diaspora in the UK, Switzerland, Afghanistan, India and Iran. The strength of the organisation in terms of foreign support, linkages with other active TOs, including TTP and ISIL-K, a considerable number of terrorism/ TF investigations with an increasing trend, transnational TF linkages and intelligence reports about the entity represent very strong factors due to which the TF threat posed by MB is rated as ***Very High.***

5. **Balochistan Liberation Front (BLF)** is quite active in South Balochistan and has also developed a logistical support base in Iran with some presence in Afghanistan. The main support base of BLF including hideouts, training camps, medical treatments and refuge, etc., is done from Iran, and it presents a limited transnational TF threat. LEAs have registered 28 TF cases against the organisations since 2019, with an increasing trend in 2022. Narcotics, natural resources smuggling and extortion are the primary sources of its funding. Cash, *hawala/hundi* and banking have been the significant channels used. One bank account of the associated person of BLF valuing Rs. 1,146 has been frozen. There are 5 TF cases LEAs are investigating in which members of BLF had bank accounts to receive funds to distribute among the members. Given these vital factors, the TF threat posed by BLF is rated as ***High.***

6. **Al-Qaida (AQIS)** has not been active operationally in Pakistan in recent years. The organisation maintains ties with TTP in Afghanistan. While it does not have a strong or vibrant activist pool in the country, due to recent developments in Afghanistan, there is a possibility that AQIS may gain operational strength. Some TF-related activities have been reported, and 26 TF cases have been registered in the last four years, of which only four pertain to 2022. While, fundraising, extortions and kidnapping for ransom are the primary sources of its funding, there is little evidence of systematic sources of funds generation for AQIS. However, the entity presents enhanced transnational TF characteristics. There are 2 TF cases in which LEAs are investigating members of the entity suspected of using bank accounts to receive funds. FMU has disseminated a few financial intelligence reports to LEAs in 2019 and 2020 regarding the individuals who were either on the ATA proscription list or suspected to be associates of proscribed entities/ individuals. Total of 132 bank accounts of associated persons of AQ/AQIS valuing Rs. 1789.819 million have been frozen on an overall basis. Given these factors, the TF threat posed by AQIS is rated as ***High.***

7. **Jaish-e-Muhammad (JeM)** was founded in 2000 by Maulana Masood Azhar. The LEAs have registered 138 TF cases since 2019, with a considerable declining trend in the last two years. It collects organisational funds through its *Madaris*, collection of Zakat and sacrificial hides and through the selling of books. 2 front organisations were found to be associated with JeM which acted like welfare organisations due to involvement in social welfare activities through gathering funds and donations and were proscribed in 2019. The government has taken over the organisation's assets, owned or controlled by the organisation, its leadership, or associates, and many associates have now been convicted. A total of 195 bank accounts of associated persons of JeM valuing Rs. 79.384 million and one other financial assets (life insurance) valuing Rs. 0.0077 million have been frozen. The entity presents limited transnational TF characteristics. Given the above factors and the inherent nature of risks, the TF threat posed by JeM is rated as ***High.***

8. **JuD/FIF:** JuD and FIF were established by associates of *Lashkar-e-Tayyiba-LeT,* who had renounced their affiliation with LeT. The JuD and FIF gained popularity and earned social capital because of their welfare activities in natural disasters and educational and medical aid-related facilities. 184 TF cases have been investigated against the outfit in the last four years, with a significant declining trend in the previous two years. The source of its funding mainly includes donations by businessmen, collection of Zakat, sacrificial hides and 09 associated front welfare organisations subsequently proscribed in 2019 under ATA, 1997. Pakistan's government has taken over all identified properties owned or operated by the organisation, and the central leadership has been convicted. Several individuals having erstwhile associations with the group have been proscribed under ATA 1997. 419 bank accounts of persons associated with JuD/FiF valuing Rs. 59.861 million have already been frozen. As a result of the disruption of the entity's funding stream and resources and the dismantling of front welfare organisations, there is a downward trend in the organisation's reported activities. The entity presents a limited transnational TF threat. Given these factors, the TF threat posed by JuD/FiF is rated as ***High.***

9. **Taliban/TTA/Amarat Al Islami Afghanistan** is present in Afghanistan and established an interim Government there after the US withdrawal in 2021. TTA has been found involved in terrorist financing activities in Pakistan. The presence of a large number of Afghan refugees has helped the Taliban to carry out their activities. There is a downward trend in its activities in Pakistan due to strict monitoring and border controls. 58 TF cases have been registered against them in the last four years. Taliban are currently running the Afghan state, and financial support/aid is coming through legal channels from the international community and local tax collection. A large number of refugees present in Pakistan still allow them leverage to generate funds but to a limited extent. The entity presents enhanced transnational TF characteristics. Total of 66 bank accounts of associated persons of TTA/Taliban/Amarat-e-Islami valuing Rs. 8.906 million have been frozen. From a transnational perspective, there are several cases of outward/inward funding to/from Afghanistan. Given these factors, the TF threat posed by Taliban/TTA is rated ***High.***

10. **Haqqani Network (HQN)** is part of the *Tehreek*-e-Taliban Afghanistan (TTA) and now forms an important part of the Afghan Government. It has some influence over Afghan refugees present in Pakistan. There are no reported or claimed terrorist acts by the entity in Pakistan. The large number of Afghan refugees in Pakistan allows the HQN a certain amount of leverage to generate funds due to the involvement of the Afghan diaspora in criminal activities and illicit transfer of funds. The entity presents enhanced transnational TF characteristics. The entity is involved in fundraising through donations and illegal activities such as narcotics, smuggling of natural resources and cash smuggling. There have been 15 TF cases against HQN since 2019, of which only one pertains to 2021 and no case in 2022 because of lowered activities. Main funding sources include natural resources smuggling, cash smuggling, narcotics and donations. Given these factors, the TF threat posed by HQN is rated as ***High.***

11. ***Jamaat-ul-Ahrar* (JuA)** is a splinter group of TTP and has merged back into TTP. A total of 18 TF cases have been registered against JuA in the last four years, of which 16 cases of TF were registered in 2019, and after that, its activities have been minimal. Cash smuggling, extortion, and natural resources/marble business in Afghanistan have been the organisation's major revenue sources. A total of 3 bank accounts of associated persons of JuA with nominal value have been frozen. The militants of said group reside in Afghanistan and the Pak-Afghan border areas of Pakistan and there is an element of inward transnational funding involving the entity. Thus, the entity presents enhanced transnational TF characteristics. Given JuA's past and potential activities, the possibility of its further separation from TTP cannot be ruled out. Given these factors, the TF threat JuA poses is rated as ***High.***

12. **LeT** was founded to launch a struggle against the Soviet occupation of Afghanistan in the 1980s. LeT is non-existent as its activities have diminished in Pakistan; however, some of its affiliates travelled to Afghanistan, while many in Pakistan associated themselves with education and philanthropy under the

name of JuD and FIF, respectively. The central leadership of LeT and associates have been convicted. There have been 27 TF cases against the entity in the last four years. Erstwhile funding sources were donations and charities, and there are 2 TF cases of donations and 20 TF cases of misuse of properties in the early 2000s for funds collection for TF purposes. The entity presented limited transnational TF characteristics from a historical perspective. As a result of LeT’s prescription and implementation of targeted financial sanctions, LeT has seized to exist with no ability to raise funds and operate as an organised group. However, in light of its past activities and perception, the TF threat is rated as ***High.***

13. ***Baloch* Republican Army (BRA)** is a secessionist organisation and has close coordination with other *Baloch* TOs and a nexus with criminal gangs in Sindh-Balochistan-Punjab tri-border areas. The entity has its base camps in Afghanistan with the support of HIAs and presents enhanced transnational TF characteristics. 21 TF cases have been registered against the organisation since 2019. Extortion from local landlords and mine owners has been its main revenue generation tool, besides cash smuggling, narcotics and fund-raising activities. There are 4 TF cases in which members of the entity are suspected to have used bank accounts to receive funds to distribute among other members. Given these factors and transnational support from abroad, the TF threat BRA poses is rated as ***Medium.***

14. **United *Baloch* Army (UBA)** is a *Baloch* militant organisation having its base in Balochistan with support from UAE and Afghanistan. There are 13 TF cases registered against the entity by LEAs since 2019 with an increasing trend in the last two years. The organisation has organized criminal activity patterns. Extortion from local landlords and mine owners has been its main revenue generation tool. The entity also resorts to donations through various means for financing its activities. It also gets support from abroad and presents enhanced transnational TF characteristics. Given these strong factors, UBA’s TF threat is rated as ***Medium.***

15. ***Hizb-ul-Ahrar* (HuA)** is a splinter group of TTP that recently merged back into TTP. There are 7 TF cases registered against the entity by LEAs since 2019, with a declining trend in 2021 and 2022. Its funding sources include extortion, dacoities and smuggling of natural resources, as investigated by LEAs. HuA maintains a moderate profile in terms of capacity with the potential to reactivate its activities. The entity presents limited transnational TF characteristics and its TF threat is rated as ***Medium***.

16. ***Baloch* National Army (BNA)** was formed by the merger of BRA and UBA on January 11, 2022, and is not proscribed under ATA, 1997. From a transnational perspective, the organisation possesses limited bases in Afghanistan and comparatively strong bases in Iran. Since its creation, BNA has claimed 4 terrorist incidents in 2022. LEAs registered 4 TF cases against the entity in 2022. BNA resorts to extortion, donations, narcotics and the use of *hawala/hundi* for financing its activities. BNA maintains a moderate profile in terms of capacity and scope of its activities with the emerging strength of the organisation. It closely cooperates with BRAS and its outfits, has transnational linkages from neighboring countries, including Afghanistan and India, and presents enhanced transnational TF characteristics. Given these factors, the TF threat BNA poses is rated as ***Medium***.

17. ***Sindhu Desh* Revolutionary Army (SRA)** is a secessionist organisation mostly active in Sindh Province. Its attributed terrorist acts are 2 in 2019, 17 in 2020 and 10 in 2021. In the year 2021, SRA carried out some sophisticated attacks in Karachi. Due to the strict actions of the LEAs, the entity’s penetration and acceptance of the people have decreased to a very low level. However, some sleeping pockets involved in terrorist activities came to the surface in the recent past. A total of 4 TF cases have been registered against the entity since 2019. Its funding sources include fundraising, foreign funding from RAW, dacoity, *bhatta* collection (a local form of extortion) and kidnapping for ransom. It is a strength of the organisation regarding linkages with *Baloch* TOs/ Sindhi sub-nationalist groups and financial support from foreign elements. The entity presents limited transnational TF characteristics. The overall TF threat posed by SRA is rated as Medium.

18. **Balochistan *Raaji Ajoi-R-Sangar* (BRAS)** works as a conglomerate of different *Baloch* Separatist Nationals (BSNs) and has the capacity to execute sophisticated terrorist attacks. The umbrella organisation has recently successfully conducted lethal attacks against LEAs in south Balochistan. Most of its affiliates are located in Iran and Afghanistan. Intelligence information suggests evidence of inward TF funding to the organisation from foreign jurisdictions as the entity presents enhanced transnational TF characteristics. The organisation's activity profile remains high and has claimed 11 terrorist incidents in the last three years. The organisation's emerging strength is to carry out sophisticated attacks, and it serves as an umbrella organisation for Baloch TOs. Given these factors, the TF threat BRAS poses is rated as ***Medium***.

19. **Balochistan Republican Guards (BRG)** operates in collaboration with BRA and BRAS. BRG activists carry out criminal/militant activities such as kidnapping for ransom, highway robberies, blowing up railway tracks, attacks on LEAs etc. It maintains a medium activity profile; its splinters keep on crossing the floor with other *Baloch* terrorist groups. The entity has claimed 21 terrorist incidents in the last four years. Total 5 TF cases were registered against the entity since 2019. Its organisational strength lies in its linkages with *Baloch* TOs, and financial support from foreign jurisdictions but the entity presents limited transnational TF characteristics. The overall TF threat posed by BRG is rated as **Medium.**

The remaining lower-risk TOs have minimal activity with a declining trend, resulting in their inclusion in the low-risk category.

4.5 ANALYSIS OF SOURCES AND CHANNELS OF TF

LEAs regularly consider and examine possible sources and channels during TF investigations which could be exploited or misused by terrorist organisations to fund their activities. The funding patterns of TOs vary from foreign-based to domestic-based organisations. The TF risks associated with key foreign-based terrorist organisations, i.e. Daesh/ISIS-K/LeJ, AQIS, TTA, HQN, primarily relate to kinetic sources like kidnapping for ransom, extortion/tax collection from businesses and locals, narcotics smuggling, cash smuggling, financial support from hostile agencies, etc. and also from fundraising activities to a limited extent. In the case of domestic terrorist organisations, i.e. TTP (and its affiliates), JuD/FiF, LeT, JeM, BLA (and its BTO affiliates), the estimated magnitude of funds generated is less than for foreign organisations. Their significant sources of funding include donations derived from social welfare organisations (in the case of LeT, JuD/FiF & JeM) and coercive sources of extortion from businesses, public and mine owners, narcotics, kidnapping for ransom, cash & goods smuggling and financial support from hostile agencies (in case of TTP & its affiliates and BLA & its affiliates). The TFRA working group analysed the data of identified TF sources and has tabulated it as under:

Table 4.3: Source Wise Data

Source	TF Cases registered During				Total
	2019	2020	2021	2022	
Donations/Fundraising	240	98	70	71	479
Misuse of Properties	102	43	1	-	146
Extortion	43	11	24	52	130
Narcotics trafficking	15	18	8	22	63
Cash smuggling	20	15	-	11	46
KFR	4	1	4	7	16
Goods/ Natural resources smuggling	-	15	-	11	26
Skin/ Hides collection	4	2	4	-	10
Total	**428**	**203**	**111**	**174**	**916**

A detailed assessment of these sources has been carried out, considering their prevalence in TF investigations since 2019, TOs' use of the sources in funding their activities and the perceived TF threat posed by each source. Table 4.4 summarises all source ratings, followed by a detailed assessment of each source.

Table 4.4: Source TF Risk Ratings

Source	NRA 2023
Donations	Very High
Extortion	Very High
Narcotics trafficking	High
Cash smuggling	High
Misuse of Properties	Medium
Kidnapping for ransom	Medium
Goods/ Natural resources smuggling	Medium
Skin/ Hides collection	Low

1. **Donations/*Chanda*** is a major source for raising funds by terrorist organisations. Charity is deeply rooted in Pakistan's socio-economic and religious culture. It comes in many forms in Pakistan, like *Sadqa, Zakat*, person-to-person charity or helping needy people. Members/associates of the TOs conceal their real identity and appeal to the public for charity. In most cases, people do not disclose their names while donating, considering it their religious obligation which should not be used to glorify themselves. The real challenge is the concealed or masked identity of donation seekers who do not disclose their association with any proscribed organisation or unregistered entities, making it difficult for the general public to scrutinise their licit or illicit fundraising objective. LEAs have registered 479 TF cases in the last four years, though the trend is downwards due to the implementation of TFS controls. The entities involved in collecting donations/chanda include JuD/FiF, JeM, LeJ/SSP/ASWJ, TTP, Taliban, Daesh/ISKP, AQIS. Notwithstanding the implementation of a legal framework against this source, and keeping in view the dynamics of Pakistan, the TF threat from donations is rated as **Very High**.

2. **Extortion:** In the last four years, LEAs have identified and investigated 130 extortion cases where terrorist organisations threatened and demanded money. In most cases, extortion calls have been made from Afghan mobile numbers, making it difficult to trace and apprehend the culprits. However, in many cases, forensic analysis of the voice cuts identified the culprits belonging to TTP, Daesh/ISKP , JuA/HuA or Baloch militant outfits. Security apparatus has been reviewed and further enhanced but poses a significant threat regarding TF. The TF threat from extortion is rated as **Very High**.

3. **Narcotics trafficking**: Terrorist organisations like TTP, Daesh/ISKP, HQN, BLA and others have tried smuggling narcotics from Afghanistan, one of the main poppy-producing countries, for further sale and revenue generation. The border situation and the flow of persons from Afghanistan may also contribute to the risk of narcotics trafficking. Afghan transit trade was used for the import of precursors for narcotics. One joint US DEA and Customs controlled delivery operation resulted in the seizure of a large quantity of iodine used for methamphetamine on crossing the Torkham border. It had originated from India, transited through Pakistan and intended to be delivered in militants-controlled areas in Afghanistan. Pakistan has identified and investigated 63 TF cases related to narcotics trafficking since 2019. In one instance, terrorists established a factory near the Pak-Afghan border where the raw material for *Chars* was being processed in Balochistan. The timely action by LEAs made it possible to detect the narcotic factory and recover a considerable quantity of chars upon which the TF investigation was initiated. The threat from narcotics is rated as **High.**

4. **Cash smuggling** Has been a preferred way to move funds from one place to another due to the strict measures adopted in formal financial channels and stern enforcement actions against illegal MVTS. Cash smuggling is being conducted through notified border crossings and illegal border crossings, mainly across the western border. Socio-economic diaspora on both sides of the Afghan border, relatively weaker formal channel infrastructure for transferring funds in that area, unfrequented routes and long border remain challenging for LEAs to counter cash smuggling. The inter-agency cooperation between Customs authorities and provincial CTDs has resulted in registration of 46 TF cases of cash smuggling since 2019. As per standard procedures in place, the Customs officials conduct initial probes to check (a) the involvement of any trans-national terrorist network or UN-designated entities and individuals and (b) the source of funding for cash smuggling, the end user of the smuggling proceeds and (c) travel history of the arrested person(s), to ascertain any linkage of TF with the cash couriers. Once such a link is suspected/ identified, CTDs are notified for registering a case against such individual under relevant TF provisions. The TF threat of cash smuggling is rated as **High** risk.

5. **Misuse of Properties:** The detailed assessment of different types of NPOs is discussed separately in Chapter 6. Concerning TF threats, there is evidence that certain entities acting as front organisations of UN-listed and domestically-proscribed entities were registered under the Societies Act and pretended themselves as welfare organisations due to their involvement in social welfare activities. These entities posed both domestic and transnational TF risk. Pakistan conducted detailed and extensive scrutiny, which resulted in the identification and, subsequently, proscription of several of these frontal organisations of TOs under the ATA, 1997. LEAs registered 146 TF cases involving such front organisations of JuD/FiF, JeM, etc. across Pakistan since 2019, of which 145 pertain to 2019 and 2020. All properties owned or controlled by these front entities have been taken over, and their registration status has also been cancelled upon proscription. Since all such organisations have been identified and proscribed, followed by strict law enforcement actions, their inherent TF risk is reduced. Therefore, the threat from misuse of front organisations posing themselves as welfare organisations is rated as a **Medium** for TF risk.

6. **Kidnapping for Ransom**. **16** such KFR cases have been identified since 2019 where terrorist organisations including TTP and LeJ were involved. The relevant provisions of TF were added to the investigations. It has been observed that terrorists use unfrequented routes and illegal border crossings to transport kidnapped individuals to safe hideouts in Afghanistan. Commonly ransom calls originate from Afghanistan, using an Afghan SIM card, and ransom money, if paid, is collected in Afghanistan. No incident has been reported where the kidnapping occurred in another country, and ransom was paid in Pakistan. Funds so generated are then used for carrying out terrorist activities in Pakistan. The threat of kidnapping for ransom is rated as **Medium** for TF Risk.

7. **Smuggling of Natural Resources:** Pakistan is rich in natural resources like coal, marble, chromite, etc. There has always been a risk that terrorist organisations may use natural resources to generate funds. To target and investigate a wide range of TF activities, LEAs have looked deeply into the natural resources business. Provincial CTDs have registered **26** such cases since 2019 and initiated terrorist financing investigations involving BLA, TTP, HuA and others. Provincial Mines and Mineral departments have established close liaisons with CTDs to keep a vigilant eye and refer potential TF cases to CTDs. The threat of smuggling of natural resources is rated as a **Medium** for TF risk.

