



FINANCIAL TERRORISM IN PAKISTAN: CAUSES AND PREVENTIVE ACTIONS

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Abstract:

Terrorism has been the most overarching question in the 21ST century. After the “war on terror”, nations have shown committed concern over this perilous dilemma. Even terrorism has put the centuries old archrivals in the same que for curbing it. Curbing the menace of terrorism has become the one of the foremost and paramount policies of each country. The vulnerabilities of terrorism have been ingrained in both the public and private sphere. The term “Terrorism” comes in different forms. However, the most debatable form is financial terrorism or terrorism financing. In terrorism financing different individual try to provide funds to terror propagating organization for carrying out terrorist activities. The funds or money raised by the individuals could be through legal and illegal activities. Terrorism financing has been the most ubiquitous and cruel crime. Pakistan, land of the pure, has also witnessed this cruel crime. Pakistan has always been seesawed between unusual economic fluctuation and some severe concern related to it. Pakistan has been a hub of Money Laundering or terrorist financing and have faced severe consequences. Some severe implications had put Pakistan in the infamous greylist of Financial Action Task Force (FATF), which came into bei to combat money laundering and financial terrorism. This research paper will analyze the repercussions faced by Pakistan. This paper will delve into the insights of Pakistan’s enlistment and exit from the greylist of FATF. This paper will inspect the vulnerable elements and primary causes of terrorism financing. Furthermore, this paper will suggest some key preventive actions and pragmatic policies for mitigating terrorism financing. This paper will further shed light on prospect of terrorism financing and money laundering.

Keywords: Financial terrorism, FATF, Money laundering, preventive policies

Introduction

Since the inception of Pakistan, economic fluctuation and aid-dependend economy has brought



different intertwined implications for it. Pakistan's economy is in deteriorating and fragile condition due to several uncertainties. Political turmoil, security threats, insecurity grievances, inflation, wrecked rule of law, unstoppable corruption and many other reasons are the major indicators and causes of Pakistan's economic turbulence. The economy of Pakistan still classified as the developing and third world economy. Albeit, Pakistan has more productivity and economic potential than any other BRI country. (Jaffrelot, 2016)

Apart from it, the most absolute menace for Pakistan's economic integrity is financial terrorism or money laundering. Before analyzing the dilemma related to Pakistan, we will examine the difference between financial terrorism and money laundering. Along with it, this paper will also identify the link between them. Money laundering and financial terrorism are a similar phenomenon, but with different dimensions. The primary distinctions between the money laundering and terrorist financing, are the mobility of the funds and derivation of motivation, and intentions. In one way, financing terrorism entails raising funds to carry out terrorist acts. Money laundering, on the contrary, refers to the process by which a fraudulent disguise his illicit funds. Financers and money launderers use the anonymity techniques to elude the attention of higher authorities and to preserve the recognition of sponsors. (Calle, 2022)

The illustrious methods employed in money laundering and terrorism financing are largely the same. To finance and support terrorism, money can be generated from both legitimate and illegitimate sources. However, it is critical to determine whether terrorism was funded through legitimate means or through proscribed means. The jurisdiction or authorities, if failed to identify the source and if the beneficiary succeeded in disguising the source, then this transaction cycle will be continued without any hindrance. Funding is the lifeline or kind of jugular vein for terrorist organizations all over the world. Terrorists require the funds to carry out their actions. It is given by their clientele, who are frequently revealed to be drug traffickers, money launderers, and politicians. Those nations who are facing the danger of financial terrorism need to cut this lifeline first and then head towards other consolidated measures. Restriction of funds can lead to the fragile terrorist activities and can slow down this menace. Funding is the core and central component of this nuisance. Terrorist groups require a large amount of money to carry out their operations. These monies are obtained from sources whose origin is always obscured to continue this procedure in the future. (Ur Rehman, 2020)

Another dilemmatic situation happens when bribery comes into play, which is linked to impotent financial agencies or, for example, aviation authorities, is another source of Money laundering. Money launderers typically pay bribes or huge incentives to Anti-Money Laundering officials at airports to swap money. Furthermore, politicians, public officials, and others conceal their money obtained via corruption and other illicit means in a variety of ways. The inability or inaptitude of banks to report the cash in their reserves that is being laundered makes Money laundering simpler. Tax evaders shift large sums of money to distant banks, and some acknowledge without questioning their source. Unfortunately, no automated system has been devised on an international



level to trace down sources of money, and most institutions typically do not give it significant thought owing to the expenditures associated with it. There is little incentive to investigate the funds that have been placed in their monetary reserves. Furthermore, money is sneaked physically across borders, particularly in countries with lax or non-existent cross-border surveillance. The pattern is prevalent at borders when the region is difficult to monitor or manage. This is the most secure technique of ML since there is typically no need to make any financial balances or to establish identification during online transactions, i.e., Pak-Afghan border. (Mukhtar, 2018)

Pakistan has always been a desirable victim of terror or terrorism since 1980s. Because of its geographical proximity with Afghanistan, a country with a long history of political instability and foreign military interventions, Pakistan is bearing the brunt of Afghanistan's insecurity. Because of the penetrable border of between Pakistan and Afghanistan (2,670 km), terrorist groups active in Afghanistan have found it easy to operate in Pakistan. Terrorist organizations based in Afghanistan, such as Al Qaeda and the Taliban, as well as militant groups, have carried out some of the most heinous terrorist acts in Pakistan. Approximately, 3000 Pakistani had died in the year 2009. Nevertheless, the world has never chosen to consider Pakistan's committed sacrifices. Pakistan has used a variety of measures to eradicate terrorism from its land, including an endeavor to destroy sources of terrorism financing in the country. (Iqbal, n.d.) Now, this paper will attempt to classify some of the major reason, causes and compelling reasons of terrorism financing in Pakistan.

Causes / Sources of Financial Terrorism in Pakistan

Certain indicators have played a major role in boosting up financial terrorism in Pakistan. One of the most renowned indicators is religious intolerance. Different fanatic elements, fundamentalist, radicals played significantly for bolstering extremism and religious militancy in Pakistan.

- **Religious Intolerance as a tool for Financial Terrorism:**

During Zia Ul Haq's epoch, religious intolerance was at its peak, or we can say that era gave birth to religious intolerance. Zia Ul Haq overturned the intellectual, liberal, secular, or socialist regime of Zulfikar Ali Bhutto. The Islamic Revolution in Iran (1979) heightened religious extremist forces in Pakistan's aspirations for a similar development in their nation. Furthermore, Pakistan also suffered a devastating effect because of the USSR's intervention in Afghanistan, 1979. It resulted in the mushrooming of madrassas in Pakistan. In 1971, there were around 900 madrassas in Pakistan; by the 1980s, this figure had risen to an incredible 45,000-50,000. Many of these madrassas preached a harsh interpretation of Islam while also enlisting and instructing jihadis to fight the Soviets in Afghanistan. Different countries have given huge bounties to these madrassas for driving their own interest, i.e., Saudi Arabia aggressively sponsored and supported these madrassas to assist Wahhabism develop in Pakistan not just during the soviet war in Afghanistan, but also long after.



Zia Ul Haq's detrimental ideology have put Pakistan at the verge of religious extremism. Nonetheless, the mass of Pakistani society did not embrace right-wing extremist forces. This was evident when the then Prime Minister of Pakistan Zulfikar Ali Bhutto's so-called Islamic-Socialist Pakistan People's Party (PPP) defeated several right-wing parties in elections twice in the 1970s. (Shams, 2016)

Nevertheless, several European countries and the United States simply decided to overlook these tendencies in Pakistani society, allowing violent right-wing forces to grow. During USSR's war in Afghanistan, Uncle Sam's bounties were poured into Pakistan to build madrassas that acted as a transformation ground for jihadis fighting Uncle Sam's proxy war in Afghanistan's battle ground. From 1982 to 1990, the United States contributed a remarkable \$7.4 billion economic aid package to Pakistan, averaging more than \$600 million each year. (Anwar & Michaelowa, 2004)

Another key occurrence that had far-reaching ramifications for Pakistan was the Taliban's ascent to power in Afghanistan in 1996. Pakistan backed the Taliban administration against the famous and infamous Northern Alliance. The situation, however, underwent a drastic swing because of the 9/11 catastrophe. Pakistan was forced to break connections with the Taliban's hierarchy in Afghanistan and became a frontline soldier and US partner in the latter's "**Operation Enduring Freedom**" to demolished the Taliban's rigid government in Afghanistan and to target top hierarchy of Taliban and al-Qaeda leadership.