8. **Pakistan also considered Skin and Hide collection a risk for TF activities in NRA 2019**. People in Pakistan sacrifice millions of animals on the eve of "Eid ul Azha", being a religious obligation for Muslims, every year. LEAs and Charity Commissions have established a thorough monitoring mechanism to prevent terrorist/proscribed organisations from collecting skin/hide during *Eid* festivals. A total of **10** TF cases involving skin and hides collection have been registered by provincial CTDs since 2019 against

individuals belonging to SSP/ASWJ/LeJ, JeM, TTP, JuD/FiF and others. However, there is a declining trend in such cases. The threat of skin and hide collection is rated as **Low** for TF risk.

Sectoral Channels

TFRA working group analysed the data of channels or modes used for the transfer of funds provided by law enforcement agencies in line with their TF investigations and has tabulated it as under:

Table 4.5 Channel-wise TF Data

Channel	TF Cases registered				Total
	2019	2020	2021	2022	
Cash	176	66	19	36	297
Illegal MVTS	13	13	2	12	40
Banking	32	-	-	1	33
Virtual Currency	1	-	1	-	2
TOTAL	222	79	22	49	372

A detailed assessment of the above sectoral channels has been carried out by considering TF investigations involving these channels since 2019, relevant terrorist organisations, if any and perceived TF threats posed by each channel, including potential for misuse in TF and expert opinions. A summary table of ratings of all channels and individual assessments of each sectoral channel is provided below:

Table 4.6 Channel-wise TF Data

Sr. No.	Sectoral channel	NRA 2023
1	Cash/ Cash couriers	Very High
2	Illegal MVTS	Very High
3	Banking	High
5	Branchless Banking	High
4	Virtual Currency	Medium
6	Exchange Companies	Medium
7	Securities	Low
8	Insurance	Low
9	NBFCs & *Modaraba*	Low
10	Microfinance	Low
11	Legal persons & legal arrangements	Low

1. **Cash/ cash couriers**. Given the strict measures adopted by formal financial channels, cash has been a preferred way to move funds from one place to another. In a cross-border context, cash is smuggled through notified border crossings and through illegal border crossings, mainly across the western border (see cash smuggling segment in TF sources). The other reason for recognising cash as a prevalent TF channel is that most fund-raising cases involve associates of proscribed organisations. The members of such organisations were involved in soliciting small cash donations from the general public in the name of religious or welfare activities. Most cash-related TF cases investigated by CTDs pertain to TTP, Daesh/ISKP, AQIS, JuD/FiF, JeM, SSP/ASWJ, Taliban, etc. Being undocumented and non-availability of the trail, it is quite difficult for LEAs to detect inland cash movements for illicit purposes. TF risk of this cash/ cash couriers is rated as **Very High**.

2. **Illegal MVTS/*Hawala Hundi***. Terrorist organisations use *Hawala/hundi* to transfer funds from one jurisdiction to another or domestically from one place to another. An absence of formal financial channels with neighbouring countries like Afghanistan and Iran due to prevalent sanctions has further complicated the scenario. During the investigation of TF cases, it was unearthed by LEAs that TOs have

transferred proceeds of predicate offences to Afghanistan via *Hawala/Hundi*. In one instance, ISKP kidnapped a person from Karachi, and then a ransom was received in Afghanistan through *Hawala/hundi*. So far, 40 TF cases involving *Hawala* have been registered by LEAs since 2019. Most TF cases involving illegal MVTS investigated by CTDs pertain to TTP, Daesh/ISKP, AQIS, JuD/FiF, Taliban, HQN, BLA, etc. TF risk for illegal MVTS is rated as **Very High**.

3. **Banking Sector.** The use of banking services and products by terrorist organisations remains a threat, as terrorists and their associates may abuse the banking system to raise, store and move money. Terrorist organisations may exploit banking products and services in many ways directly or indirectly, for example, domestic/ cross-border transfer of funds by associates through banking channels, settlement of *Hawala* transactions through bank transactions, under-invoicing/over-invoicing, placement and layering of illicit proceeds, using bank accounts for collections of charities in personal accounts or via NGOs/ charitable organisations, international/ transnational donations to NPOs, etc. The TF threat originating from abroad is significant since hostile states extend support to TOs in Pakistan. TF investigations have revealed several bank accounts with TF suspicion in Balochistan, through which some individuals are dispensing funds to the members of TOs (BRA, BLF, LeB, BSNs). Authorities assess that hostile neighbours have been involved in providing financial support to several proscribed entities such as BRA, BLF, TTP, and JuA. Other organisations where TF cases have suspected links to bank transactions include Daesh/ ISKP, TTP, AQ, LeT, JuD/FiF, and SMP. A total of 33 TF cases involving multiple bank accounts have been registered by LEAs since 2019. The TF risk for the banking sector is rated as **High**.

4. **Branchless banking (BB)** is a channel/ product offered by banks and microfinance banks (supervised by SBP). It allows easy movement of funds through digital channels and across a vast agent network and offers digitally maintained mobile wallet accounts with low transactional thresholds. This channel/ product is focused on enhancing financial inclusion in Pakistan and hence has simplified requirements regarding the source of funds as the transaction threshold is very low; however, BB accounts are subject to complete identification, verification and screening requirements. All BB customers (originator and beneficiary of funds) are verifiably identified using biometric verification (conducted live from NADRA), and all transactions/ relationships are pre-screened against lists of designated/ proscribed individuals.

   Nevertheless, the BB channel can be misused for TF threats because it allows banking services, including deposits and fund transfers, through a vast network of agents operating across the country, including in remote locations. As the agents are mainly small retailers (e.g. grocery shops, general stores and mobile top-up outlets), there can be challenges concerning awareness and compliance with regulatory requirements. The LEAs and intelligence agencies indicate the exploitation of the agent-based BB services by unscrupulous elements, including TF threat actors. Therefore, the TF risk for branchless banking is rated as **High**.

5. **Virtual Currencies (VCs),** being anonymous and complex in nature, can be exploited for illegal activities, including terrorism financing and illicit cross-border fund transfers. Their enhanced ability to keep the identity of cryptocurrency users confidential is a problem in countering terrorist financing. Since transactions are publicly recorded in the blockchain, protecting the identity of that transacting is necessary to guarantee user privacy. The uneven regulatory framework around the globe creates additional problems. Cryptocurrencies are traded virtually, and users can move funds and use exchanges in several jurisdictions. Therefore, while regulators and investigators may become aware of attempts to finance terrorism, they cannot stop the transactions or freeze the assets due to the lack of jurisdictional authority. For example, Hamas already exploited this weakness for one of its crowdfunding campaigns; the group switched its campaign away from a regulated US-based

exchange.[42] VCs can also be bought and sold using electronic banking channels and through domestic exchanges upon confirmation of funds deposit in specified bank accounts (provided by such exchanges).

There is no formal framework to deal with VCs in Pakistan. SBP and SECP have instructed their regulated entities that they are prohibited from dealing in VCs, may not facilitate their customers doing transactions related to VCs, and must report such suspicious transactions to FMU. Being an unregulated and speculative activity legally not allowed, FIA has so far registered 17 cases against individuals dealing in VCs.

From the TF perspective, few cases of abuse of VCs have been reported so far. In 2021, an incident was reported in Karachi, where CTD traced a network that sent funds to Daesh/ISKP affiliates in Pakistan, Syria and the United Kingdom. Another incident was previously reported in 2018 in which CTD Karachi arrested a student who was allegedly involved in sending money to Daesh/ISKP affiliates in Syria using Bitcoin. Thus, in the context of their use for swift and unhindered transnational movement of funds for TF purposes, VCs pose significant risks. Therefore, the TF risk for VCs is rated as **Medium**.

6. **Exchange Companies** deal with walk-in customers for inward/outward remittances and currency exchange services. Non-permanent customer base, highly cash-intensive nature, cross-border funds transfers and breaking or layering of transactions renders exchange companies vulnerable to TF risks. From a transnational perspective, inward/ outward cross-border transactions carry the risk of funds transfers for illicit purposes as the end beneficiary of the transaction is scrutinised by the other financial institution. In particular, if there is a lack of legitimate linkage or no apparent relationship between the sender and beneficiary, there is a risk of TF in receiving jurisdiction if funds are meant to be sent for designated/proscribed individuals or their associates. The regional dynamics, i.e. weaker financial channels with neighbouring countries like Iran and Afghanistan and the terrorism situation in the region, makes this channel more attractive and riskier for fund transfers to/ by affiliates/supporters of TOs to finance their activities. Therefore, the TF risk for exchange companies' channel is rated as **Medium**.

7. **Securities Market:** It is worth mentioning that no TFS violations have been observed in the securities market sector. The TF screening mechanism in the brokerage industry is based on three tiers. Firstly, all brokers promptly screen their customer database as required under SECP regulatory framework. Secondly, the National Clearing Company Pakistan Limited (NCCPL), which provides clearing and settlement services to the Pakistan Stock Exchange and has a database of every market participant, also conducts immediate independent screening of the customer database of all the securities brokers. Thirdly, the Central Depository Company (CDC), which maintains a separate database of all shareholders, also promptly conducts screening against the database of shareholders. Considering that all transactions coming in the securities markets derive from the banking channel and the primary focus of investors in these markets is an investment in securities of the companies, the securities markets are exposed to a lower TF risk. Further, LEAs and FMU have not found any incident or suspicion of TF being linked with the securities or commodities markets. Therefore, the TF risk for this channel is rated as **Low.**

8. **Insurance:** The insurance products offered by life insurers essentially have regular premium attributes, and payouts are made once policies mature. Therefore, these products do not typically provide sufficient functionality and flexibility to be used as vehicle to move TF-related funds. While LEAs and FMU have not found any incident or suspicion of TF related to the use of the insurance policy

[42] Brenna Smith, "The Evolution of Bitcoin In Terrorist Financing," Bellingcat, 9 August 2019, https://www.bellingcat.com/news/2019/08/09/the-evolution-of-bitcoin-in-terrorist-financing/

proceeds, there were several instances where links with designated persons were found, which led to the freezing of the policy and its proceeds. Such identified cases of frozen insurance policies in the name of proscribed persons are higher than found in other SECP-regulated sectors. However, its TF risk is limited due to the non-prevalent fund transfer feature. The TF risk for this channel is rated as **Low.**

9. **NBFCs and *Modaraba***: NBFCs and *Modarabas* offer loans/ leases and deposit products. Asset Management Companies (AMCs) offer investment products to individuals and institutions. The investment products offered by AMCs may be used for layering and integration of suspicious funds through frequent/ unusual transactions. There is a risk that the lending products of these institutions may be used for ML purposes. However, the loans, leases and investment products do not present the feature of fund transfers like other financial channels making them less vulnerable to TF. Moreover, there are no TF-related cases reported through this channel. The TF risk for this channel is rated as **Low.**

10. **Microfinance institutions** provide microloans to low-income individuals to reduce poverty and promote social well-being through financial inclusion. However, there is a risk that persons involved in TF activities may obtain microloans from these institutions and use these funds for illicit purposes, including TF. Since the microfinance sector operates at the grass-roots level in remote areas, they are vulnerable to TF threats if proper due diligence and screening controls are not implemented. The TF risk for this channel is rated as **Low.**

11. **Legal Persons and Legal Arrangements:** It is pertinent to mention that out of all LPLAs registered in Pakistan, companies and LLPs, which are regulated by SECP, represent around 85% of the overall LPLA universe in Pakistan. They are mainly used as vehicles for business registration at the national level. Cooperative societies, which are provincially regulated and have territorial boundaries and restrictions, represent 12%, while trusts and *waqfs* represent 1.4% and 1.5% of all LPLAs, respectively. (see chapter for Assessment of LPLAs).

    Pakistan's proactive investigations into taken-over properties led to identifying 11 legal entities (front organisations) acting on behalf of the UN-designated persons and entities, which were domestically proscribed. The registrations of these front organisations as Society (i.e. a form of a legal person in Pakistan) were cancelled, and parallel investigations into their properties were undertaken, resulting in convictions involving legal persons. Pakistan took over more than 900 assets/properties belonging to these proscribed entities. Around 100 properties-related TF cases were found to be linked within these assets with the legal persons/front organisations of UN-designated entities. During the investigations, the availability of Basic and Beneficial Ownership (BO) information proved helpful in identifying the UNDPs/Associates related to the front-end organisations of these front entities. Since all such organisations/ legal persons who were acting as fronts of UN-designated/ proscribed entities have been identified and proscribed, resulting in strict law enforcement actions, their inherent TF risk is reduced. The TF risk for this channel is rated as **Low.**

4.6 TRANSNATIONAL ASPECT OF TF

Transnational crimes are crimes that have actual or potential effect across national borders and crimes that are intrastate but offend fundamental values of the international community. The term is commonly used in the law enforcement and academic communities. Transnational crimes include crimes that take place in one country, but their consequences significantly affect another country and transit countries may also be involved.

The geographic location of Pakistan is in itself a primary high inherent vulnerability towards incoming / outbound transnational TF element. The external terrorism and TF threat are exploiting Pakistan's highly active and porous borders. Long porous borders with Iran and Afghanistan is a major cause of illegal border crossing, cash smuggling, illegal trade, drug trafficking, kidnapping for ransom, extortion and hawala business.

In November 2019, Pakistan developed a set of TF threat profiles focusing specifically on transnational aspects of terrorist financing to better support the specific operational needs of relevant competent authorities in mitigating the TF risks arising from the terrorist organisations that pose the most significant TF threats. The comprehensive quantitative and qualitative information gathered from the NRA exercise was leveraged and updated. These TF Threat Profiles divided the key terrorist organisations into foreign-based, i.e. ISKP/Daesh/ISIS-K/LeJ, AQIS, TTA, HQN and domestic terrorist organisations, i.e. TTP (and its affiliates), JuD/FiF, LeT, JeM, BLA (and its affiliates). The profiles outline each organisation's particular characteristics and financing activities, including their funding sources, TF flow channels, the magnitude of funds raised, and the overall inflow or outflow of TF.

Data of TF cases with transnational elements determined during investigations by LEAs show that there around 34 TF cases and 8 TF cases with transnational inward and outward linkages respectively, involving various countries including Afghanistan, India, Iran and Syria. The data further shows that the most significant TF threat to Pakistan originates from its western border, where HIAs had established a network for facilitating the terrorist's activities in Pakistan. Pakistan has initiated 192 formal Mutual Legal Assistance (MLAs) since 2019, 78 in 2019, 49 in 2020, 47 in 2021 and 18 in 2022. 146 of outgoing MLAs relate to domestic entities including TTP, BLA, SSP, KKF, LeJ, LeT, JuA, HuA and 46 outgoing MLAs relate foreign entities including Daesh/ISKP, AQ, Lashker-e-Islam, foreign NPOs. Moreover, Pakistan has also sent 373 informal international cooperation requests to multiple jurisdictions seeking assistance during investigations since 2019. Many MLAs and informal requests point to a probable transnational linkage of TF investigations with those jurisdictions, as provided below, by dividing them into domestic and foreign-based entities. Responses to only a few MLAs were received from the other jurisdictions.

NRA 2023 absorbs this transnational component in the detailed template circulated to collect data and information about each terrorist organisation and was subsequently considered by the TFRA Working Group in light of available data and intelligence information. The authorities briefed the TFRA Working Group about their framework whereby the transnational angle to every case is evaluated in light of previously developed understanding through various transnational TF risk assessments. The transnational TF has been integrated into each TO's individual threat assessment.

1. <u>Key Conclusions / Results</u>
   a. Cases reported by CTDs in Balochistan and Punjab show that TTP, Daesh/ISKP and HuA had received enormous funds from Afghanistan in 2019 to carry out terrorist activities in the country. The TF data of 2020 revealed that BRA, BLA, Daesh/ISKP, TTP, TTA and Sindh Republican Army (SRA) were also obtaining funds from Afghanistan for carrying out terrorist attacks and create instability in Pakistan. Criminal activities form a substantive portion of TTP's funding, including extortion, kidnapping for ransom, drug smuggling, robberies, and the sale purchase of hostages across the Pak Afghan Border. ISIS Global Chapter continues to support its regional body in Afghanistan, and funds generations from such methods were found to be transited into Afghanistan for subsequent activity in Pakistan. Since these sleeper cells of AQIS in Pakistan would have limited availability of funds, therefore for any major terrorist activity, the requirement of significant funds may lead to more transnational linkage and reliance on funds generation from its

operational bases outside Pakistan. Similarly, BLA receives funding primarily from foreign sources, including hostile intelligence agencies, and donations from supporters, including the EU and other expatriates, through Hawala/Hundi, cash couriers, and banking.

b. Outward transactions were also identified in 2020, wherein Daesh/ISKP had been transferring funds to Iran through illegal channels. TTP, TTA and BLA were also reported to be involved in transnational terrorism financing of the associates harbouring across the border. Daesh/ISKP also sent funds to their accomplices in Syria. The use of Cryptocurrencies/ virtual currencies has been found in one instance. In 2021, an incident was reported where CTD traced a network that sent funds to Daesh/ISKP in Pakistan, Syria and the United Kingdom. Another incident was reported in 2018 in which CTD Karachi arrested a student who was allegedly involved in sending money to Daesh/ISKP in Syria through the cryptocurrency bitcoin.

c. Entity Wise Analysis

(1). NRA 2023 reveals that, overall, the transnational dimensions of TF risks vary from foreign-based to domestic-based organisations. The TF Threat Profiles show TF risks associated with key foreign-based terrorist organisations, i.e. ISKP/Daesh/ISIS-K/LeJ, AQIS, TTA, HQN, primarily related to kinetic sources like kidnapping for ransom, extortion/tax collection from businesses and locals, narcotics smuggling, cash smuggling, financial support from hostile agencies, etc. and also from fundraising activities to a limited extent. Foreign-based organisations' main channels and methods for funneling funds outside of Pakistan are usually illegal MVTS and cash couriers but also include person-to-person illegal MVTS arrangements involving both outward and inward flows of funds.

(2). In the case of domestic terrorist organisations, i.e. TTP (and its affiliates), JuD/FiF, LeT, JeM, BLA (and its BTO affiliates), the estimated magnitude of funds generated is less than for foreign organisations. Their significant sources of funding include donations derived from social welfare organisations (in the case of LeT, JuD/FiF & JeM) and coercive sources of extortion from businesses, public and mine owners, narcotics, kidnapping for ransom, cash & goods smuggling and financial support from hostile agencies (in case of TTP & its affiliates and BLA & its affiliates). Cash, *hawala/hundi* and banking have been the major channels used by these domestic TOs. The entity-wise transnational aspects, including particular characteristics and financing activities for each TO, funding sources, TF flow channels, the magnitude of funds raised, and the overall flow of TF, have been covered in detail during this assessment.

4.7 CONCLUSION

The overall TF threat was assessed as High when the TF Risk Assessment was completed in 2019. This updated version of the NRA 2023 has taken into account the new assessment of updated data on terrorism, terrorist financing investigations and prosecutions since 2019, strengths, capabilities and resources of terrorist organisations, including their updated profiles of activities, information in respect of sources and channels for terrorist financing including transnational funding patterns. Based on the analysis and assessment of the data above and the information provided, it is our understanding that the overall TF threat at the country level remains persistent and very significant.

5.1 OVERVIEW OF THE FINANCIAL AND DNFBPS SECTOR

In Pakistan, the financial sector is comprised of several financial sub-sectors, i.e. Banks, Microfinance Banks (MFBs), Exchange Companies (ECs), Development Finance Institutions (DFIs), Brokers, Non-Banking Financial Companies (NBFCs), Insurance Companies and Central Directorate of National Savings (CDNS). Designated Non-Financial Businesses & Professions (DNFBPs) are comprised of real estate agents (including builders/ developers), Dealers of Precious Metals & Stones (DPMS), accountants, lawyers (including trust and company service providers (TCSPs) and notaries).