Above discussed policy decision immensely enraged Pakistan's terrorist organizations, who became sworn foes of Pakistan's then-President Pervez Musharraf. Important officials from "Harkat-ul-Jihad-i-Islami (HuJI), Harkat-ul-Mujahideen (HuM), Jaish-e-Mohammad, and al Qaeda met in 2001 and designated a plan to jihad against western allies, especially against President Musharraf. Afterwards, six assassination attempts were made on President Parvaiz Musharraf. (Hindustan times, 2008)

Over the course of many years, Pakistani institutions have tried hard to counter the perilous terrorism and its external sources. Different groups have distinguished sectarian or religious identity. They tried to convey their own perceived Islam and portrayed jihad against naïve citizen, who have been declared by them as infidel or pagans. Their self-created brutal ideology convinced them to kill the innocent people and that vicious cycle goes on for many years.

- **Shia-Sunni Tussle and Financial Terrorism:**

Pakistan's sectarian tension has been a never-ending debate around the corner. This menace has led to different casualties because of sectarian violence and cleansing. Sectarian tensions traced back to paradigm shift in Pakistani politics, in 1970s to 1980s. Sectarian violence in Pakistan had intensified in the year 2013-14, evolving the death of 2,300 people in Pakistan's four major provinces (2007-2013), and approximately 1,500 deaths in the Federally Administered Tribal



Areas (FATA) and Kurram Agency since 2007. (Rafiq, 2014)

Perpetual conflictual saga in the Middle East has bolstered the Sunni Shia perspective in Pakistan and placed the sectarian extremism and intolerance by Pakistan's local sectarian leaders and organization. Two giant Middle Eastern nations (Iran and Kingdom of Saudi Arabia) funneled huge funds for processing the sectarian divide in Pakistan. Different political parties have maintained clandestine or inclusive relationship with some of the Middle Eastern powers and have gained funds from them. Former Prime Minister Nawaz Sharif had deep political affiliations with Saudi Arabia, which supplied Islamabad with \$1.5 billion in aid in March. Pakistani officials originally attempted to conceal the source of the payment. This transaction proves the prevalent Saudi-Iran factor for religious doctrinal differences in Pakistan. Some scholars and journalist have also put some allegations on Sunni militia for sending Sunni fighters in Syrian civil war. The Syrian Civil War, notably the 2013 devastating attack on the Zaynab shrine in Damascus, instilled in an overzealous element of Pakistan's Shia population a strong feeling of Shia awareness. Syria is a home ground to a variety of Shiite holy sites, notably the mausoleum of Zaynab, Prophet Muhammad's granddaughter. This, among other things, makes Syria a vital country for Shia Islam, and an assault on Syria is regarded as a direct danger to the Shia faith itself. (Rathore, 2017)

Some of these sectarian militias possessed some striking combative and aggressive behavior. Sunni (Deobandi) militants have also formed alliances with terrorist organizations that threaten the Pakistani state, such as al-Qaeda and the Tehreek-e-Taliban Pakistan (TTP). They have maintained their persistent aggressive presence on the soil of Pakistan. They accumulated the funds and carried out the atrocities. This action conveys the super attributes of financial terrorism in Pakistan. The Sectarian divide is still playing a pivotal role in it.

- **Bank's Inability in Detecting Terrorism Financing:**

Another dilemma for the untraceable easy path of terror financing is the failure of banks to detect and expose the money being transacted in their reserves. Money launderers transmit bulk money to global banks, which some accept without doing any meaningful scrutiny in terms of their origin. Regrettably, no mechanized technique has been discovered worldwide which can genuinely detect the origin of money. In fact, most institutions normally pay not much attention to it due to heavy investments. Additionally, there is no drive to consume resources to research the funds in their assets. Consequently, the matter remains unresolved and unconstrained, causing banks to fail to undertake enough inspection of monies that arrive at their branches via wire transfers or other ways. In that way, money launderers or terror financers are encouraged to move monies to abroad countries without any risk or threat of being answerable, i.e., Hongkong Shanghai Banking Corporation was convicted and declared guilty for money laundering in 2010 because it did not detect the mobility of laundered currency that its many branches around the globe received and dealt with. Consequently, the global financial regulatory and anti-money laundering authorities penalized the bank \$1.9 billion. (Qureshi, 2017)