Both the financial and DNFBP sectors have been assessed based on their clientele, the offered products and services, their geographic reach and the channels they operate through. The summarised comparative position of vulnerability ratings of these sectors is given as under;

Table: 5.1 Inherent Vulnerability Assessment Ratings of the Financial and DNFBP Sectors

Sector		No. of Entities	Supervisor	2019 Risk Rating	2023 Risk Rating	Change in Rating
Sr. No.	**Financial Sector**					
1	Banks	32	SBP	High	Very High	↔
2	Microfinance Banks (MFBs)	11		High	High	↓
3	Exchange Companies (ECs)	46		High	High	↓
4	Development Finance Institutions (DFIs)	7		Low	Low	↔
5	Securities Market	200	SECP	Medium High	Medium	↓
6	NBFCs (Fund Management)	90		Medium High	Medium	↓
7	NBFCs (Lending & *Modarbas*)			Medium High	Medium	↓
8	Life Insurance Companies	10		Medium	Medium	↔
9	Non-Life Insurance Companies	30		Low	Low	↔
10	Central Directorate of National Savings (CDNS)	1	NSSB	High	Medium	↓
Sr. No.	**DNFBP Sector**					
1	Real Estate Agents	40,833	FBR	High	Very High	↔
2	Dealers in Precious Metals & Stones (DPMS)	18,675		Medium High	High	↔
3	Lawyers, TCSPs and Notaries	138	PBC/ SECP	Medium High	Low	↓
4	Accountants	75	ICAP /ICMA	Medium	Low	↓
		98	FBR			

While banks, DFI and Insurance sectors have retained their previous ratings, the ratings of MFB, EC, Securities and NBFC sectors have improved by a notch. Moreover, since the 2019 NRA, previously unregulated sectors (CDNS and DNFBPs) have been brought under their respective supervisory ambits, which provided more accurate data and helped assess these sectors more accurately. Accordingly, vulnerability ratings for CDNS, Accountants and Lawyers have improved, while Real Estate Dealers and

DPMS have retained their vulnerability ratings assigned in NRA 2019. Detailed discussions on each sector, along with reasons for revised ratings, are provided below:

FINANCIAL SECTOR

5.2 BANKING SECTOR

The banking sector holds around 79% of financial-sector assets. The majority of banks are privately owned. As of June 2022, the banking sector consisted of 32 banks with a total asset size of PKR 34.861 trillion including public sector banks *(PKR 7.201 trillion)*, domestic private banks *(PKR 26.221 trillion)*, foreign banks *(PKR 0.965 trillion)* and specialized banks *(PKR 0.474 trillion)*. The banking sector is comprised of 15,732 branches. Most banks are listed banking companies including 14 banks with ownership structures that extend across borders. Nine banks have foreign branches, representative offices, and foreign subsidiaries. Moreover, fourteen (14) banks are part of business conglomerates. The banking sector is well connected with other regulated sectors such as exchange companies, CDNS, insurance, securities, DNFBP, etc.

Nine Pakistani Banks have overseas operations which are spread over 33 foreign jurisdictions with 85 branches, 08 subsidiaries, and 10 representative offices. The overseas business of Pakistani banks is mainly concentrated in the United Arab Emirates (UAE), Bahrain, and the United Kingdom. A few Pakistani banks have a presence in jurisdictions under FATF's increased monitoring i.e., Turkey and UAE, as well as in Afghanistan. Domestically, the sector's operations are spread all over the country.

5.2.1. Products and Services

Banks deal in multiple currencies and offer a wide range of products and services on both asset and liability sides. On the asset side, major products offered in the sector's lending portfolio include working capital finance, trade finance, and term finance, including syndicated loans and consumer loans. On the liability side, major products offered include current accounts, savings accounts, Foreign Currency (FCY) accounts, *Asaan* accounts, home remittances accounts and branchless banking accounts.

Current Accounts

As of June 30, 2022, current accounts constituted around 42% of total customer deposits. Current account may be opened for personal and business needs. Due to their non-remunerative characteristics, banks are more inclined towards opening such accounts. A particular vulnerability is associated with current accounts when used by general traders that carry out their businesses in the form of sole proprietorships, partnerships, and occasionally, as private limited companies. This is because general traders deal with various items and maintain diverse counterparties/suppliers. The types of items being traded may change with seasons and business cycles. Further, transactions with changing counterparties and their changing geographies may obfuscate the purpose of transactions. These traits make it difficult for banks to identify the actual source of funds in preparing customers' risk profiles. As per LEAs' feedback, some business accounts have been misused in certain tax and narcotics-related crimes. In general, current accounts are also perceived to be exploited by designated / proscribed individuals, frauds and forgeries and cybercrimes.

For TF, current accounts are considered highly vulnerable to the collection of funds for terrorism through charity/ donation collection and proceeds for crime from various predicate offences, including narcotics trafficking, *hawala/ hundi* and illegal dealing in virtual assets. Many accounts frozen by banks in pursuance of targeted financial sanctions about terrorism are current accounts.

In the case of ML, current accounts are considered highly vulnerable for receiving and parking proceeds of crime from various predicate offences, especially frauds & forgeries, cyber-crimes, corruption, *hawala/ hundi*, tax crimes, smuggling, human trafficking, arms trafficking and insider trading. Subsequently, the account can also be used for layering the funds by moving them from account to account and between jurisdictions.

Inward & Outward Foreign Remittances

Inward home remittances form the second largest source of foreign remittances. From July 2019 to June 2022, Pakistan received a total of USD 83.820 billion as inward workers' remittances, of which USD 77.960 billion (93%) were received through banks. Most inward home remittances were received from the Gulf countries, notably from the Kingdom of Saudi Arabia and the United Arab Emirates. The banks remain vulnerable to the transnational TF threat as remittances are received from across the globe, including jurisdictions under increased monitoring by the FATF and other high-risk countries (India, Afghanistan, etc.). Further, the possibility remains that the remitted funds be used for illegitimate activities even though the funds were received for legitimate purposes, particularly in the case of donations. Previously, in some cases, funds were remitted to charity and welfare organisations that were subsequently proscribed under the Anti-Terrorism Act. Inward remittances against freelancer services may also pose ML/TF risks. Further, it is challenging for banks to assess the genuineness of services provided proportional to the proceeds received.

The majority of outward remittances are routed through the banking system. Opening and operating foreign currency deposit accounts by residents and non-resident Pakistanis is permitted. Foreign currency may be purchased against PKR and deposited into foreign currency accounts opened and operated by resident individuals, which may be used to remit these funds abroad after completing legal and regulatory requirements. Further, outward remittance for dividend pay-out / profit repatriation by unlisted companies may be vulnerable to abuse of ML.

As per the assessment of LEAs, some international inward remittances were identified in cases related to illegal MVTS and narcotics-related crimes. These are also perceived to be exploited for laundering proceeds of corruption and bribery and making human trafficking-related transfers. Moreover, from July 2019 to June 2022, banks reported 3,120 STRs to FMU on international (inward & outward) remittance business.

For TF, foreign inward remittances are considered highly vulnerable for settlement of *hawala/ hundi* and for collection of funds of terrorism through donations/ charity and illicit activities, including narcotics trafficking and illegal dealing in virtual assets.

In the case of ML, outward foreign remittances are deemed highly vulnerable to the movement of proceeds of crime (POC) out of Pakistan about corruption, *hawala/ hundi*, and migrant smuggling/ trafficking in persons. Inward remittances can also be used to bring the POC back into Pakistan.

Trade-Based Activities

From July 2019 to June 2022, banks facilitated the settlement of imports amounting to USD 199.253 billion and exports amounting to USD 98.978 billion. Imports and exports on open accounts and advance payments are considered more vulnerable to ML/TF risks. Under the open account method, banks generally have a reduced role and, therefore, may struggle to assess the legitimacy of the customer's operations accurately and consistently. Similarly, where imports were affected on an advance payment basis, cases have been observed where the importer did not provide shipment documents to the banks. This practice pointed towards the risk of phantom shipments.

The risk of manipulation is higher where export-oriented companies in Pakistan have associated concerns abroad or where the export pertains to intangible goods. Moreover, the risk of other Trade-Based Money Laundering (TBML) techniques, such as over or under-invoicing, also exists. In the specific case of imports with Afghanistan, cases have been observed where the import payments were directed to agents of Afghan exporters in third countries. This practice makes it challenging for banks to ascertain the true purpose of such transactions. From July 2019 to June 2022, banks reported 2,348 STRs to FMU on customers involved in trade business activities, while 123 STRs were specific to dealings with Afghanistan. Generally, trade-based activities are also perceived to be exploited for laundering proceeds of corruption and bribery and for smuggling goods.

For TF, banks' trade-based activities are considered vulnerable to the settlement of *hawala/ hundi* and channelling proceeds of crime from narcotics trafficking due to the cross-border nature of transactions.

In the case of ML, banks' trade-based activities are deemed highly vulnerable for channelling proceeds of crime from corruption and, to a lesser extent, *hawala/ hundi*, tax crimes (through incorrect declarations), smuggling, arms trafficking and counterfeiting & piracy of products, outside Pakistan by making them appear as legitimate consideration for trade activities.

Credit Cards

Credit cards are accepted as a means of payment worldwide and are the easiest way to affect the cross-border movement of funds. Credit cards allow users to utilise the limits multiple times within the same billing period. Further, no restrictions on maintaining maximum positive balance make them more susceptible to ML activities. Recently, personal credit cards were also seen to have been used commercially. The ability of credit cards to engage in cross-border transactions, transfer/share credit cards to/with third parties without notice, and frequent top-ups increase their vulnerability for ML/TF activities. The banking sector filed 689 STRs to FMU from July 2019 to June 2022 on credit card transactions. The filed STRs also indicate using credit cards to purchase virtual currencies (VCs). Thus, the product is also vulnerable in prohibited and unregulated sectors.

For TF, credit cards are considered highly vulnerable as they can be used to purchase VCs through online/ unregulated exchanges, which can then be used to fund terrorism. Moreover, credit cards are also deemed vulnerable for *hawala/ hundi*, as they can be used for settlement.

In the case of ML, credit cards are deemed vulnerable for channelling proceeds of crime from corruption, cyber-crimes and arms trafficking, particularly through direct settlement of credit card bills by third party.

5.2.2. Nature of Clientele

The banking sector broadly deals with two types of customers: Established relationship customers (those who open accounts with banks) and occasional customers (those who avail banking services as walk-in customers). The sector's clientele is diverse and consists of both natural persons and legal persons and arrangements (LP/LAs). The beneficial ownership (BO) structure of customers, which are LP/LAs clientele, could range from simple to multi-layered and complex. Regarding TF risk, proscribed and designated individuals may exploit the sector as its clientele. As of June 30, 2022, 4,138 accounts of designated/ proscribed persons, entities and their associates were held frozen, with the banks having frozen funds amounting to PKR 2.164 billion. Further, from July 2019 to June 2022, 44,222 account opening requests and 8,308 transactions (including remittances) were rejected by banks due to positive matches with DPs/PPs and/ or their associates. The following types of customers are considered high-risk customers regarding ML/TF abuse:

Politically Exposed Persons (PEP)

Politically exposed persons enjoy the privileged position of power and responsibility, as they are generally entrusted with public funds and functions and are at higher risk of involvement in bribery or corruption. Similarly, their positions make PEPs more likely to have advanced information and sway over policy/ decisions, making them susceptible to insider trading, market manipulation and tax-related crimes. Pakistan ranks 140th out of 180 countries in the corruption perception index. Also, several PEPs have been facing corruption and ML trials in Pakistani courts. As of June 30, 2022, PEP accounts totalled around 2.80% of the total deposits. The banking sector filed 85 STRs on PEP customers from July 2019 to June 2022.

Non-Profit Organisations (NPOs)

Functionally active NPOs in Pakistan are primarily engaged in raising/ disbursing funds for religious, health, cultural, educational and social activities. Due to the peculiar nature of their operations and involvement in collecting funds for charity, NPOs are considered high-risk customers for TF risks, especially those operating in high-risk areas, e.g. areas of proximity to Afghanistan and terrorism or poverty-affected areas. These accounts may be vulnerable to transnational TF risk due to the receipt/ collection of funds for charitable purposes. In the case of foreign NPOs, verifying the details of trustees and identifying a change in the trustees is challenging for banks. The banking sector filed 239 STRs from July 2019 to June 2022 on NPO-specific clientele.

General Traders / Proprietors

General traders/ proprietors carry out their businesses through sole proprietorships, partnerships, and, occasionally, private limited companies. General traders deal with various items and maintain diverse counterparties/suppliers. Moreover, sometimes, the types of items being traded tend to change with the change of seasons and business cycles. As mentioned above, these traits make it difficult for the banks to conduct the risk profiling of such business relationships and monitor their accounts, especially when businesses are run as proprietorship/ partnership concerns that are not registered. From July 2019 to June 2022, banks reported over 7,000 STRs to the FMU involving general traders/proprietors. These STRs, apart from other risks, also indicated business activities related to the sale/purchase of virtual currencies. Thus, these clientele accounts are also vulnerable for use in prohibited and unregulated sectors.

General traders/proprietors' accounts are considered susceptible for use in TF due to the variety of counterparties. They can be used to settle illegal MVTS, virtual assets transactions and narco-trafficking. For ML, accounts of general traders/ proprietors are deemed susceptible to proceeds of crime about fraud/ forgery, smuggling, counterfeiting and piracy of products, and illegal arms trafficking.

Real Estate Agents / Gems Dealers

Real estate agents often use their bank accounts on clients' behalf to channel funds to purchase property or receive sale proceeds. Similarly, businesses dealing in gold and other precious gems are highly cash-intensive. Banks generally struggle to assess whether the account turnover reflects the business's size. Moreover, though these DNFBP sectors have been recently brought under supervisory ambit, the vulnerabilities of these sectors to launder the proceeds of crime, as identified in the ML Threat Assessment, make them vulnerable to other sectors. From July 2019 to June 2022, banks reported 1,063 STRs on real estate dealers and 1,584 STRs on DPMS. In the case of ML, the accounts of such clientele are also perceived to be exploitable for proceeds from several predicate offences, including corruption, tax crimes and frauds/ forgeries.

5.2.3. Geographic reach of sector's activities

Pakistan's banking sector of Pakistan has a noticeable global footprint. The sector's overseas operations are spread over 33 jurisdictions, having 85 foreign branches, 10 representative offices, and 08 foreign subsidiaries. As of June 30, 2022, the banking sector had 15 foreign branches in jurisdictions under FATF's increased monitoring. Pakistan's banking sector also maintained 03 foreign branches in Afghanistan. Further, banks play a key role in home remittances and international trade business, involving transactions with jurisdictions under FATF's increased monitoring.

Domestically, the sector's operations are spread all over the country. The banking sector has 2,096 branches in high-risk areas for TF, including the border regions. From July 2019 to June 2022, USD 17.778 billion or 21.21% of the total inward remittances, were received from jurisdictions under FATF's increased monitoring[43] (https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions.html). Under the country's trade business, exports of USD 9.493 billion (9.59% of total exports) were made, and imports of USD 27.264 billion (13.68% of total imports) were received from jurisdictions under FATF's increased monitoring. Within the grey-listed jurisdictions, the exports and imports were concentrated mainly in UAE, constituting 51.82% and 80.96% of total exports and imports to grey-listed jurisdictions, respectively.

The geographic spread of the banking sector across Pakistan, including its presence in areas deemed high risk for terrorism and crime, makes it vulnerable to ML and TF.

5.2.4. Nature of delivery channels

Delivery channels offered by banking channels do not generally allow for anonymity. The transactional records are easily accessible to the relevant authorities when required. The delivery channels largely include over-the-counter transactions, alternate delivery channels (such as transactions through Internet/mobile banking and credit/debit cards), and branchless banking channels. The country's economy is cash intensive; thus, cash deposits/withdrawals at bank counters remain one of the sector's most significant modes of transactions.

In the wake of technological advancement and the pandemic, alternate delivery channels have grown significantly. Non-face-to-face transactions/onboarding, cash transactions and transactions carried out through alternate delivery channels are considered vulnerable to ML/TF risks due to impersonation, difficulties in tracing and fast/ instant delivery of funds, respectively. Recently introduced initiatives of digital onboarding of non-resident Pakistanis, may also be considered vulnerable to ML/TF due to the non-face-to-face nature of onboarding and account operations. Further, some banks also offer branchless banking channels to their clientele. Although the share of BB financial services offered by banks is very low compared to those offered by the Microfinance sector, recently, some information shared by the LEAs indicated exploitation of the agent-based BB services by TF threat actors.

5.2.5. Key Vulnerabilities and Rating of the Sector

The principal vulnerabilities of the sector related to current accounts, remittances, trade, credit cards, PEPs, NPOs, general traders/proprietors, real estate agents and dealers in precious metals and stones, as well as banking operations in high-risk international and domestic geographies, and the use of cash and non-face-to-face banking transactions. Given the above, the sector's vulnerability to ML/TF risk is assessed as ***"Very High".***

5.3 MICROFINANCE BANKING SECTOR

The microfinance banking sector consists of 11 Microfinance banks (MFBs), constituting 1.37% of the total financial-sector assets in Pakistan. As of June 2022, the MFBs were operating with 1,299 branches nationwide. Most MFBs are owned and controlled by foreign-incorporated companies; however, some MFBs are subsidiaries of commercial banks incorporated in Pakistan.

None of the MFBs have any foreign branches. MFBs are not allowed to deal in foreign currencies, trade and remittances *(apart from receiving inward remittances indirectly through commercial banks)*; thus, integration between local and international businesses is low. MFBs mainly serve the underserved segments of society and operate across the country, including far-flung areas of Pakistan.

[43] UAE has been included in the jurisdictions under the FATF's increased monitoring in June 2022. Since Pakistan's banking sector has significant business ties with the UAE in terms of remittances and trade, the overall figures of remittances and trade with FATF grey listed jurisdictions have inflated manifolds.

1.1.1. Nature of products and services

MFBs in Pakistan are allowed to accept deposits from the general public for providing financial services to low-income segments of society. Major deposit products offered by MFBs include current accounts, savings including micro-saving accounts, Branchless Banking (BB) accounts and special home remittance accounts. The asset side products include microcredit (small loans) to low-income individual borrowers. Major loan products offered by MFBs include working capital, term finance for agriculture & small-medium enterprises and consumer loans.

Branchless Banking

Six (06) MFBs are authorised to conduct BB business in Pakistan. BB services allow non-face-to-face transactions through BB agents. Branchless banking products and services, due to their non-face-to-face operations and a large number of low-value transactions carried out from all over the country through the agent networks and mobile applications, are considered vulnerable to TF abuse, particularly the low-value transactions which have the potential to go undetected through the automated transaction monitoring process.

However, BB accounts are subject to specific thresholds for conducting transactions and balance limits. From July 2019 to June 2022, MFBs filed around 42% of total STRs on branchless banking accounts. As of June 30, 2022, MFBs held 1,938 accounts of designated/ proscribed persons with frozen funds worth PKR 4.588 million. Further, as per the assessment of threats conducted by the LEAs, the use of branchless banking products was identified in some cases about extortion, robbery, theft and cybercrime. Moreover, there is a possibility that the branchless banking channels are used for bilateral P2P settlements of virtual currency transactions, albeit with low ticket size.

For TF, branchless banking accounts are considered highly vulnerable to low-value fund collection and settlement of illegal trade/ transactions of virtual assets through P2P payments. Many accounts frozen by microfinance banks in pursuance of targeted financial sanctions pertaining to terrorism are branchless banking accounts.

While vulnerability of branchless banking for ML is considered low due to low-ticket size of transactions, branchless banking channel is considered vulnerable to layering of the proceeds of multiple predicate crimes including frauds, extortion and cyber-crimes.

1.1.2. Nature of clientele

MFBs deals with two types of customers: established relationship customers (those who open either general or BB accounts), and occasional customers (those who use the sector's services as walk-in customers). The clientele of the sector is generally low-income individuals and businesses. These include agriculturists, small and medium-sized businesses, self-employed individuals, freelancers, daily wagers, etc. The clientele of MFBs mostly (74%) pertains to rural areas.

Although there is no restriction on mobilising high-value deposits; however, due to limited products and services and restrictions on the sector for dealing in foreign currencies and trade business, high net-worth (HNW) businesses and individuals are discouraged to engage with MFBs. The government also uses the sector for disbursing subsistence or other Government to People (G2P) payments. Given the nature of the sector and the societal segments it serves, and customers limited individual capacities and knowledge of rights, roles and responsibilities, the sector is considered as more vulnerable for TF compared to ML abuse. The following types of customers are considered as high-risk customers for ML/TF abuse:

Occasional or Walk-in Customers

Walk-in customers in the MFB sector access general banking services such as cash deposits/withdrawals through a network of branches and agents. These are low-value transactions, but their volume is high due to ease of access to a large population. Walk-in customers are deemed to carry higher risks, considering that CDD done for them is limited to identification, verification and sanctions screening. In the case of TF, occasional/ walk-in customers acting on behalf of designated/ proscribed persons can abuse the system to transfer funds. For ML, occasional/ walk-in customers can pose risks of cyber-crime through identity theft.

Sole Proprietors

Sole Proprietors constitute around 32% of the total deposits in the sector. The businesses are generally tiny and diverse, including general trading businesses that deal with various items and maintain diverse counterparties/suppliers. Moreover, the types of items being traded may tend to change with the change of seasons and business cycles. These traits make it difficult for the banks to conduct the risk profiling of such business relationships and monitoring of their accounts. During the period July 2019 to June 2022, MFBs filed 328 STRs on such customers. For ML, this type of clientele is also perceived to be exploited for frauds and forgeries, illicit arms trafficking and counterfeiting and piracy of products.

1.1.3. Geographic reach of sector's activities

The sector does not operate in foreign jurisdictions; however, MFBs can receive home remittances through partner banks which extend services to MFBs across the country. The customers in rural/ remote/ unbanked areas usually lack identifiable residential and utility account information. Also, through mobile applications, the accounts opened in the sector may also be operated from outside the country. In general, MFB business in bordering areas of the country is perceived to be more vulnerable to TF related activities including fund raising.

1.1.4. Nature of Delivery Channels

Delivery channels offered by banking channels do not generally allow for anonymity. The transactional records are easily accessible to the relevant authorities when required. However, transactions carried out through cash, internet/ mobile banking and BB transactions are considered as vulnerable for ML/TF risks.

1.1.5. Key Vulnerabilities and Rating of the Sector

The main vulnerabilities of the MFBs sector are branchless banking activities, the accounts of sole proprietorships, occasional customers and transactions involving cash, internet and mobile banking. However, the sector does not deal in trade business and outward foreign remittance. Also, the sector caters mostly low-to-moderate income individuals and does not have any foreign presence.

Given the above, the sector's vulnerability to ML/TF risks is assessed as a *"High"*.

5.4 EXCHANGE COMPANIES (ECs) SECTOR

The ECs sector comprises 51 ECs (ECs 27, ECs-B 24[44]) with a total assets base of PKR 32.469 *billion.* The sector does not entail any complex corporate structures. The ownership of ECs does not extend to foreign jurisdictions. ECs are generally family-owned and closely-held businesses. ECs are allowed to operate through branches, franchises and exchange booths. The sector is majorly integrated with the formal banking sector as commercial banks maintain the accounts of ECs as well as purchase foreign currency (FCY) from ECs.

5.4.1 Nature of products and services

ECs / EC-Bs buy & sell FCY, act as agents of authorised financial institutions, and collect utility bills, while ECs also conduct inward & outward remittances. The vulnerabilities related to the services offered are explained below:

Sale / Purchase of foreign currencies

Both ECs/EC-Bs deal with walk-in customers, and most transactions are carried out in cash. It has also been observed that walk-in customers break their transactions and use multiple ECs/EC-Bs to avoid the

[44] The key difference between ECs and ECs-B are that ECs-B are much smaller companies having low capital requirements and operations. Further, EC-Bs cannot receive or send inward / outward remittances.

regulatory defined threshold of cash transactions. Therefore, the sale/ purchase of foreign currency is considered vulnerable to exploitation by criminals.

For TF, the sale/purchase of foreign currencies is considered highly vulnerable to exploitation for terrorist activities, moving funds through cash smuggling, raising funds through illegal MVTS and dealings in virtual currencies.

In the case of ML, this activity is deemed vulnerable for exploiting, converting and hiding funds obtained through corruption and bribery, tax crimes, smuggling, illegal MVTS and moving funds through cash smuggling.

Inward / Outward Remittances

EC-Bs are not allowed to deal in remittances of any type. However, ECs are authorised to receive inward remittances and send outward remittances. These remittances are permitted only in an individual capacity and not for commercial purposes and can only be sent/ received through the ECs bank accounts. Most ECs have agency arrangements with multiple international MTOs, such as Money Gram, *Ria* Financial Services, Express Money, Western Union, etc., to receive inward remittances. Due to their transnational nature, these remittances are considered vulnerable to TF risks.

From July 2019 to June 2022, the sector has filed over 3,600 STRs on international remittances. Further, 339 STRs filed by the ECs related to remittances pertained to some jurisdictions under FATF's increased monitoring, while 83 STRs pertained to remittances connected to Afghanistan.

For TF, foreign inward remittances are considered highly vulnerable for settlement of *hawala/ hundi* and for collection of funds through donations/ charity.

In the case of ML, outward foreign remittances are deemed highly vulnerable to the movement of proceeds of crime (POC) out of Pakistan about various predicate offences. Inward remittances can also bring the POC back into Pakistan, making them appear legitimate funds.

5.4.2 Nature of Clientele

ECs are prohibited from dealing with LA/LPs (except other exchange companies and commercial banks. Consequently, ECs solely deal with individual customers who may belong to diversified professions and businesses. This clientele may include High Net worth Individuals (HNWIs), PEPs, businesspersons, non-residents, students, travellers, etc. Apart from the clientele, due to the peculiar nature of the business of ECs, over time, employees of exchange companies may also develop ties with illegal money service businesses and use the business or personal accounts to facilitate their transactions.

5.4.3 Geographic reach of sector's activities

ECs do not have an overseas presence. However, they are internationally connected to the extent of receiving and sending non-commercial remittances from and to foreign jurisdictions that largely constitute UAE and Kingdom of Saudi Arabia. Domestically, ECs are present across the country. Some of the branches, franchises, and payment booths operating close to the bordering areas of Pakistan are more vulnerable to cash smuggling, settlement of *hundi/ hawala* and TF risk, including fund raising.

5.4.4 Nature of delivery channels

The delivery channels ECs offer are cash (over the counter), and banking instruments/transfers. Cash transactions offer some extent of anonymity where the conductor of the sale/purchase transaction may be different from the beneficial owner of the funds involved. ECs are also allowed to provide branchless banking services under an agency agreement with authorized financial institutions; however, the volume of this business activity in the sector is currently negligible.

5.4.5 Key Vulnerabilities and Rating of the Sector

The main vulnerabilities of the ECs sector are dealing entirely with walk-in customers, transacting in cash and multiple foreign currencies and presence in some high-risk domestic geographies. However, transactional limits have been imposed on the sale/purchase and remittance business of the sector, and the sector does not have international presence and does not deal in customer accounts and international trade. Further, EC-Bs are very small and allowed limited business activities. Given the above factors, the sector's vulnerability to ML/TF risks is assessed as "High".

5.5 DEVELOPMENT FINANCE INSTITUTIONS (DFIS)

The DFI sector constitutes around 1.24% of the total financial-sector assets in Pakistan. 09 DFIs are operating in Pakistan. No complex corporate structures are operating in the sector. The ownership in the majority of DFIs largely remains with the Government of Pakistan and other sovereign states[45] bilaterally on an equal shareholding basis. DFIs do not open checking accounts or offer products via alternate delivery channels (i.e., credit card or internet/mobile banking). For carrying out business activities, DFIs use formal banking channels for payment/ receipt of funds to/from customers. DFIs only operate domestically in urban areas and have no foreign operations or presence.

5.5.1 Nature of products and services

On the assets side, DFIs mainly engage in consortium/syndicate lending and extending running and term financing facilities to corporate clientele. On the liability side, DFIs issue a certificate of investments (COIs) to the private sector and public sector entities, federal and provincial governments, financial institutions, including NBFIs, and individuals. COIs are issued for different maturities and are mostly purchased using a negotiable instrument such as pay orders/cheques etc.

5.5.2 Nature of Clientele

Due to limited products and services, the clientele base is small. The sector maintains long-term relationships with clients. Customers are mostly corporate and public sector entities. However, financial institutions, including NBFIs and individuals of different professions, also make up the customer base of DFIs. From June 2019 to June 2022, the sector filed 10 STRs to the FMU for suspicion of ML/TF activity.

5.5.3 Geographic reach of sector's activities

The sector does not have any international presence. However, 07 DFIs have foreign state ownerships alongside Pakistan. Domestically, DFIs operate only in urban areas.

5.5.4 Nature of delivery channels

The element of anonymity or complexity is negligible, given that only banking instruments such as cheques and pay orders are used for carrying out transactions.

5.5.5 Key Vulnerabilities and Rating of the Sector

Given the sector's small size, state ownerships, limited use of the sector by individuals and use of non-cash-based banking instruments for transactions, the sector's vulnerability to ML/TF risks is maintained as ***"Low"***.

[45] *These sovereign states includes China, Kuwait, Brunei, Libya, Kingdom of Saudi Arabia, Iran and Oman.*

5.6 NON-BANKING FINANCE COMPANIES (FUND MANAGEMENT) SECTOR

Non-Banking Finance Companies (NBFCs) are financial institutions that provide specialised financial services, including fund management, lending and *modaraba* but are not allowed to take demand deposits and, unlike banks, cannot offer check accounts. As of June 30, 2022, the aggregate asset size of the NBFC sector was PKR 2,171 billion (4.9% of the total financial sector), comprising Fund Management NBFCs (PKR 1,849 billion) & Lending NBFCs (PKR 322 billion).

The sector comprises Asset Management Companies (AMCs) and Mutual Funds managed by AMCs, Investment Advisors (IAs), and Voluntary Pension Funds. As of June 30, 2022, the Fund Management NBFCs (FMN) sector comprised 22 asset management companies having asset management and investment advisory licenses while 6 standalone investment advisors, fourteen (14) pension fund managers managed twenty-two (22) pension funds, 09 Private Fund Managers, 05 Private Equity & Venture Capital Funds, 05 Real Estate Investment Trust and 13 REIT Management Companies. The total balance sheet footing of these entities was PKR 170.21 billion (USD 831 million), and their Assets under Management (AUMs) aggregated to PKR 1,678.89 billion (USD 8.19 billion). The FMN represent 4.2% of the total financial sector assets in Pakistan. The FMN operate domestically, accepts investments by non-resident investors, does not deal in trade business or outward remittances, and all assets are held in the name of SECP licensed trustees. Almost all the FMNs are privately owned, some being part of financial conglomerates. A large number of entities in the sector are owned by commercial banks that also engage in selling FMN products.

5.6.1 Nature of products and services

Collective Investment Schemes/Mutual Funds

This first category comprises 290 mutual funds/plans, with total assets being PKR 1,281.1 billion as of June 30, 2022. The main investment products are; Collective Investment Schemes which represent 82% of AUM, while the remaining 18% comprises investment advisory portfolios. Most clients opt for *Sahulat Sarmayakari* Accounts (SSA) offered by AMCs for individual low-risk customers to open mutual fund accounts. Investment is allowed by cheque or online banking, and the associated account is subject to a per-year limit of PKR 800,000 that may not be exceeded at any time. In the case of account opening through branchless banking accounts, the limit is PKR 400,000. Besides SSA, the product is vulnerable to ML/TF abuse when offered to PEPs, HNWIs or private companies with complex legal structures. The illicit proceeds from fraud and forgery, tax crimes, corruption and bribery, as well as insider trading and market manipulation, may potentially be channelled via collective investments, even if the predicate offences are not committed in the collective investments industry. However, some predicate offences may be perpetrated within the collective investments industry itself, which increases the likelihood of money laundering also occurring within collective investments.

Concerning ML, the investment products offered by AMCs are susceptible to being used for layering and integration of suspicious funds through frequent/ unusual transactions and therefore, collective investments may be abused or misused both to launder illicit funds obtained elsewhere and to generate illicit funds within the industry itself through fraudulent activities.

With respect to TF, collective investments may be abused or misused to raise, move and use funds related to terrorism. However, there has been no identified case of TF involving CIS to date.

Investment Advisory Services

The second product category is Investment advisory services. As of June 30, 2022, twenty-eight investment advisors were offering advisory services to 877 portfolios, divided into 817 discretionary portfolios amounting to PKR 223 billion and 60 non-discretionary portfolios amounting to PKR 133 billion. Custody of the client's assets can either be in the name of a designated trustee (as defined under the law) or the client. The current composition of the clients of this product category includes retirement funds, large corporates, HNWIs and PEPs which may be vulnerable for ML/TF abuse by their inherent nature. As in the case of CIS, illicit proceeds from predicate offences may be channelled through discretionary and non-discretionary accounts/ portfolios. However, LEAs have not reported any ML/TF abuse of these products.

Pension Schemes

The third category comprises Pension Schemes having a total asset size of PKR 41.6 billion. It is mainly owned by resident individuals (93% of total AUMs), followed by respective fund managers/sponsors (6%), whereas PEPs comprise 0.2% of the total investors. Pension schemes are long-term investment products subject to taxation if the investment is withdrawn before superannuation. Due to the long-term investment duration of this product, its vulnerability to both ML and TF is very low.

During 2021-22, fund management companies filed 162 STRs with the FMU. Eight STRs were related to TFS screening results which resulted in the freezing of accounts on account of matches found with proscribed/designated lists in active customer accounts of Fund management NBFCs. Funds to the tune of PKR 0.44 million were frozen as of June 30, 2022. Moreover, no information has been received from LEAs on account of the domestic investigation concerning the ML/TF threat.

5.6.2 Nature of Clientele

FMNs have a large and diverse clientele ranging from individuals comprising salaried, self-employed persons, HNWIs, PEPs, LPLAs, NPOs, etc. Customers primarily considered to be high-risk include PEPs, HNWIs, LPLAs and NPOs. PEPs are generally seen as potential targets for the illicit laundering of proceeds from corrupt activities and bribery, as well as being used for crimes related to tax evasion. They are generally considered vulnerable to laundering proceeds of all such crimes. Similarly, NPOs are considered highly vulnerable to collecting funds for terrorism through charity/ donation collection and proceeds for crime from various predicate offences.

Individual customers constitute 90% of FMN investors' total population. These individuals hold 26% of AUMs as of June 30, 2022, and the rest of AUMs are held by retirement funds (9%), corporate customers (35%), PEP (1.46%), DNFBPs (0.29%). In contrast, financial institutions, associated companies and charitable organisations hold the remaining AUMs (28.25%). Due to the low number of PEPs and charitable organisations being CIS customers, the vulnerability of such clientele for ML is considered low.

5.6.3 Geographic reach of sector's activities

FMNs have branches across the country with very limited presence in high-risk areas. All Fund management NBFCs are located in Karachi, Lahore & Islamabad, and 100% of AUMs of the sector emanate from these large cities. The sector has no foreign presence; however, the sector accepts investments through *Roshan* Digital Accounts from overseas Pakistanis.

5.6.4 Nature of delivery channels

The sector is highly integrated with the banking sector, and cash-based investments are not accepted. All transactions for investment and redemption are channelled through the banking sector. The delivery channels also include alternate delivery channels, i.e., internet/mobile banking transactions and branchless banking channels. Most relationships are established face-to-face, although digital onboarding was introduced in 2021. The sector only deals with customers who open their accounts and does not provide services to walk-in or occasional customers.

5.6.5 Key Vulnerabilities and Rating of the Sector

The NBFCs (Fund Management) sector is considered average-sized representing 4.2% of the total financial sector. The sector's structure is relatively simple, with majority ownership of commercial banks and less than 1% foreign shareholding. The sector only operates domestically with no foreign branches. Its operations are concentrated in large urban cities, whereas there is a very limited presence in remote and bordering areas.

The NBFC sector, including collective investments, may be considered exposed to ML/TF schemes and may create opportunities for those who would abuse or misuse the sector for illicit purposes. The NBFC sector is generally regarded as vulnerable to ML/TF, as the sector is large and diverse, with various collective investment schemes and large amounts of money being invested on behalf of wealthy individuals or entities. Therefore, the detection challenges are not to be underestimated. Since most of the payments/receipts in this sector are routed through the banking channels, the proceeds of crime could be routed through the banking channels for investment/layering/placement in the fund management sector for ML/TF. However, investment based on cash transactions and third-party funds is not permitted. Moreover, the sector offers various products with ease of entry and exit, customers are solicited on a face-to-face basis & there are no occasional customers. The sector only performs domestically with no foreign branches.

Given the inherent characteristics of this sector, along with an individual assessment of the sources of risk in the sector, the sector's vulnerability to ML/TF risks is assessed as a ***"Medium"***.

5.7 NON-BANKING FINANCE COMPANIES (LENDING & MODARABAS)

This sector only operates domestically and comprises of 4 leasing companies, 17 investment finance companies, 32 micro-finance companies & 28 *Modarabas*. The total asset size of the sector was PKR 322.11 billion, i.e. 0.7% of total financial sector assets as of June 30, 2022. Only seven entities in the entire sector are allowed to accept deposits from the general public. These include 2 investment finance companies, 1 leasing company and 4 *Modarabas*. As of June 30, 2022, the amount of deposits raised by all these entities was PKR 21.03 billion. Further, 56.7% of these deposits were raised from financial institutions, while 30.4% were raised from individuals. The majority of these entities are privately owned, having only domestic operations. No foreign jurisdiction is involved in this sector.

5.7.1 Nature of products and services

Lending Non-banking Finance Companies (NBFCs) largely include motor-vehicle leasing and housing finance, which are entirely asset-based. Under this arrangement, the assets are held in the name of the lending entity until the repayment of both the markup and the principal amount. The disbursement is made directly to the vendor of the asset. In addition, financing for meeting businesses' working capital to cover expenses such as payroll, daily operations, etc., is also provided but only represents about 1% of the total industry size. Financing for working capital is secured through creating charge/pledge of tangible assets like plant & machinery, land/building etc., in favour of the lender.

Micro-loans by (NBFCs) constituted 61% of the overall industry size and amounted to PKR 104.83 billion as of June 30, 2022. These micro loans are mostly disbursed through NBFCs and mainly target low-income individuals and small businesses across the country.

As per the FMU, 241 STRs have been filed by the sector (i.e. *Modaraba* Companies: 03, Microfinance Institutions: 230, Leasing Companies: 2, Investment Finance Companies: 6) from 2019 to June 2022.

Regarding ML, there is a vulnerability of unethical & fraudulent business practices to be adopted and tax evasion.

In pursuance of targeted financial sanctions, seventy-two accounts were frozen because of matches found between PPs/DPs lists and active customer accounts of lending NBFCs. Funds to the tune of PKR 1.933 million were frozen as of June 30, 2022. Nevertheless, information received from LEAs on account of domestic investigations with respect to ML/TF threat shows that the sector has not been identified in any such investigation.