- **Smuggled Currency and Border Infiltration:**

Terror financing can also be done through smuggling via border infiltration. Terror financing or smuggled currency is transported across borders, particularly in nations with lax or non-existent border controls. For instance, this approach is more widespread across boundaries of nations where the border region is hilly or may be too lengthy to police and inspect severely and consistently, i.e., Pakistan-Afghanistan Border. In such cases, the money launderers behave as dealers, either crossing the border personally or delegating the task to their faithful believers. Drug traffickers like to deal with money by transferring and exchanging cash for narcotics. This is the easiest way for them to transfer money because they don't have to open any bank accounts and never have to reveal their recognition during internet payments. They remain undetected and obtain funds through shady money-laundering channels. This issue has harmed the peace in countries where cash and weapons are smuggled across borders. There have been reports of smuggled cash being used for illicit reasons, basically to sponsor terrorist and anti-state operations in these nations. Recently, currency smuggling occurred at Torkham border, this incident highlights. However, this incident shed light on Pakistan's greater attempts to handle security concerns and restrict cross-border mobility of people and goods. Keeping an eye on and regulating currency changes complicates an already difficult geopolitical scenario in this region. The occurrences illustrate the importance of strong and protected border security protocols and international collaboration in effectively combating illegal activities. (The Nation, 2023)

Global Watchdog (FATF) And Pakistan

FATF is a decision-making and managing intergovernmental group. It came into being in 1989 during the G7 Summit in Paris to develop anti-money laundering laws. It is a "policy-making body" that attempts to develop political and ethnic will for national legislative and regulatory ordinance in the field of money laundering and terrorism financing. It has also begun to deal with online currency. The Bureau of the FATF is based in Paris. FATF establishes certain norms, standards and encourages the successful execution of legal, regulatory, and active measures to mitigate terror financing, and it seeks to uncover national-level vulnerabilities to safeguard the international financial system against abuse and misconduct. (Business Standard, 2023)

Islamic Republic of Pakistan was mentioned in the FATF ill-famed greylist in 2018 and had given warning until September 2019 to completely follow the FATF Action Plan. From 2012 to 2015, it was also in the same category. Pakistan's position on the ill-famed greylist may be linked to the fact that the country's anti-terror legislation continues to fall short of FATF criteria, as well as the most recent UN resolution 2462, which calls for the criminalization of terrorist funding. In the past, Pakistan has generally detained both Masood Azhar and Hafiz Saeed for 'apprehension' of violation of peace. The FATF wanted the finances frozen, weapons access denied, and a travel ban imposed. Any country who becomes greylisted in Global Watchdog's radar must bear some serious repercussions. Such as, Economic sanctions, having accute difficulty in obtaining loans,



International trade reduction and international boycott etc.

Pakistan was given a task by FATF to work on three important points for curbing its strategic and AML deficiencies. Firstly, to show that Terror Financing inquiries and prosecutions target specific businesses. Secondly, to show that Terror Financing prosecutions result in appropriate penalties. Lastly, to show that targeted sanctions against designated terrorist groups are being implemented effectively (as mandated by UNSCRs 1267 and 1373). (Amin et al., 2021)