5.7.2 Nature of Clientele

The lending NBFC sector has a large clientele ranging from low-income individuals, small and medium-sized enterprises (SMEs) and general traders to HNWIs, including PEPs and corporates with complex ownership structures. The lending NBFC and *Modaraba* sector only deals with customers under permanent relationships. Almost all customer onboarding is face-to-face, and the transactions are conducted using banking channels. The total customer base was around 3 million, including 2.803 million natural persons, 0.011 million legal persons, and 450 non-resident customers.

5.7.3 Geographic reach of sector's activities

The sector has branches nationwide with a limited presence in high-risk areas/regions. The lending NBFCs are not providing any services in any other foreign jurisdiction. 84% of NBFCs are located in Karachi, Islamabad & Lahore, and 90% of AUMs of the sector emanate from these three large cities, with branches in the border areas making up only 2%. The remaining 8 % are situated in Multan, Hyderabad, Gujranwala etc. The number of customers from high-risk areas was reported to be 116,322, which is 4% of the total customer base and only 1% of the total asset size of the sector.

5.7.4 Nature of delivery channels

All credit disbursements and receipts are channelled through the banking sector, thus limiting the sector's exposure to possible ML/TF. Moreover, cash transactions are not permissible. Further use of alternate delivery channels using digital technology such as the Internet, mobile banking, branchless banking, and digital Micro/Nano loans is expected to gradually increase as part of Pakistan's financial inclusion drive.

5.7.5 Key Vulnerabilities and Rating of the Sector

Legal structures may hide corporate customers' ultimate BO by splitting shareholdings below the prescribed control level thresholds (25%). However, the sector is very small, as only 81 entities have 0.7% of total financial sector assets and are less complex as it offers a limited number of lending products, most of which are asset-based. Only seven entities in the entire sector can accept deposits from the general public. Both deposit-taking and lending activities are allowed in local currency only. The lending NBFC sector has a large mix of clientele; the ratio of corporate clients is less than 0.04%, whereas domestic PEPs and non-resident Pakistanis are less than 0.01% of total clients. The lending NBFCs are not providing services in any other foreign jurisdiction, whereas their presence in local high-risk areas is also very limited. There is no element of anonymity, as all clients have to open their accounts through face-to-face interaction. Most of the funds flow through the banking channels. The Sector was, therefore, assessed to be rated as ***"Medium"***.

5.8 SECURITIES SECTOR

The core economic functions of the securities market are efficient price discovery and capital raising, which contribute to economic growth, job creation and overall prosperity. However, as defined in AML Act, 2010, insider trading and market manipulation have been categorised as predicate offences, and there is a probability that ML/TF risk stems from trading activity in the shares of a listed company.

As of June 30, 2022, the securities sector had 205 active Pakistan Stock Exchange (PSX) brokers and 74 Active Pakistan Mercantile Exchange (PMEX) brokers. PSX is a demutualised exchange, and its ownership structure comprises 40% shareholding by local and foreign corporate investors and 60% by the local general public as on June 30, 2022. Pakistan's securities market is fairly integrated with the banking sector and with other regulated sectors as funds flow from other regulated sectors such as insurance, NBFCs, etc., which are clients of brokerage houses. The securities brokers and the exchange itself are licensed by SECP. Companies listed on the PSX include almost all sectors, including manufacturing, services, trading, etc.

Securities brokers in Pakistan operate under the following primary categories:

(i) Trading and Clearing: Securities brokers who can execute and settle their proprietary trades and trades on behalf of its customers and keep custody of securities and cash owned by it and its customers. In addition, such securities brokers can settle trades of other securities brokers and their customers and keep custody of the securities and cash owned by such other securities brokers and their customers. These are 163 in number.

(ii) Trading Only: Securities broker who can only execute its proprietary trades and trades on behalf of its customers but cannot settle executed trades or keep custody of securities or money owned by it and its customers. These are 37 in number.

5.8.1 Nature of products and services

There are only four active products offered in the Securities Market sector. These are Ready Market (Equity plus Debt)[46], Deliverable Futures Contract, Margin Trading System/Margin Financing and Securities Lending and Borrowing Products. The National Clearing Company of Pakistan Limited (NCCPL) performs risk management, clearing and settlement, whereas the Central Depository Company of Pakistan Limited (CDC) performs depository services. NCCPL and CDC are both licensed by SECP. No information has been received from LEAs on account of the domestic investigation with respect to the ML/TF threat.

As per the FMU's database, 179 STRs were reported from 2019 till June 30, 2022, by the securities brokers, primarily about incomplete CDD requirements. Further, the sector has not reported any STR about ML/TF, except for reports based on (false positive) name matches with the proscribed person's list. Funds to the tune of PKR 1.68 million were frozen as of June 30, 2022, in respect of 8 clients representing positive matches with the local proscribed list. The sector is perceived to be vulnerable to parking proceeds generated from various predicate offences, including corruption and bribery, fraud and forgery and tax crimes. In the Securities Market, the threats of market manipulation, insider trading and other market abuse exist, which may also be used for ML purposes. Securities are often used to generate illicit assets through market manipulation & insider trading, enhancing the sector's vulnerability.

Concerning TF, there has been no evidence of the securities industry being used to finance terrorism.

5.8.2 Nature of Clientele

The customer base consists of both local and foreign as well as individual and institutional customers. Walk-in customers are not permitted. Since all the payments/receipts in this sector are routed through the banking channels, the probability of ML/TF is reduced significantly.

There are 29,970 (7.8%) non-resident individual customers in Securities out of around 380,836 customers. The brokers may have difficulty in ensuring the legitimacy of the sources of income. All of the customers are onboarded through face-to-face interactions or digital onboarding of investors and the transactions are conducted through documented banking channels of the respective customer.

5.8.3 Geographic reach of sector's activities

The Securities sector largely has a local footprint. 80% of branches of securities brokers are centred in Karachi, Islamabad and Lahore. Further, no broker has any branch outside Pakistan. Region-wise distribution of total customers comprises 12,596 in KPK, 389 in FATA, 114,440 in Punjab, 141,898 in Sindh, 2,480 in Balochistan, 11,189 in Islamabad, 309 in *Gilgit/Baltistan* and 1,636 in Azad Jammu & Kashmir. Branches alongside porous borders in different provinces or businesses through agents/distributors in such

[46] Ready Market: An investor after opening of account with a brokerage house, execute trades in securities market to buy and sale securities of listed companies. The trades executed in the ready market are settled on T+2 basis and customers' through their respective securities brokers make payments or deliveries to meet the settlement obligation via the Clearing House as the trades are executed in undisclosed manner.

areas constitute a high vulnerability for ML/TF. Approximately 15,465 customers from high-risk jurisdictions pose higher ML/TF risk for the sector.

The total number of non-resident individual investors investing through Roshan Digital Accounts in the market is around 10,000, mostly from the Middle East, the USA and Europe. Foreign corporate clients also invest in Pakistan. The ownership structure of such foreign corporate clients poses a risk to ML in the sector.

5.8.4 Nature of delivery channels

All customers' on-boarding is carried out face to face, and there is no incidence of anonymity. All the transactions (deposits and withdrawals) with customers' brokerage accounts must be made through banking channels. Securities purchased and sold in the market are kept electronically in the central depository and settled through the NCCPL. All securities being traded in the capital market are kept in the name of the shareholder, and no bearer securities exist. Only a small amount of cash transactions to the extent of PKR 25,000 can be conducted.

5.8.5 Key Vulnerabilities and Rating of the Sector

The sector only offers four types of products. More than 80% of branches of securities brokers are centred in big cities (Karachi, Lahore and Islamabad), while no broker has any branch outside Pakistan. Foreigners and non-resident Pakistanis are allowed to invest in the stocks through a defined mechanism. There is no element of anonymity, and transactions are made through bank accounts. The total number of customers in the sector is 0.16% of the country's total population, with around 1% foreigners and about 7% non-resident Pakistanis. Since the overall clientele base is low, interactions with PEPs and high-risk occupations is also mild. The maximum limit to deal in cash is PKR 25,000 only. Given the inherent characteristics of this sector, along with an individual assessment of the various risk factors in the sector, as described above, the sector's vulnerability to ML/TF risks is assessed as a ***"Medium"***.

5.9 LIFE INSURANCE SECTOR

The life insurance sector comprises 10 companies incorporated in Pakistan, with a total asset base of approximately PKR 1.95 trillion as of June 30, 2022. The life insurance sector captures 4.4% of the overall assets of the financial sector in Pakistan. The sector primarily operates domestically, with only 1 state-owned entity having a branch office in the UAE. The state-owned entity has the biggest share in the market and holds more than 70% of the total assets of the life insurance sector. All private insurers are part of financial groups, and 3 are listed on the PSX.

5.9.1 Nature of products and services

There are 8 main categories of products in the life insurance market, ranging from pure protection to those where the investment and savings component is in addition to term insurance. Products offered by these companies include:

1. Single Premium [47]– Pure Protection (individual)
2. Single Premium – Pure Protection (Group)
3. Single Premium – with investment component/ cash value (individual)
4. Regular premium – with investment component/ cash value (individual)
5. Regular Premium[48] – with investment component/ cash value (Group)

[47] Single Premium Insurance Policy is the policyholder pays a lump sum of money upfront in exchange for a guaranteed death benefit.

[48] A regular premium is money paid to buy insurance coverage in installments at particular time intervals, such as monthly or annually.

6. Regular Premium – Pure Protection (individual)
7. Regular Premium – Pure Protection (Group)
8. Pension Products (individual)

Additionally, to enhance financial inclusion through the insurance sector using financial technology, and innovation, offering cost-effective and accessible insurance products, SECP has recently introduced a regulatory framework for registering dedicated micro-insurers and digital-only insurance companies. Single premium investment and savings-linked products that allow early surrender within 12 months of the date of issue are the most vulnerable to ML/TF. During the financial year 2021–22, in terms of the premium amount received, approximately 52% was a regular premium for pure protection products, 32% was a regular premium for investment-linked products, 12% for pension products, and only 4% was for single premium products.

In general, this sector is perceived to be exploited for laundering proceeds of corruption and bribery. However, information received from LEAs on account of domestic investigation with respect to ML/TF threat shows that the sector has not been identified in any such investigation. As per FMU, insurance companies filed 2,192 STRs, both in relation to life and non-life insurance products, to the FMU from January 2019 to June 30, 2022, which were largely related to corruption.

Insurance Companies have frozen many policies in pursuance of targeted financial sanctions pertaining to terrorism. 163 policies were frozen because of matches found with DPs/PPs lists in active customer accounts of insurance companies. Funds to the tune of PKR 14.12 million were frozen, as of June 30, 2022, while 1,591 STRs were filed with FMU by life insurance companies from 2019 to June 2022; hence the sector is vulnerable to being exploited by designated / proscribed individuals and for parking proceeds of corruption and bribery.

5.9.2 Nature of Clientele

Life insurance policies are sold to a wide variety of clientele ranging from PEPs, NPOs, DNFBs, Landlords and agriculturists, self-employed individuals, sole proprietors, private and public limited companies, government, non-residents and others, including salaried individuals and HNWI. This type of clientele is also perceived to be exploited for corruption and bribery. Policyholders may invest in single premium products as well as regular premium products. Further, assignment, transfer and nomination of life insurance policies are permissible. PEPs, HNWI and other high-risk categories of clients are most vulnerable. However, in terms of the number of customers and the corresponding premium amount, their overall percentage is less than 1%. Also, under the Insurance Ordinance 2000, except for single premium products, a life insurance policy that has been in force for less than two years may not have a surrender value.

5.9.3 Geographic reach of sector's activities

All life insurers predominantly operate in Pakistan, with only one state-owned entity having a branch office in the UAE. The premium earned through the foreign branch is negligible (i.e. less than 1% of the industry's total premium). Insurance companies conduct most of their business (71%) using their branch network (Direct sales force) spread across Pakistan. Out of the total gross premiums of the individual life insurance industry for 2021, 56% of the gross premium pertained to Punjab, followed by Sindh at 29%. Customers from high-risk regions, such as border areas, may potentially use the sector for facilitation in their motives of ML/TF.

5.9.4 Nature of delivery channels

Delivery channels in the life insurance sector include *Bancassurance*, corporate insurance agents and direct sales force. As mentioned above, insurance companies do most of their business (71%) using their own branch network (Direct sales force) spread across Pakistan. Another relatively important channel used for the distribution of products is *bancassurance* which constitutes approximately 11% of the total industry premiums. In comparison, corporate insurance agents other than banks and telecommunication companies comprise 18% of the business. Delivery through *bancassurance* is most popular among corporate agents, where banks sell insurance policies to their customers and other individuals while acting as insurance agents. Around 80% of the transactions in the life insurance business are conducted through banking means ranging from Internet banking/ mobile banking/ IBFT, Cheques/ Pay-orders, and auto debit. The remaining 20% of transactions take place in cash transactions.

5.9.5 Key Vulnerabilities and Rating of the Sector

The proceeds of crime could be consolidated or routed through the life insurance channels for the purpose of ML. Highly vulnerable relationships include those of PEPs and HNWIs. Sources of income/funds that are not easily traceable or verifiable pose a higher degree of vulnerability, especially for non-resident policy holders where the funds invested by non-residents in the insurance sector could be the proceeds of predicate offences in their home jurisdiction. However, their overall percentage is low in terms of the number of customers and the corresponding premium amount, and less than 1% of clients are considered high-risk, including PEPs. All life insurers predominantly operate in Pakistan, with only one state-owned entity having a branch office in UAE, and there is very limited interaction (of less than 1%) with high-risk jurisdictions. Further, the sector lacks anonymity, and more than 80% of transactions are carried out through banking channels. Given this sector's inherent characteristics and an individual assessment of the various risk factors in the sector, as set out above, the sector's vulnerability to ML/TF risks is assessed as ***"Medium"***.

5.10 NON-LIFE INSURANCE SECTOR

The non-life insurance sector comprises 40 domestic insurers with total assets of approximately PKR 271 billion. The sector offers coverage on the occurrence of an insured event. All the non-life insurers are incorporated in Pakistan. In contrast, 3 insurers are part of a foreign financial group (because of shareholding), and 15 are associated (based on shareholding) with local financial groups. The sector primarily operates domestically through its branch network, corporate insurance agents, and banks. One company has a branch office in the UAE.

5.10.1 Nature of products and services

Products offer pure protection policies to customers, including fire, marine, motor, accident, health, credit, surety and liability. Most of the contracts are for 12 months duration and are not attractive for ML/TF purposes as the products cannot be used to store or transfer value.

5.10.2 Nature of Clientele

The majority of the clients are either individuals comprising salaried, self-employed persons, housewives or corporate clients. Further, clients are mainly domestic. Domestic and foreign PEPs constitute only 0.07% of the total client base.

5.10.3 Geographic reach of sector's activities

The non-life insurance products are marketed domestically. The majority of the business of non-life insurance is in big cities, especially in Karachi and Lahore. Out of the total gross premium of the non-life industry for 2021, 56% of the gross premium pertained to the province of Sindh, followed by Punjab at 35% and Islamabad (ICT) at 7%.

5.10.4 Nature of delivery channels

Delivery channels largely include banking channels such as checks and payments through alternate banking delivery channels. The banks also distribute insurance policies.

5.10.5 Key Vulnerabilities and Rating of the Sector

Term life and casualty insurance products have no investment component and cannot be used to store or transfer value. While fraud in the term life and casualty insurance sector may occur, this represents criminal proceeds, not ML or TF vulnerability. Therefore, the risk is low. Given the inherent characteristics of this sector, along with an individual assessment of the risk factors in the sector, the sector's vulnerability to ML/TF risks is assessed as **"Low."**

5.11 CENTRAL DIRECTORATE OF NATIONAL SAVINGS (CDNS)

CDNS is a Government Department with a network of 375 branches, both in urban and rural areas and engaged in selling GoP debt instruments to the general public. Outstanding liabilities as on June 30, 2022, were PKR 3,630.16 billion, which constitutes around 11.6% of the overall domestic debt of the Federal Government and 15.92% of total banking deposits.

5.11.1 Nature of products and services

CDNS's products are GoP domestic debt instruments called National Savings Schemes ("NSS"). These products are issued for the short, medium and long term with the approval of the Federal Cabinet. Majorly the products offered are either restricted (e.g. *Bahbood* Saving Certificate & Pensioner Benefit Account) to a particular segment of the society, such as senior citizens, pensioners, martyrs, widows and differently-abled persons or are unrestricted and offered to all citizens (e.g. registered prize bonds and other saving certificates/ accounts).

Amongst all the products by CDNS, bearer prize bonds are considered inherently more vulnerable to ML/TF exploitation due to their unrestricted/bearer nature and fast conversion to cash. Given the product's high vulnerability, the GoP decided to phase out the high-value bearer bonds. As a result, deposits of total bearer Instruments reduced to 8.64% of the entire national savings portfolio as of June 30, 2022, which mainly comprise small denomination bonds.

For TF, the bearer bonds portfolio is considered vulnerable due to the anonymity built into the nature of the product. These can potentially be used as the equivalent of cash.

In the case of ML, bearer bonds are deemed vulnerable due to their inherent anonymity and the possible prize pay-out that can be won through holding the bearer bond, which can potentially be used to make proceeds of crime appear legitimate earnings.

5.11.2 Nature of Clientele

CDNS had 3.1 million active customers as on June 30, 2022. CDNS customers can only include Pakistanis, both residents and non-residents. Generally, clients have a long-term relationship with CDNS, and their on-boarding occurs face-to-face. Out of the total clientele, 49% use restrictive CDNS products and these customers include pensioners / senior citizens, widows and differently-abled persons. These customers generally constitute small saver groups and are considered to pose a lower ML/TF risk. The assessment of the clientele using bearer prize bonds is however challenging as its clientele is unknown.

5.11.3 Geographic reach of sector's activities

All activities of CDNS and its branch network are conducted within the borders of the country. In terms of local spread, only 15 of the 375 branches (4%) operate in high-risk areas for TF (i.e. Quetta, Sargodha, and Bahawalpur) for TF abuse. Regarding the deposit portfolio, high-risk area branches hold a share of 3.1% (PKR 114.8 Billion) of the total savings portfolio. Further, deposits worth PKR 6.2 million related to TFS stand frozen as of June 30, 2022.

5.11.4 Nature of delivery channels

Offerings of national saving products are always face-to-face. The transactions generally occur through formal banking channels using cheques or cash. Where cheques are accepted, CDNS ensures that the payer of the cheque is the same person as the one purchasing savings products. Therefore, third-party payments do not occur. The only product that can be traded in cash is the Bearer Prize Bonds, the inherent risk of which is already being reduced by gradually phasing out the higher denomination bearer bonds.

5.11.5 Key Vulnerabilities and Rating of the Sector

CDNS has no international presence and generally caters to only low/moderate-income domestic customers. It uses formal banking channels for investments in other debt instruments, maintains long-term customer relationships, and transacts face-to-face. The main vulnerability of the CDNS is its bearer bonds portfolio where anonymity exists in the clientele. Based on the above factors, the vulnerability rating of the CDNS is improved from "High" (as assessed in the previous NRA) to ***"Medium"*** as it has significantly reduced its high-risk portfolio of bearer bonds.

DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS

5.12 REAL ESTATE AGENTS

This sector, including linked/allied industries, is known as one of the largest employment generating sectors in Pakistan with an increasing demand for its products due to the growth of the country's population. This sector comprises developers/builders who usually develop/build real estate for furthering business activities. In contrast, agents/brokers in real estate typically market the products as a middleman on a commission/brokerage basis per market practices. As of June 30, 2022, 40,833 actors are operating in the sector, primarily as sole proprietors although other forms of businesses such as partnerships, joint ventures and other LPLAs also exist. The real estate sector is complex and well-integrated with other sectors and businesses, including the financial sector, as transactional settlements involve banking channels.

5.12.1 Nature of products and services

Real Estate sector actors offer a variety of vulnerable/risky products and services, which include built residential properties (such as villas/houses/ luxury apartments), unbuilt residential properties such as residential plots, built commercial properties and unbuilt commercial properties (commercial plots). Further, the sector also deals in sale and purchase of agricultural land.

Out of the products mentioned above and services, villas/open file plots, luxury apartments and land for commercial use are considered highly vulnerable to ML/TF risks given their increasing demand, pulling of funds from undocumented or cash-intensive sectors and inter/intra-businesses transactions. Funds derived from almost all types of undocumented businesses and predicate offences are usually parked in real estate products due to the anonymity and appreciation of value factor.

For TF, real estate products are considered less vulnerable than ML due to the variability of liquidating assets. However, previously the instances of proscribed persons/entities are found owning or associating with real estate businesses, funds of which may be used further in financing terrorism. All such properties have been now frozen and taken over by the Government of Pakistan.

In the case of ML, real estate products are considered highly vulnerable for receiving and parking proceeds of crime from multiple predicate offences, especially frauds & forgeries, cyber-crimes, corruption, *hawala/ hundi*, tax crimes, smuggling, human trafficking, arms & narcotic trafficking and insider trading.

5.12.2 Nature of Clientele

The sector's clients are mainly resident Pakistanis, but the clientele also includes overseas Pakistanis and, in some cases, foreign individuals/entities. The latter may engage a local representative / LP/ LA to appear before the registering authority for the transfer of property. Properties are also mutated in the names of LPLA which may aid in the obfuscation of the UBO of the transaction. Further, the sector is used as an investment vehicle for HNWI, PEPs, cash-intensive businesses and foreigners with high vulnerability for proceeds from predicate offences, including corruption, bribery, and tax crimes. Real-estate dealers and developers sometimes act as the sector's clientele, leading towards business-to-business real estate transactions. Apart from the clientele that transacts for fulfilling housing and business needs, clients also use the sector for speculative and short-term gains, which sometimes distorts the genuine market values of the sectors' products.

5.12.3 Geographic reach of sector's activities

The sector's business activities are spread throughout Pakistan. However, most real estate transactions occur in urban and developed areas with rising housing requirements and commercial activities. The real estate sector also extends to some of Pakistan's ML/TF high-risk areas, including south Punjab and the bordering areas of KP and Balochistan, where the transactions generally relate to agricultural land or commercial warehouses.

5.12.4 Nature of delivery channels

Being a cash-intensive business, the real estate sector mostly faces cash transactions. The sector offers both face to face and non-face-to-face channels to clients. Anonymity remains the major concern in the sector as transactions are possible without the customer's presence. Further, recently "Web-Based Real Estate Hubs and Marketing Companies" have emerged, providing professional real estate buying/selling services to interested parties without requiring the clients' presence. These companies are involved in a large part of real estate transactions.

5.12.5 Key Vulnerabilities and Rating of the Sector

The main vulnerabilities of the sector include cash-based and high-value transactions with HNWIs/PEPs, non-centralized land registries, transactions carried out outside registry requirements, non-face-to-face property transactions through web-based and other solutions, opportunities for speculative activities, transactions between businesses and in the name of LALPs, local and foreign investors and the chance to escape documentation due to variability of notified and market value of properties. Based on the vulnerabilities above, the overall risk rating of the sector has been kept at ***"Very High."***

5.13 DEALERS OF PRECIOUS METALS AND STONES (DPMS)

Gold and high-quality precious gemstones like ruby, emerald, topaz, aquamarine, fluorite, and lapis-lazuli are commercially explored minerals in Pakistan. The sector has a complex structure, involving miners, bullion dealers, gemstone dealers, refiners/ manufacturers, wholesalers and retailers. As of June 30, 2022, the potential population of DPMS is 18,675[49]. The sector has a country-wide presence but major players operate in large urban centres. Domestic sales constitute 90% of the sector, while exports only account for 10%. Major gem export markets include Thailand, Sri Lanka, Europe, the USA, and East Asia. The sector has high turnover, indicating a lot of business activity where most transactions are done through cash, while many of them operate mostly in the informal economy. Many DPMS in Pakistan operate in the disguise of other businesses such as exchange companies, travel and tourism, trade, and property dealerships. Registered DPMS mostly operate as sole proprietorships, and most of the DPMS deal with middle-income customers, and their sales remain below the cash reporting threshold of PKR 2.0 million.

5.13.1 Nature of products and services

The sector offers a variety of products, including gold jewellery, gold bars, diamond, platinum, palladium, silver, gems and other precious stones. Amongst these, gold bars are considered more vulnerable to ML/TF risks due to their less visibility, high value, ease of liquidation and consumer preference for savings, investment and trade. Gold is considered lucrative for TF and ML as criminals and their associates/ networks can fund terrorism and conceal, mobilise and invest proceeds of crime.

5.13.2 Nature of Clientele

This sector has two types of suppliers: bullion dealers / wholesale gem suppliers and Retailers. The sector deals with several types of customers, including both foreign (minimal activity) and resident/ non-resident Pakistanis. Vulnerable clientele to ML/TF activity includes PEPs, HNWIs, and cash-intensive businesses.

5.13.3 Geographic reach of sector's activities

DPMS operate all over Pakistan; however, they generally do not deal with clientele from high-risk foreign jurisdictions. Within Pakistan, bordering areas along the Pak-Afghan border, i.e., tribal areas of KP (Khyber Agency, *Bajor* Agency, North & South Waziristan) and *Chaman* in Balochistan, have always been prone to smuggling of gold & precious stones due to the vast porous border. While recent border fencing has contributed towards combating the illicit trade of gold and other gems & stones, law-enforcement agencies have also reported a number of smuggling cases. Due to the small size and easy-to-carry/conceal products with high intrinsic value, smuggling through airports has also been witnessed.

5.13.4 Nature of delivery channels

The majority of transactions involve a high level of anonymity due to the extensive use of cash, involvement of the *hawala/hundi* network, prize bond trade and dealing with unregistered dealers. However, certain DPMS also use banking channels such as debit/credit cards or bank transfers.

5.13.5 Key Vulnerabilities and Rating of the Sector

The main vulnerabilities of the sector include high-value transactions due to the high intrinsic value of the products, use of the sector's products by PEPs, HNWIs and LPLAs, anonymity in transactions, the existence of an unregistered population of DPMS, presence of dealers in high-risk geographies, ease in use of the products for cross-border smuggling, association with *hawala/hundi*/prize bonds and currency exchange businesses. Consequently, the overall risk rating of the sector has been kept ***"High"***.

5.14 ACCOUNTANTS

As of June 30, 2022, the population of this sector stands at 171 accountancy firms/businesses which are required to be registered with supervisory authorities for AML/CFT supervision based on the type of their activities. Out of the total, 98 accountants are supervised by the FBR, 57 by ICAP and 16 by the ICMAP.

[49] As per regulations, only those DPMS come under regulatory ambit who deal in cash transactions over a specified threshold of PKR 2 million. Most of these DPMS do not deal in cash transactions above the specified threshold; however, since cash transaction above the threshold are not prohibited, they fall under regulatory ambit of the FBR.

The sector does not have a complex functional structure. The majority of reporting firms are sole proprietors, while some also exist as partnership concerns. The sector conducts a relatively low number of AML-specified transactions, of generally lower values, to a few clients. Most accountancy firms have little or no integration with the formal financial sector, and all reporting firms are registered with the FBR for tax purposes. Mostly, accountancy businesses have a presence only in large urban centres, although some firms also operate branches in less-populated areas.

5.14.1 Nature of products and services

The sector offers accounting and TCSP services, with TCSP services being more common; however, they constitute a very small segment of the overall business of the sector. Frequently offered TCSP services include acting as a company formation agent and providing a registered office or address.

5.14.2 Nature of Clientele

The clientele of the sector includes both natural and legal persons. The majority of the clientele maintains continuing business relationships with the service providers. Clientele from high-risk geographies and foreign jurisdictions is very low relative to the overall clientele of the sector. Accounting firms have a direct relationship with their clients without any involvement of third parties.

Amongst the overall clientele of the sector, the services provided to PEPs, non-residents and other high-risk clientele do not exceed 25% of the firms' business. The TCSP services provided by the sector to LPs are vulnerable to ML/TF risk in case of complex legal structures; however, the volume of such services is very low compared to the overall business of the sector.

5.14.3 Geographic reach of sector's activities

There are no reporting firms with offices in any high-risk foreign jurisdictions. Domestically, activities of the sector are concentrated in urban centres, while very few accountants had some activity in high-risk domestic areas such as South Punjab and the border areas of KP and Balochistan.

5.14.4 Nature of delivery channels

While transacting, formal banking channels are used in the sector. The transactions are carried out face-to-face, reducing risks of anonymity.

5.14.5 Key Vulnerabilities and Rating of the Sector

The main sector vulnerabilities include providing TCSP services to LPs, specifically in the case of complex legal structures. However, the volume of such services is very low compared to the overall business of the sector. The Sector is very small with relatively low turnover. Moreover, less than 5% of the overall business of the reporting firms pertains to AML-specified services. Furthermore, no activity linkages to foreign high-risk jurisdictions. Further, relationships are maintained on a long-term basis and transactions are carried out face-to-face. Based on the above, the overall vulnerability rating of the sector has been kept ***"Low"***.

5.15 LAWYERS & LAW FIRMS

There are about 186,956 lawyers/law firms in the country out of which only 138 offer regulated services of ML/TF concerns. These services are either provided by lawyers (125) registered under the Intermediaries Registration Regulations 2017 or by lawyers (13) providing services to the Asset Management Companies (AMCs) with respect to trust formation. These services are offered to businesses domestically only in urban areas of the country.

For TCSPs, there are no professional trust services providers in the country. However, company formation services are provided by some lawyers in addition to the provision of legal services to their clients. Such services are essentially provided by the lawyers registered under the Intermediaries Registration Regulations 2017 and by lawyers providing trust formation services to AMCs.

5.15.1 Nature of products and services

Some lawyers registered as intermediaries with the SECP provide legal consultancy, company formation and filing of corporate returns services to companies. These services are provided by sole law practitioners or representatives of law firms. Some lawyers also provide services related to the legal review of constitutive documents, registration of documents, registration of trust in collective investment schemes and legal consultancy to AMCs. These AMCs are registered with the SECP.

5.15.2 Nature of Clientele

The main clientele of lawyers registered as intermediaries include LPs specifically including AMCs. Also, lawyers may have individual high-risk clients such as PEPs and HNWIs.

5.15.3 Geographic reach of sector's activities

The business of lawyers is primarily domestic, with a concentration in urban areas, specifically Karachi, Lahore and Islamabad. Only a fraction of lawyers or law firms have clients or operations in domestic high-risk areas (South Punjab and the border areas of Khyber Pakhtunkhwa and Balochistan).

5.15.4 Nature of delivery channels

Communications with the clientele are mostly face-to-face while the transactions take place through banking channels such as cheques/pay orders, however, cash may also be used to settle payments for services obtained. Largely, the channels do not constitute anonymity and are not complex.

5.15.5 Key Vulnerabilities and Rating of the Sector

Given that lawyers do not carry out financial transactions for their clients and that there are a very low number of lawyers providing the services having ML/TF concerns e.g. company and trust formation, together with the fact that the majority of the services are provided to clients with whom they have long term and face-to-face relationships with the lawyers significantly reduces the vulnerability of the sector for ML/TF abuse. Since 2019, lawyers have been brought into the regulatory ambit through an amendment in the AML Act, 2010, which has resulted in an improved understanding of the sector, which has, in turn, resulted in a reduction in the inherent risk of the sector. Accordingly, the risk rating of this sector has assessed as *"low"*.

CHAPTER 6: ASSESSMENT OF INHERENT VULNERABILITIES OF NPOs AT RISK OF TF ABUSE

6.1 INTRODUCTION

The Non-Profit Organizations (NPOs) sector is crucial for voluntary economic resource redistribution and social assistance, fulfilling various purposes. It is essential to protect the NPO sector from abuse, particularly from terrorists and their activities. NPOs play a vital role in mitigating root causes of terrorism, such as poverty and discrimination. Terrorist groups may exploit NPOs by diverting funds for charitable work from legitimate NPOs to support their own causes or creating 'sham' NPOs to collect funds under the guise of legitimate fundraising.

This chapter aims to develop an understanding of the risk of terrorist financing abuse facing 'FATF defined' NPOs in Pakistan. FATF Standards require countries to assess their broader NPO sector to identify subsets of organizations falling within the FATF definition of an NPO. While NPOs in Pakistan may be vulnerable to money laundering, such risks are addressed in legal persons and legal arrangements risk assessment.

The chapter discusses the NPOs sector in Pakistan, its regulation, new initiates since the last NRA, understanding of TF abuse risks, risk ratings based on the 1st inspection cycle, and Pakistan's future strategy for supervision. This will assist stakeholders in risk understanding, implementation, and effective management of NPOs in Pakistan.

6.2 NPO LANDSCAPE IN PAKISTAN

Pakistan has a large and diverse NPO sector, with 16,269 active NPOs as of June 2023. These NPOs provide essential social services to the masses, often where government institutions cannot reach. A uniform Charity Act has been promulgated in all provinces to promote good governance, financial integrity, and public confidence in the sector. Pakistan is taking additional risk-based measures to address terrorist financing risks, including risk assessment, supervision, and cooperation. The NPO sector is vibrant, playing a major role in delivering essential social services and disaster relief. The increasing trend of charitable giving is based on religious beliefs and the spirit of generosity, particularly during religious festivals like Eid-ul-Azha. NPOs in Pakistan can be classified into various categories based on their primary activity.

Pakistan's international NPO sector has 112 registered entities, registered under the INGO Policy of 2015. The Ministry of Interior closely monitors these entities, conducting inspections and signing MOUs with security agencies. The MOI also has a committee for supervision and monitoring, and conducts outreach activities to ensure best practices are observed. The MOI also conducts regular registration renewals and conducts outreach activities to promote best practices among INPOs.

6.2.1 Overview of Regulatory Framework of NPOs

Pakistan's NPO sector was initially regulated separately under federal and provincial laws, with internal governance controlled by constitutions, memorandums, rules, and by-laws. In 2020, model charity laws were enacted, regulating and monitoring NPOs for good governance, financial integrity, and transparency. The Ministry of Interior oversees the sector at the federal level, ensuring proper monitoring, centralized data sharing, and addressing trans-provincial operation issues. The 2020 model Charity Laws established Charity Commissions in all provinces to supervise NPOs, and an online registration portal was developed to facilitate supervision. A three-tier monitoring mechanism is implemented for NPOs, including the charity commissions, provincial departments, and district intelligence committees. This overall monitoring mechanism focuses on NPOs at risk of TF abuse in Pakistan.

6.3 UNDERSTANDING THE NPO'S RISK OF TF ABUSE IN PAKISTAN

One of the main factors that increase an NPO's vulnerability to terrorism financing is weak understanding of the risks of terrorism financing. Every country is required to review the adequacy of the laws and regulations for the NPOs which the country has identified as vulnerable to TF abuse and apply focused and proportionate measures, in line with the RBA, to such NPOs to protect them from TF abuse.

Over the years, Pakistan has conducted four key efforts in the NPOs sector to enhance the TF risk understanding for the NPOs, i.e., NRA 2017, NRA 2019, SRA 2019 and the comprehensive mapping exercise of 2019/20:

A. NRA 2017. The National Risk Assessment was carried out in 2017 to identify the risk of NPO sector. Key points included: The ongoing work to register the NPO sector and to record their funding sources needs to be augmented for a more effective application of AML/CFT measures, the oversight mechanism for NPOs must be strengthened; and specialized capacity building programs on CFT measures may be continued and the oversight mechanism of NPOs should be strengthened so that this sector cannot be used for TF abuse. The NPO sector as a whole was rated as high-risk.

B. NRA 2019. The National Risk Assessment was carried out in 2019 to identify the TF risk of NPO sector in Pakistan. It revealed that the NPOs are one of the key tools for redistribution of economic resources on a voluntary basis and for provision of assistance to those most in need but the regulatory and administrative frameworks for NPOs were weak and there are possible chances of the misuse of NPOs for TF purposes. The NPO sector was again rated as high-risk overall.

C. Sectoral Risk Assessment 2019. In October 2019, an entity-wise risk assessment of the NPO sector was conducted, assessing district-wise vulnerabilities based on key statistical parameters. The risk classification was correlated with NPO data obtained through an NPO mapping exercise. The exercise analyzed NPO size, key functionaries, assets, donor base, payment methods, funds movement, cross-border activities, recruitment capabilities, and effective control of NPOs. The NPO sector was rated as high-risk.

D. Comprehensive Mapping Exercise of NPO Sector (2019-20). To assess NPOs at risk of TF abuse, comprehensive data was collected at the federal and provincial levels through District Intelligence Committees. A bifurcation of functional and non-functional NPOs was made, revealing that out of 65,019 identified NPOs, only 16,014 were active. Inactive NPOs were later deregistered. During the mapping exercise, an exercise to identify NPOs vulnerable to TF abuse was carried out where the process involved the use of risk parameters to include zones of operations, legal status, quantum of donations, funding sources, geo-political factors, legal compliance, and Financial misconduct by NPOs.

On the basis of the above risk indicators, all the 16,014 NPOs were risk rated as follows: 1307-High Risk; 7,111-Medium Risk; and 7,596-Low Risk.

6.3.1 1st Supervisory and Inspection Cycle - Sep 20 to Sep 22.

During the 1st Supervisory and Inspection cycle of NPOs, all 16,014 NPOs were audited to ensure the implementation of the new good governance and financial integrity measures, with a particular focus on the NPOs at risk of TF abuse. Therefore, follow-up audits were then conducted on all 1,307 high-risk NPOs. These inspections resulted in the issuance of warnings, show cause notices, suspension, and de-registration where warranted

a. Violations and Enforcement Actions. There were a variety of violations for which all NPOs were inspected in 1st inspection cycle that included non-maintenance of statutory registers, non-compliance of various NPO regulations, conducting operations outside their licensed area, not conducting mandated business, not notifying the registering authority of a change of address, not maintaining audited accounts, etc.

b. Revision of Risk Rating. Based on the 1st supervisory cycle, 100% NPOs were re- categorized to 1,099 high-risk, 7,099 medium-risk and 7,387 low-risk NPOs making a total of 15,585 NPOs at end of 2022.

6.3.2 Inputs Considered for the Latest Risk Assessment

a. Available Understanding of Risks.

The latest risk assessment of the NPO sector incorporates additional inputs, including STR analysis, investigations, and vulnerabilities identified during the 1st supervisory and inspection cycle. Social welfare, charity, religion, and education are the most vulnerable types of NPOs based on their characteristics or activities. The assessed additional inputs, risk rating and description of these types are discussed in the following paragraphs.

a. Additional Input-1: STR Reporting & Its Analysis

Financial monitoring of the NPO sector is a continuous process. Over the years a decline in reporting of STRs linked to NPO has been observed. This decline can be attributed to the various measures taken such as enhancement of regulatory framework of NPOs and the severe restrictions imposed against the proscribed entities engaged in NPO related activities. This decline is also a reflection of the improvements in compliance by the sector as a result of efforts by the charity commissions along with outreach pertaining to the implementation of the new regulatory framework. The main reasons of suspicion based on which STRs were reported to FMU included Unregistered NPO, Individual/entity linked with proscribed NPO, Received donation on behalf of an unauthorized/unregistered NPO, Misuse of donations, Personal account was advertised for charity purposes/collecting of donations, KYC/CDD discrepancies & Law Enforcement Agencies (LEAs) enquiry/investigation against the NPO or its members.

b. Additional Input-2: Analysis of Investigations Involving NPOs

(1) Chapter 4 of this document also highlights the typology of ‘front NPOs’ as a method of TF activities as there were some entities registered under the Societies Act as “welfare organisations” due to their involvement in social welfare activities. These 11 entities (the list of which is available on NACTA website via https://nacta.gov.pk/) were acting as front organizations of some UN listed and domestically proscribed entities.