In 2022, Raja Kumar, the incumbent president of FATF announced Pakistan's dismissal from IML (increase monitoring list) also known as grey list. Last year, Pakistan along with Nicaragua got exit from grey list. While other major countries such as Jordan, Turkey and United Arab Emirates are still present in this ill-famed list. No one can obliterate this truth that Pakistan's all-weather friend, China gave an unconditional support during that drastic journey. Türkiye and Malaysia have also contributed and devoted their notable support for Pakistan's exit. Since 2018, Pakistan was in FATF watch list due to failed policy implementation to exterminate money laundering and financing foreign militant groups. After a long hue and cry, Pakistan has pulled itself from FATF jail (Grey list). It is sort of a giant relief for Pakistan after four years of being acutely observed by financial action task force due to strategic deficiency. The targets for Pakistan were much bigger and tougher. It took almost four years to abolish the infamous tag of terrorist sponsor and money launderer state. Doubtlessly, Pakistan's authorities have worked splendidly and brought Pakistan away from grey list. Global watchdog handed Pakistan two action plans based on 34 points that were ordered to bring anti-terrorism and anti-money laundering laws. They were also commanded to act against several groups. Pakistan was on the brink. If it failed to accomplish FATF all sets targets, then watchdog would put our country on blacklist. The consequences would bring troublesome outcomes and ignominious situation for Pakistan. The grey list makes it harder for nations to do financial transaction and uplifting the cost of doing business and trade. Conviction of Sajid Mir in terrorism financing case and being a mastermind of 2008 Mumbai attack and conviction of Hafiz Saeed, the leader of Lashkar e Taiba by anti-terrorism court lead to the exclusion of Pakistan from FATF grey list. Hafiz Saeed imprisonment for 33 years act as an obstacle crusher and paved the way to satisfying FATF officials that Pakistan has credibility to suppress the militants and Pakistan is no more a sanctuary and haven for terrorists to be nurtured. This worth taking exclusion will elevate and uplift foreign investment and will spur Pakistan's economy. It is quite applaudable that every concerned institution with a sense of commitment and dedication collaboratively worked to get back their country's integrity and have broken the shackles of economic deterrent. However, after the exit from greylist, Pakistan is still facing crumbling economy. (Ahmed, 2022)

Preventive Actions to Cure Financial Terrorism

Removal from IML (grey list) doesn't mean that Pakistan is off the hook now. Sustainability is far



more difficult than anything else. This mantra is the most substantial factor which Pakistan needs to understand patiently and cognitively. According to renown think tank, Pakistan's non-stop greylisting from 2008 to 2018, which led to the cumulative GDP loss of \$38 billion. Two large Pakistani banks paid \$225 million in 2017 and \$55 million in 2022 respectively in fines imposed by US regulators for compliance failures and anti-money laundering violations.

It was extremely intricate for Pakistan to get financial assistance from the international monetary fund (IMF), the Asian development bank (ADB), the World Bank and the European Union. After no confidence motion and the untimely political fiasco had put our country on brink of economic default. Political turmoil and chaotic status quo made our credibility worse in global arena. But fortunately, this exclusion has put Pakistan in a rehabilitation process. Pakistan needs to sustain this exclusion with curbing more militant elements and realistic creation of the ad hoc and paradoxical policies. Return of militants in swat and rise of terrorist attacks since last year is quite menacing from Pakistan. Pakistan needs to address this fatal concern immediately.

If we analyze the sustainable pragmatic preventions, in terms of prevention, counterterrorist sponsoring legislation, structure, and ordinance easily adjust within triple steps of prevention. In some extraordinary cases, combating terrorist financing initiatives are aimed at some crucial mitigation, i.e. stopping the formation of a terrorist organization or cell. In general, counter financial terrorism actions do not halt the establishment of a terrorist organization, but they might limit the organization's finances, prohibiting the group from growing and carrying out its missions. Counter Terror Financing measures may prohibit the formation of terrorist cells (i.e., operational attack actors) by stopping terrorist organizations from funding the cell, but in fact, most cells (and indeed, individual attackers) self-fund a significant amount of their operations. Assault tactics (which frequently cost very little), implying that prohibiting the funding of those cells is essential. With Domestic/local law enforcement or security services, there is minimal room for international CTF players. (Davis, n.d)

Apart from it, to prevent terror financing, Pakistan can also implement on recommendations set by FATF. Pakistan can also establish different regulatory institutions with preventing aim and transparency skills.

Conclusion

To conclude, Pakistan's history has been plagued with the menace of financial terrorism. A lot of assets and integrity have been put at stake by different corrupt elements of our governmental hierarchy. All efforts must now be directed at achieving proper financial transparency for tracing the flows of monies of unlawful origin. Government mobilization must be pushed forcefully, and wide collaboration from the financial and commercial sectors is also essential. And it is highly valuable for Pakistan to maintain the current momentum of progress and further it must strive for strengthening its national AML/CFT framework.



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