(2) These entities posed a risk for TF purposes both domestically and internationally. Pakistan conducted detailed and extensive investigations which resulted in the identification and subsequent proscription of several these front organizations for TOs under the ATA, 1997. All properties owned or controlled by these front entities have been taken over and their status of registration has been revoked upon convictions from courts. Following a substantial strengthening of the legislative framework to oversee NPOs, charity commissioners have been appointed in each province to oversee NPOs and their operations. It is believed that all front organizations have been identified and subsequently proscribed followed by strict law enforcement actions. As such, their inherent TF risk has been reduced.

c. **Additional Input-3: Ratings and Key Vulnerabilities on the basis of 1st Supervisory and Inspection Cycle**

The factors that increase an NPO's vulnerability to terrorism financing include: a weak understanding of the risks of terrorism financing; poor due diligence conducted on key personnel, volunteers, partners, and beneficiaries; inexperienced staff; lack of formalized training and ongoing professional development; weak record keeping; weak internal controls; beneficiaries or operations in areas with governance deficits; and a lack of internal cooperation among stakeholders. As a result of the 1st supervisory cycle and level of compliance, the overall revision in the rating for the NPOs was carried out. NPOs mainly involved in the service sector were assessed to be vulnerable for misuse in supporting and financing of terrorism by use of criminal act such as corruption, smuggling, fraud, violence, and embezzlement.

6.4 KEY RATINGS

Keeping in view the assessment of the above-mentioned factors and inputs, the most vulnerable types of NPOs, on the basis of their characteristics or activities, are social welfare, charity, religion, and education. Assessed risk rating along with a description of these types of NPOs is discussed as under;

NPOs Sector	Social Welfare	Charity	Religious	Education	Others
Risk Rating	High	High	High	High	Low

6.4.1 Social Welfare

Pakistan has a significant number of non-governmental organizations (NGOs) working on social welfare due to natural disasters and financial crises. These NPOs operate through funding received from taxpayers, the general public, skin hides donated during holy months and International NGOs, making it possible for families and individuals to cope with the financial issues. These NPOs provide financial aid to vulnerable groups. However, there are risks associated with these organizations, including poor understanding of terrorism financing, due diligence, inexperienced staff, lack of formalized training, poor record keeping, weak internal controls, governance deficits, and lack of internal cooperation among stakeholders. Additionally, there is a risk of abuse of funds, as small payments from poor people may avoid payment through banking channels. The inherent risk of social welfare NPOs is high due to factors such as poor understanding, poor due diligence, large number of partners, volunteers, and weak internal controls.

6.4.2 Charity

Nearly 10% of Pakistanis donate to charitable organizations, such as Masjids and madrasas. Charitable giving is a personal act of generosity, with the majority of recipients being poor persons or families they know personally (46%). About 48% of females and 44% of males claim to have given charity to a poor person they knew personally. The main risk in these NPOs is funds collection by organizations that may misuse funds for TF in the name of charity. Poor due diligence, volunteers, partners, and beneficiaries increase the risk of abuse. Small payments made through non-banking channels and charity donation boxes also increase the risk of abuse. The inherent risk in these types of NPOs is high due to the risk factors associated with donation boxes, camps, volunteers, and cash-based collection.

6.4.3 Religious

Religion is the primary motivation for giving donations and charity, including obligatory and voluntary giving. Religious NPOs, which perform activities like ration distribution, scholarship grants, and educating, face risks such as misuse of funds for TF, especially sectarian terrorism. They are banned under Islamic cover and face potential abuse of funds due to non-banking channels and charitable donations. The inherent risk is high due to weak internal controls, public collection, and multiple donors.

6.4.4 Education

These NPOs are crucial in improving Pakistan's education system by addressing outdated infrastructure through public/private partnerships, donations, and investment in physical infrastructure. They provide books, scholarships, furniture, and training to students, focusing on family, health, primary, secondary, vocational, technical, environmental, and handicraft education. These NPOs have better due diligence, expertise, and control mechanisms, with minimal information about partners and beneficiaries. Fund transfers are made through formal banking channels, but inherent risk remains high due to their nature of activities.

6.4.5 Other NPOs

Such NPOs operate on a small scale using joint platforms with defined funding and expenditure parameters. They focus on sports, recreation, arts, culture, interest representation, commerce, research, family planning, environmental protection, and literature. These NPOs provide services in various areas, such as sports and recreation, cultural heritage preservation, scholarship arranging, trade and commerce promotion, literary celebrations, family planning, health awareness, and environmental protection. Due to their focused operations, better documentation, due diligence, and monitoring mechanisms, these NPOs are considered low-risk.

6.5 PAKISTAN'S APPROACH FOR THE NPOs SUPERVISION

Important cardinals of Pakistan's strategy are as under: -

a. Systems and Processes (Continued Process): Enabling charity commissions, continuous training/outreach, and addressing legal issues remain regular processes for improving the systems and procedures to ensure the effective implementation and management of NPOs in Pakistan.
b. 2nd Supervisory and Inspection Cycle - Sep 22 to Sep 24: While continuing to implement a Risk-Based Approach with respect to TF abuse, Pakistan initiated a 2nd inspection cycle for all NPOs in September 2022 that is due to be completed by September 2024 through District Intelligence Committees headed by a Deputy Commissioner, involving a District Police Officer (DPO), a district level CTD officer, representatives of the Special Branch, Intelligence Agencies, the Social Welfare Department, and the Industries Department. These at risk NPOs will be inspected on a 2-tiered process. In the first tier, the charity commissions will carry out inspections of Category A NPOs operating at the provincial level. The District Intelligence Committees will carry out inspection of Category B & C NPOs operating in districts and tehsils.
c. Regulation of the Low-Risk NPOs: Pakistan has implemented a division in NPO supervision to prevent adverse effects on low-risk NPOs and allocate supervisory resources based on their risk. This approach ensures that low-risk NPO supervision doesn't compromise high-risk supervision. Additionally, there is a plans to issue a directive to provincial charity commissions to update and streamline supervisory plans for risk-based supervision of low-risk NPOs.

d. <u>Moving Forward (After completion of 2nd Supervisory and Inspection Cycle)</u>**:** Pakistan has implemented new regulations for regulating NPOs, focusing on good governance and financial integrity for 100% of active NPOs. The supervisory framework focuses on training and outreach components, while the country plans to complete the 2nd supervisory and inspection cycle by September 2024. This will ensure a comprehensive review of Pakistan's broader NPO sector and update the assessment of which NPOs apply to FATF Standards and CTF efforts.

   Pakistan is taking a cautionary approach due to this being a newly regulated sector and the duality in the purpose (training and outreach along with evaluating compliance). While 100% of NPOs are to be visited in each inspection cycle, the type of visit in terms of time spent, the resources involved and the checks made, varies according to the risk rating of the NPO (i.e., a high risk NPO inspection is normally led by a team of supervisors and can take up to 3 days, while a low risk NPO inspection will be carried out by a single member in one day with the focus being on training and outreach).

e. <u>Un-registered and De-Registered Charities:</u> These organizations operate through public funding, skin hides, Zakat, Sadqa, door-to-door visits, and social media. Although they may not represent a large sub-set of the charity sector, they may pose greater risk if linked to international terrorist networks or UN listed entities. These organizations are managed and addressed through local administration, police, and intelligence as unlawful entities. Unregistered organizations solicit charitable donations without registration or licensing under existing regulatory frameworks. These organizations may also be de-registered and continue operating as charities in violation of the law. Local administration, police, and intelligence act against de-registered charities to prevent illegal operation and TF abuse. If they find any information on irregularities or illegal activities, they report it to local administration and police for necessary punitive measures. From 2018-2022, 15 FIRs were registered against de-registered NPOs that continued to operate, while 25 FIRs were registered against un-registered NPOs. This enforcement demonstrates the effectiveness of controls in supervision and monitoring against unregistered and de-registered charities.

6.6 CONCLUSION

The risk assessment of terrorist financing abuse to NPOs is crucial, with Pakistan's NPO sector facing a high risk. The broader scope and complexity of the risk assessment reflect authorities' comprehensive understanding of the risk. Pakistan is on track towards a more in-depth and robust understanding of TF risk, both domestically and transnationally. This assessment informs all risk-based measures to tackle NPOs at risk of TF abuse, and the risk assessment will be regularly updated, considering current supervision cycles.

CHAPTER 7: ASSESSMENT OF THE INHERENT VULNERABILITIES OF LEGAL PERSONS AND LEGAL ARRANGEMENTS

7.1 OVERVIEW OF LEGAL PERSONS AND LEGAL ARRANGEMENTS (LPLAs)

In Pakistan, legal persons are companies, limited liability partnerships (LLPs) and cooperative societies registered under their respective laws. Companies and LLPs are registered and regulated by the Securities and Exchange Commission of Pakistan at the federal level. In contrast, cooperative societies, trusts and *waqfs* are registered and regulated under provincial and territorial laws.

Legal arrangements, which include trusts and *waqfs*, are primarily regulated by the relevant provincial and territorial authorities. Another category of specialised trusts under the regulatory ambit of SECP has been introduced: those created to establish collective investment schemes, private funds, pension funds, real estate investment trusts, exchange-traded funds, private equity, venture capital funds, debt securities trusts, etc.

In Pakistan, legal persons and legal arrangements can be registered through a smooth and transparent regulatory procedure after meeting basic initial requirements. They can undertake a variety of commercial and business activities. All legal persons and legal arrangements have been assessed on the basis of their structure and ease of formation, geographic reach, activities and sectors in which they operate. For details on the assessment methodology, please refer to Chapter 1.

In 2021, a standalone sectoral assessment of inherent risks associated with legal persons and legal arrangements was undertaken. Based on the ML/TF inherent vulnerability characteristics and assessed inherent vulnerability levels as of December 2021, risk ratings for the different types of LPLAs were revised. An overview of the entire LPLA sector (as of 30-06-2022), along with comparative risk ratings, is given hereunder:

Inherent Vulnerability Assessment Ratings of the LPLAs				
Type of LP/LA	**No. of LP/LAs (30-06-2022)**	**NRA 2019 Risk Rating**	**SRA 2021 Risk Rating**	**NRA 2023 Risk Rating**
Private Limited Companies	164,283	High	High	Very High
Public companies	4,460	Low	Low	Low
Companies Limited by Guarantee	417	Medium	Low	Low
Foreign Companies	1,084	High	High	Very High
Limited Liability Partnerships (LLPs)	1,904	High	Medium	Medium
Cooperatives	21,986	Low	Low	Low
Trusts	2,606	High	Medium	Medium
Waqfs	1,998	High	Medium	Medium
TOTAL	198,738			

7.2 LEGAL PERSONS

A brief introduction to each type of Legal person and its vulnerabilities are discussed below;

7.2.1 Companies

The Companies Act 2017 is the primary law dealing with the registration and regulation of companies and is administered by the Securities and Exchange Commission of Pakistan (SECP). Any three or more persons associated for a lawful purpose may form a public company, and any two or more persons so associated may, in like manner, form a private company. If only one member forms a private company, it is called a single-member company. The sectors in which these companies operate are given in the ensuing paragraphs.

Any person desirous of forming a company may file either:

(i) Physical application as per Companies (Incorporation) Regulations, 2017 or;
(ii) Online application through e-service available.

Specialised companies (NBFCs, Insurance) & NPOs must obtain a Non-Objection Certificate (NOC)/permission letter from the relevant department of SECP before being incorporated. To prevent the person from obscuring the company's BO information, the promoters/shareholders of the company are also required to submit a declaration at the time of incorporation that necessary information about their ultimate beneficial owners (UBO) has been provided to SECP.

Companies' Shareholders can be natural and/or legal persons (both domestic and foreign). Companies can have multiple layers of ownership. Considering the importance of knowing the UBO, the Companies Act of 2017 requires all companies to keep records of their UBO and file a form with SECP confirming that they are aware of the UBO.

The clientele of companies is vastly diverse and consists of natural and legal persons who may include individuals from any segment of society. Companies can conduct transactions through banking channels and on a cash basis. However, in the case of listed companies, banking channels are used to complete transactions, and these are subject to stringent disclosure and audit requirements. Types of companies and their respective inherent vulnerabilities are provided in the ensuing paragraphs:

7.2.1.1 Private Limited Companies (Multi-Member and Single Member)

As of June 30, 2022, 135,095 multi-member and 29,188 single-member companies were in this category. Starting a private limited company (incorporation) is as simple as reserving a name and completing the incorporation application as per the formats provided in the regulations on the SECP's website. Private companies with paid-up capital not exceeding ten million rupees are classified as small-sized companies. They are not required to file their audited financial statements with the registrar concerned.

<u>Geography</u>

Geographically, 90% of all Private Limited companies are registered in federal and provincial capital cities (Islamabad, Karachi, Lahore, Peshawar, Quetta). Further, there is an inherent vulnerability that companies operating or registered near porous borders may have proscribed /designated persons as members, partners, directors or officers.

Vulnerability Rating

Private companies may be vulnerable to abuse by criminals in their ML/TF activities, as revealed in instances of companies involved in deposit taking, multilevel marketing and unlicensed activities in financial intelligence received from FMU or LEAs. However, such private companies that have multi-layered structures of ownership or control structures, or have foreign companies/ entities/trusts (whether registered in Pakistan or not) as members/shareholders/beneficial owners, are mainly vulnerable to ML/TF. Large-sized companies have higher paid-up capital, turnover, etc., and inactive companies have a significant vulnerability to ML/TF activities.

In contrast to those working in large cities, companies operating or registered in areas close to porous borders are more vulnerable to abuse by proscribed /designated persons who could use the company to finance their terrorist activities. Further, the risk of manipulation is higher where export-oriented companies in Pakistan have associated concerns abroad or where the export pertains to intangible goods. Based on the above, the risk rating of Private Limited Companies is assessed as ***"Very High"***.

7.2.1.2 Public Companies (Including Listed and Unlisted Companies)

There were **4,460** companies in this category as of June 30, 2022. These companies are subject to extensive disclosure requirements under the Companies Act 2017 and are highly transparent in their ownership and statutory reporting structure. Further, listed companies are subject to more regulatory compliance as they are governed by the Securities Act 2015 and the PSX Rule Book.

These companies are engaged in different businesses. As per data, 18% of public companies are involved in the textile business.

Geography

Geographically, 93% of all public companies are registered in federal and provincial capital cities (Islamabad, Karachi, Lahore, Peshawar, Quetta).

Vulnerability Rating

Public companies are required to make extensive disclosures under the Companies Act 2017 and widely exercise transparency in their ownership and statutory reporting structure. Publicly listed and unlisted companies are subject to detailed disclosure requirements which must be made in addition to the disclosure requirements prescribed in International Financial Reporting Standards. Furthermore, publicly listed companies must disclose particulars of significant shareholders and any change in beneficial ownership information of its directors, Chief Executives and major shareholders. These companies' financial statements must be audited for each financial year. Further, listed Companies are required to immediately disseminate all price-sensitive information relating to the business and other affairs of the listed company. However, there is also a possibility that public companies may be vulnerable to insider trading or market manipulation. As a result of these combined factors, the vulnerability rating for public companies is *"low"*.

7.2.1.3 Companies Limited by Guarantee

As of June 30, 2022, there were **417** companies limited by guarantee operating in Pakistan. There is no capital involved; instead, all members who are part of the company undertake to contribute an amount specified in the memorandum of association in the event of a winding up. The liability of members is predefined and pronounced in their memorandum, and activities to be carried out are also specified. Companies being registered as trade organisations are required to obtain a license from the office of

Director General Trade Organisations (DGTO) before incorporation with SECP. Thus, they are subject to dual supervision (SECP and DGTO).

Almost 19% of the companies are engaged in trade & import/export whereas 18% are in Consultancy & other services.

Geography

Geographically, 87% of all guarantee limited companies are registered in federal and provincial capital cities (Islamabad, Karachi, Lahore, Peshawar, Quetta). Companies operating in high-risk areas may be more vulnerable to ML/TF risk.

Vulnerability Rating

The low vulnerability of Companies Ltd by Guarantee emanates from the fact that they are mostly targeted toward promoting a specific business sector/activity. These companies comprise mainly trade organisations focused on bridging the gap between the government and business community and assisting in policy formulation for the development of their sector. Further, there may be no share capital involved & the companies only carry out predefined activities. Additionally, trade organisations are subject to licensing from the DG (TO) and registration under Section 45 of the Companies Act 2017. As a result of the above factors, the vulnerability rating for limited by-guarantee companies is ***"low"***.

7.2.1.4 Foreign Companies

Foreign companies are registered/incorporated abroad with a place of business or liaison/branch office in Pakistan or conduct any business activity in Pakistan. As of June 30, 2022, there are **1,084** foreign companies. These companies may have international operations in countries rated as high-risk or may have shareholders or directors from high-risk and monitored jurisdictions.

Approximately 24% of the foreign companies operating in Pakistan are engaged in the Engineering and Fuel & Energy sectors. Foreign companies may be exposed to ML/TF risks by having a transnational element in their business.

Geography

Geographically, 99% of all foreign companies are registered in the federal and provincial capital cities (Islamabad, Karachi, Lahore, Peshawar, Quetta). Foreign companies may also have international operations in high-risk countries. Out of 1,084 companies, 160 foreign companies have principal operations in FATF high-risk jurisdictions.

Vulnerability Rating

These companies are highly vulnerable to exploitation for ML/TF as the parent may have international operations in high-risk/monitored jurisdictions, and the members or directors of these companies may also reside in these jurisdictions. Furthermore, depending on the jurisdiction from which the company originates, there may be difficulties in obtaining accurate or up-to-date beneficial ownership information about the company. Due to the above factors, the vulnerability rating for foreign companies is ***"Very high"***.

7.2.2 Limited Liability Partnerships (LLP)

The LLP provides an alternative form of business organisation, which has the flexibility of a general partnership while availing all the advantages of a limited liability company. The LLP Act 2017 provides that an LLP is a body corporate by registration under the Act and is a legal entity separate from its partners. The

SECP administers the Act. Any person can form an LLP through a physical application or online application. LLPs are required to submit a partnership deed specifying the partners & business objects of the LLP. The partners of the LLP are also required to submit a declaration at the time of incorporation of the LLP to the effect that necessary information about their ultimate beneficial owners has been provided to the SECP to prevent the person from obscuring BO information.

It has perpetual succession, and any change in the partners does not affect the existence, rights or liabilities of the LLP. LLP Act 2017 allows the formation of two types of LLPs: domestic and foreign.

66% of LLPs offer services/products in Construction & Real Estate, Information Technology, Consultancy & Other Services and Trading & Import/Export.

Geography

No foreign LLPs have been registered to date. 95% of all domestic LLPs are registered in federal and provincial capital cities (Islamabad, Karachi, Lahore, Peshawar, Quetta). LLPs operating in high-risk/border areas are more vulnerable to ML/TF risk.

Vulnerability Rating

Due to the limited size of the sector, the materiality of operations, and clear visibility of areas of operations of domestic LLPs, the vulnerability of this sector is rated as 'medium'. However, foreign LLPs are rated 'very high' as they may have their principal operations in high-risk/monitored jurisdictions, and the partner of these LLPs may also reside in these jurisdictions. However, no foreign LLPs operate in Pakistan as of the NRA date. Based on the above, the overall vulnerability rating for LLPs is assessed as ***"Medium"***.

7.2.3 Cooperatives

A Cooperative Society is a society/organisation registered under the Cooperative Societies Act of 1925 based on equality to promote their economic interest.

There are three types of Cooperative Societies: Primary Level Societies, Secondary Level Societies and Apex Level Societies. The structure of apex and secondary-level societies is the same; however, the structure of primary societies differs from the other two. Secondary-level and apex societies have societies as their members, and there is no upper and lower restriction on membership; however, primary societies have natural persons as members and a minimum of 10 members are required for the registration of these societies; there are no restrictions on full membership of the society. Apex and secondary-level societies are managed at the provincial level by the Registrar, Cooperative Societies; primary societies are handled at the district level by an Assistant Registrar.

Sector and Activities

21,986 cooperative societies were operating in Pakistan as of June 30, 2022. The majority of the registered cooperatives are agricultural cooperatives. Cooperatives also work for other purposes, including handicraft/industrial societies, farming societies, housing, thrift and credit, and are registered for multipurpose activities.

Vulnerability Rating

The Risk vulnerabilities of cooperatives mainly are;

- Societies having high working capital;
- Higher number of members;
- Geographical position of the society is in border areas;

- Business of the society is in multiple districts;
- Members are from multiple districts.

Keeping in view the better transparency through the BO regime, lack of involvement of legal persons, domestically oriented and small-scale businesses etc., the risk rating of cooperative societies is assessed as ***"Low"***.

7.3 LEGAL ARRANGEMENTS

7.3.1 Trusts

A trust is the confidence of a natural person reposed upon the trustee in the form of property for the benefit of the beneficiary.

Formation and Ownership

Registration of a trust is online, and the online registration portal is accessible to all the relevant authorities, LEAs and the general public. The registering entities must provide details, purpose, author, activities, etc., at the time of registration.

Sector and Activities

Trust may be 'Private' or 'Public'. When the trust's purpose is to benefit an individual or a group of individuals or their descendants, it is a private trust. When the trust's purpose is to benefit the public or any section of the public, it is a public trust. Public trusts perform social welfare activities for the help of needy people. They provide health facilities, education, food, shelter, etc. In the provinces of Sindh and Khyber Pakhtunkhwa, there is an additional category of trust known as the specialised trust, which carry out specialized activities.

Specialised trusts are trusts created to establish collective investment schemes, private funds, pension funds, real estate investment trusts, exchange-traded funds, private equity and venture capital funds, debt securities trusts, etc., regulated under laws administered by the relevant regulator. During the period July 01, 2021, till June 30, 2022, SECP issued 265 NOCs to these specialised trusts (i.e. (20) Pension funds, (235) Mutual Funds and (10) Real Estate Investment Trusts). Amendments to the provincial acts also allow legal persons to act as creator, beneficiary and trustee of trusts. In addition, these amendments include specific powers for the relevant regulator to oversee that certain provisions of the provincial act related to specialised trusts are implemented, including the power to verify the application for registration of the specialised trust based on the NOC issued by the regulator, inspect records and ensure compliance.

Geography

As of June 30, 2022, there were 2,606 trusts registered in the provinces and ICT in Pakistan.

Vulnerability Rating

Vulnerability characteristics of trusts include trusts operating in border areas or merged districts, a foreigner being a trust member, trust sponsored from abroad, trusts having multiple layers of ownership or the funding not directly provided by the trust author(s) or is routed through multiple channels, details of beneficiaries of the trusts are not up to date, or their documentation is incomplete, the trust is not functioning as per the mandate or is found in violation of its purpose. These factors may expose the trust to exploitation for ML/TF.

Any foreign trust must register with concerned provincial authorities to operate as a local trust. The main ML/TF risks lie in the ability to disguise funds in a trust structure and then to distribute the trust funds as a legitimate disbursement of the trust. As a result of these combined factors, the vulnerability rating for trusts is assessed as ***"Medium"***.

7.3.2 Waqf

Waqf is the property given in the name of God for religious and charitable purposes. In legal terms, permanent dedication by a person professing Islam of any movable or immovable property for any purpose is recognised by Muslim law as pious, religious or charitable. The main objective behind creating a *waqf* is that it should be dedicated for a purpose recognised as religious, pious or charitable under Muslim law. There are four pillars of *waqf* such as founder (*waaqif*), beneficiary (*mawquf 'aleyhi*), subject matter (*mawquf*), and the expression of offer (*seeghah*). *Waqf* is strictly regulated in Pakistan because of their entrenchment with the politics of *pirs* (spiritual guides). Therefore, most philanthropic activities take place in the form of various legal forms, such as registered societies, trusts, and not-for-profit corporations.

Formation and Ownership/ Control Structure

The *mutawalli*, also known as the manager or custodian of *waqf* (i.e., charitable endowment), is the trustee of a *waqf* whose appointment is compulsory in Shia law. He has the power of management and administration of *waqf* properties. *Mutawalli* are the ones who are supposed to preserve the magnificent Islamic heritage. The Act requires the authorities to keep updated information and provide it on demand. The registration is online, and the portal is accessible to all relevant authorities, LEAs and the general public. The registering entry has to provide all the details at the time of registration.

Sector and Activities

Waqfs operate similarly to Non-Profit Organisations (NPO) and aim to create social values. Although most philanthropic activities in Pakistan take place through NPOs, a large number of *waqf* properties still exist, reflecting past practices and religious institutions such as mosques, shrines (*dargahs*), and graveyards (*janazagahs*) continue to be established as *Waqfs*.

Waqf, involved in Islamic welfare activities, provides financial support. Beneficiaries of such support are poor people or victims of any disaster. Cash Boxes are installed at big *Waqfs,* especially shrines and Mosques are recipients of any charity. The latter may expose a *Waqf* to the risk of ML/TF.

As of June 30, 2022, there were 1,998 *Waqfs* registered in the provinces and ICT in Pakistan

Vulnerability Rating

Vulnerability factors posed by *waqfs* likely expose a *Waqf* to the risk of ML/TF, including:

- *Waqf* property located in higher-risk geographical locations
- Shrines, especially those where the number of *Zaeerin*/visitors is greater
- Cash Boxes are installed;
- Private *waqf* properties, especially shrines and Mosques who are recipients of any foreign charity or donor agencies.

To date, a mapping of the sector revealed that almost all of the *waqfs* are working in the settled areas. The prominent *waqf* properties receiving a large number of donations in the form of cash in boxes and gifts are very few in number, i.e., less than 1% and almost all are under the Government's control. In contrast, the total number of private *waqfs* registered to date is very low. Based on the above factors, the vulnerability rating for *waqfs* is assessed as ***"low"***.

CHAPTER 8: INHERENT CONSEQUENCES OF ML/ TF RISKS

It is a known fact that money laundering and terrorist financing have grave consequences for all jurisdictions universally. If there are unchecked avenues for the culprits to launder their dirty money, it seriously undermines the socio-economic well-being of the masses. Similarly, terrorists or their sympathisers may abuse the system if vulnerabilities exist therein, posing a TF threat that may cause significant damage domestically and internationally. In Pakistan's context, a few significant consequences of ML/TF risks broadly including consequences for economic growth and development, social impact and security impact are identified and discussed in the following paragraphs:

8.1 EFFECTS ON ECONOMIC GROWTH AND DEVELOPMENT

Money laundering and terrorism financing negatively affect economic development, particularly in developing countries, including Pakistan. Pakistan has been on the FATF grey list from June 2018 to October 2022, and it is believed that it has affected the economic growth of Pakistan. One study suggested that the real GDP in Pakistan witnessed a cumulative decline of about USD 38 billion. As per an ADB report (https://www.adb.org/countries/pakistan/economy), the growth rate of Pakistan remained significantly lower than the average growth of South Asia during the last five years (except the COVID-hit year of 2020), which coincides with the period of Pakistan's public listing by the FATF.

The adverse economic effects of money laundering are difficult to quantify, yet it is evident that such activity reduces productivity in the economy's real sector. Furthermore, it hampers International trade and capital flows which are critical components of an economy. AML/CFT controls, when effectively implemented, mitigate the adverse effects of criminal economic activity and promote integrity and stability in financial markets. On the other hand, if the system has gaps and a weak regime, investors avoid making investments, which ultimately can harm the FDI,[50] which is also observable in the case of Pakistan, where it has experienced a downward trend in FDI, which declined by around 24% since grey-listing in 2018[51].

In addition to direct adverse economic effects, a country's international reputation is badly tarnished, resulting in further negative repercussions for economic and social developments. International bilateral and multilateral economic relations, especially trade, investments and other fund-generating avenues, including access to capital markets, are negatively affected, as experienced by Pakistan. Some of the critical effects of ML/TF risks on economic growth and development are as under;

8.1.1 Money Laundering Effects

1. **Capital Flow;** Money laundering activities may impair any country's economy through trade and international capital flows. In addition to negatively impacting the FDI, the illicit capital flight drains scarce resources, especially from developing economies, so that way economic growth of respective economies is adversely affected.
2. **Trade and Market Mechanism;** ML creates an imbalance in the market. Launderers having front businesses for the purpose of converting black money into white destroy the competitiveness in the market. Trade-based ML is another medium that creates an imbalance in the formal economy, reduces the impact of Government policies, and deprives the government of generating revenue[52].

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[50] The Impact of Gray-Listing on Capital Flows: An Analysis by Mizuho Kida and Simon Paetzold, IMF Working Paper.
[51] https://invest.gov.pk/statistics
[52] https://complyadvantage.com/insights/trade-based-money-laundering/

3. **Impact on Government Revenue;** Smuggling and tax crimes demolish the economy, undermine the local industries and decrease the volume of earnings and revenue collected from duties and service sectors. According to a study report, Pakistan is losing USD 2.62 Billion worth of revenue in the form of duties and taxes per year by smuggling just 11 types of goods[53].

8.1.2 Terrorism and TF Effects

Terrorism intensifies insecurity and uncertainty in the economy, which causes a loss of confidence in foreign investors, causing them to divert their resources to other peaceful locations, as observed in the case of Pakistan. A study in the context of Pakistan suggests that terrorism has a substantial negative effect on FDI, and a 1% increase in terrorism decreases FDI by 0.086 per cent[54]. Terrorism has also adversely affected international trade as Pakistan lost its market share and could not achieve its targeted growth.

FDI in Pakistan is mainly in the energy sector, including oil & gas explorations. Another major project of CPEC is also underway in Pakistan. Due to security threats, these foreign projects require extraordinary measures causing sizeable economic costs. In this respect, 15000 troops of the Security Division are constituted to protect foreign nationals, which is a substantive chunk of the budget expenditures[55].

8.2 SOCIAL IMPACT

Significant social costs and risks are associated with money laundering and terrorism financing. This drives up government expenditures due to the increased need for law enforcement, additional health care expenditures and curtailment of social welfare projects to combat the serious consequences. Terrorism Financing, Money Laundering, and predicate crimes have consumed a big chunk of the government's financial resources, thus widening the fiscal deficit and halting economic growth.

8.2.1 Social Impact of Money Laundering

Pakistan is ranked number 28 among 128 jurisdictions based on risk scores on the Basel AML Index 2021[56]. Money laundering and its predicate crimes have directly and indirectly affected Pakistan's education and health quality. The quality of education the government provides is being compromised due to a lack of resources. The same is the case for government health facilities

8.2.2 Social Impact of Terrorism and Terrorism Financing

The effect of terrorism reaches many aspects of the public health and education system. Additionally, people have to relocate from their places to more secure locations, abandon their source of livelihoods etc. and become a burden on Government and economy. Apart from direct economic destruction, terrorism creates market uncertainty, xenophobia, loss of tourism and increased insurance claims[57].

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[53] https://tribune.com.pk/story/1031958/impact-of-smuggling-pakistan-losing-2-63b-a-year-reveals-confidential-report

[54] Zakaria, M, Jun W & Ahmed, H ,2019, 'Effect of terrorism on economic growth in Pakistan: an empirical analysis', Taylor & Francis online, Economic Research.

[55] https://www.dawn.com/news/1277182

[56] https://index.baselgovernance.org/ranking

[57] https://www.investopedia.com/articles/markets/080216/top-5-ways-terrorism-impacts-economy.asp#:~:text=The%20most%20obvious%20is%20the,tourism%2C%20and%20increased%20insurance%20claims.

CONCLUSION

Risk assessment is the starting point for policymakers to understand and improve the effectiveness of a country's AML/CFT regime, ensuring thereby institutionalising the risk-based approach. At the core of the risk assessment exercise is the responsibility to adequately identify and rate inherent threats and vulnerabilities in the systems that criminals could abuse. A well-executed risk assessment exercise provides the foundation for designing an effective national-level internal action plan to eliminate threats and loopholes in the AML/CFT regime. The linchpin to getting the desired results is, of course, high-level political commitment.

Pakistan is committed at the highest political level to fulfilling its AML/CFT obligations as a responsible state and member of the global financial system. In recent years, Pakistan has undertaken significant legislative and regulatory reforms to strengthen its AML/CFT regime through the enactment and amendment of more than 17 laws with relevant rules and regulations. The Government of Pakistan further built upon this foundation by implementing various effective measures to regulate the unregulated sectors of the economy, improve coordination and cooperation among multiple stakeholders, and develop the capacity of regulators and law enforcement agencies, as well as regulated entities. The global community has widely recognised the results of this work. In June 2022, the Asia Pacific Group (APG) on Money Laundering published the results of Pakistan's fourth Mutual Evaluation Follow-up Report, in which Pakistan has now been found to have achieved a rating of 'Compliant' or 'Largely Compliant' in 38 of the 40 FATF Recommendations. Similarly, Pakistan completed two ICRG action plans and was removed from the FATF enhanced monitoring list in 2022.

The NRA 2023 critically considers the country's risk and context to update inherent threats and vulnerabilities ratings. NRA 2023 builds upon previous NRAs and the improved information gathering and effectiveness of Pakistan's AML/CFT regime. Due to reporting on action plans and reforms undertaken by Government authorities, the quality of data and understanding relating to AML/ CFT activities is considerably improved, which helped in assessing the ML/TF risks more accurately. In addition, NRA 2023 adopts a more comprehensive methodology by detailed profiling of each sector, predicate offence, and entity of concern/ terrorist entity by involving all the stakeholders in the risk assessment process.

Some sectors' inherent ML/TF vulnerabilities were assessed as high or very high, including for the banking sector, Real Estate dealers and DPMS, while for others, inherent vulnerabilities were downgraded, including CDNS, Lawyers and Accountants. Similarly, the ML threat ratings of predicate offences and TF threat ratings of TOs were also changed in some cases based on updated data and methodology. The emerging risks, as well as the use of sophisticated techniques for ML/TF by criminals and the introduction of new technologies, such as virtual assets, were also highlighted in this NRA.

In preparing this report, all efforts have been employed to objectively identify, assess and rate inherent ML/TF risks in 2023. This updated NRA is pivotal in supporting the implementation of the Government's new roadmap to improve the AML/CFT regime. The report provides critical risk information to stakeholders, including law enforcement authorities, regulators, supervisors and other competent authorities, and financial institutions and DNFBPs, to assist them in having a clear understanding of the inherent risks to develop and implement effective preventive measures and controls in line with the risk-based approach on an on-going basis. The stakeholders are encouraged to use the findings of this report while conducting subsequent sectoral risk assessments more objectively. Moving forward, Pakistan will regularly update its NRA and continue to monitor emerging threats and vulnerabilities in the intervening period. In addition to mitigating the identified ML/TF risks through a comprehensive national-level AML/CFT Internal Action Plan, Pakistan will continue to develop typologies for the stakeholders to support their understanding of ML/TF methods and to adjust their policies and activities effectively mitigating ML/TF risks by institutionalising the risk-based approach.

LIST OF ACRONYMS

AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
AMLA	Anti-Money Laundering Act, 2010
ANF	Anti-Narcotics Force
AOP	Associations of Persons
APG	Asia Pacific Group on Money Laundering
ATA	Anti-Terrorism Act, 1997
AQIS	Al-Qaida
BCO	Banking Companies Ordinance, 1962
BLA	Balochistan Liberation Army
BLF	Balochistan Liberation Front
BO	Beneficial Ownership
CBCM	Cross Border Currency Movement
CDD	Customer Due Diligence
CDNS	Central Directorate of National Savings
CFT	Counter-Financing of Terrorism
CNSA	Control of Narcotics Substances Act, 1997
CTDs	Counter Terrorism Departments
CTR	Cash-based Currency Transaction Report
DNFBPs	Designated Non-Financial Businesses and Professions
DPMS	Dealers in Precious Metals and Stones
DPRK	Democratic People's Republic of Korea
ECs	Exchange Companies
EDD	Enhanced Due Diligence
EOIR	Exchange of Information on Request
FATA	Federally Administered Tribal Areas
FATF	Financial Action Task Force
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FIA	Federal Investigating Agency

FIs	Financial Institutions
FIRs	First Information Reports
FMU	Financial Monitoring Unit of Pakistan
GC	General Committee on AML/CFT
GDP	Gross Domestic Product
GTI	Global Terrorism Index
HQN	Haqqani Network
ICAP	Institute of Chartered Accountants of Pakistan
ICMAP	Institute of Cost & Management Accountants of Pakistan
ISKP	Islamic State Khorasan Province
ISPs	Internet Service Providers
JeM	Jesh-e-Mohammed
JUA	Jamat ul Ahrar
JUD/FIF	Jamaat-ul-Dawa/ Falah-e-Insaniat Foundation
KFR	Kidnapping for Ransom
KPK	Khyber Pakhtunkhwa (Province)
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
LeJ	Lashkar-e-Jhangvi
LeT	Lashkar-e-Tayyiba
LPLAs	Legal Persons and Legal Arrangements
MER	Mutual Evaluation Report
MFB	Micro-Finance Bank
ML	Money Laundering
MLA	Mutual Legal Assistance
ML/TF	Money Laundering/Terrorist Financing
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoI	Ministry of Interior
MoLJ	Ministry of Law and Justice
MOU	Memorandum of Understanding

MVTS	Money Value Transfer Services
NAB	National Accountability Bureau
NACTA	National Counter Terrorism Authority
NAO	National Accountability Ordinance, 1999
NAP	National Action Plan
NBFIs	Non-Bank Financial Institutions
NCCPL	National Clearing Company of Pakistan Limited
NDPS	Narcotics, Drugs & Psychotropic Substances
NEC	National Executive Committee on AML/CFT
NFIS	National Financial Inclusion Strategy
NFATF	National Financial Action Task Force
NGOs	Non-Government Organisations
NRA	National Risk Assessment
NPOs	Non Profit Organisations
OECD	Organisation for Economic Cooperation and Development
P2P	Peer-To-Peer
PECA	Prevention of Electronics Crimes Act
PEPs	Politically Exposed Persons
POC	Proceed of Crime
PPC	Pakistan Penal Code, 1860
PSX	Pakistan Stock Exchange
RBA	Risk-based Approach
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SMEs	Small and Medium Enterprises
SRBs	Self-Regulatory Bodies
SRO	Statutory Regulatory Order
STRs	Suspicious Transaction Reports
TBML	Trade-based Money Laundering
TCSPs	Trust and Company Service Providers
TF	Terrorist Financing

TIPs	Trafficking in Persons
TOs	Terrorist Organisations
TTA	Tehrik-e-Taliban Afghanistan
TTP	Tehrik-e-Taliban Pakistan
UAE	United Arab Emirates
UK	United Kingdom
UNDP	United Nations Development Programme
UNSCR	United Nations Security Council Resolution
USA	United States of America
VAs	Virtual Assets
VASPs	Virtual Assets Service Providers
VAT	Value-added Tax
VCs	Virtual Currencies