**Graduating from the FATF**

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The FATF plenary meeting is in progress and once again all eyes are set on whether Pakistan would get graduated to the FATF’s ‘white list’ or stay on its ‘grey list’.

The Indian media, however, like always, is running stories that Pakistan might be downgraded to the FATF’s ‘black list’. Before we explain what it means to be on one of these lists and Pakistan’s compliance status of FATF observations, let me start with a brief introduction of the FATF.

The Financial Action Task Force (FATF) is an intergovernmental agency and an active watchdog for money laundering and terrorist financing. It comprises 37 countries and two regional organisations (European Commission and Gulf Cooperation Council), 39 members in total. The members are chosen according to their size of GDP and demonstrated commitment to implementing anti-money laundering and counterterrorist financing laws among other criteria.

Thus, besides Western countries, China, Russia, Saudi Arabia, Turkey, Malaysia, and India are also members of the FATF. The Asian Development Bank (ADB), The World Bank (WB), IMF, Interpol, etc, are FATF observer members and provide support to get its standards implemented. More than 200 countries are committed to implementing FATF standards to prevent money-laundering and terrorist financing.

The FATF’s president is appointed for a period of two years. France has the presidency till June 30, 2022. The FATF works closely through nine FATF-style regional bodies (FSRB). Most countries that don’t qualify to be FATF members but are committed to implementing FATF recommendations are members of these FSRB. Pakistan is a member of the Asia Pacific Group on money laundering (APG). Here it is pertinent to mention that India, China, and the US are the members of both the APG and the FATF.

The FATF and FSRB assess a country’s status of implementation and effectiveness of measures to combat money-laundering and countering terrorist financing (CTF) through a peer review process, known as ‘mutual evaluation’. Based on their compliance with FATF standards, the countries are placed into three categories. Countries that are fully compliant with FATF standards are externally referred to be on the FATF’s white list. Countries identified with strategic deficiencies but committed to resolving them within agreed timeframes are placed under the FATF’s increased monitoring and referred to be on the grey list. Countries with grave deficiencies and refusing to resolve them are considered ‘high-risk jurisdictions’, subject to a call for action and are referred to be on the FATF’s blacklist. As of today, only two countries Iran and North Korea are on the FATF’s blacklist.

As multilateral development partners are the FATF’s observer members, a country on the grey or black list of the FATF would face difficulties in engaging with ADB, WB, IMF, and other plurilateral development partners. This has provided the FATF enough influence in the international system.

Thus, a country declared as blacklisted would find it extremely difficult to maintain economic relations with 200 countries committed to implementing FATF standards. The blacklisted country would not be able to borrow from ADB, WB, IMF, etc. The remittances coming to that country or foreign currency sent out from it would be subject to additional scrutiny and delay. Getting blacklisted from the FATF essentially means quasi economic sanctions.

FATF evaluation can potentially be employed as a foreign policy tool also, especially by its member countries who by virtue of their large size GDP already possess enough geopolitical influence both on multilateral organisations and on individual countries.

Now let us turn to Pakistan and the FATF. Pakistan is under increased monitoring of the FATF (grey list) since 2018 and is the only country that is asked to simultaneously comply with the recommendations of both the FATF and the APG (an example of the use of technical forums as foreign policy tools by economic giants).

Being a responsible member of the APG, Pakistan is already committed to improving its AML/CTF regimes. Pakistan has proactively improved its financial laws and practices which are helping it not only to curb money-laundering and terror financing but also in documenting the informal and undocumented economic sectors. The latter would help Pakistan expand its tax base and increase the share of direct taxes in its total tax revenue.

During the last plenary (October 2021), Pakistan was compliant with 26 out of the 27 points originally given to it in 2018. The points mainly targeted terrorism financing. Pakistan was looking forward to getting graduated to the white list. However, it was kept in the grey list on the pretext that it did not complete the APG Action Plan that was handed to it only two months ago (In July 2021 plenary). Here it is pertinent to mention that Pakistan had already complied with four out of seven action points of the APG in those two months.

Editorials carried by some of the influential American papers after the change of guards in Kabul in August 2021 may give us some clues as to why Pakistan could not get graduated to the white list in the last plenary.

For instance, Bloomberg in one of its editorials in September 2021 had forcefully urged that the US president should ensure that Pakistan stays on the FATF’s increased monitoring list until it is proved that it did not play any role in financing the Taliban who had come into power in Afghanistan (“through Pakistan’s support”, editors of Bloomberg alleged).

There is no denying the fact that even before the Taliban issue cropped up, certain FATF members were misusing the FATF forum and its policy recommendations for achieving their foreign policy objectives. They have their say in (mutual) evaluation of steps taken by the countries as well as in the plenary meetings of both the FATF and the APG.

Thus, besides improving deficiencies in the laws and practices, exiting the grey list also depends on our diplomatic relations with FATF member countries. One-third of FATF members attending the plenary are required to vote in our favor so that we can exit from the grey list.

The bad news is that, despite Pakistan’s honest efforts to implement the FATF action plan in letter and spirit, we may have to wait yet again to graduate from the grey list. However, the good news is that Pakistan cannot be blacklisted. First, it is consistently working to improve the deficiencies pointed out by the ATF and APG, thus cooperating to improve its AML and CTF regimes.

Second, a country requires the votes of three FATF members to avoid getting blacklisted. In our case, China, Turkey, and Malaysia voted in our favour in the past. Turkey is itself on the grey list since October 2021. I am not sure whether its vote would count in the plenary. However, it seems that if Turkey is not allowed to vote then Russia would vote in our favour. In that case, it would be an immediate tangible outcome of PM Khan’s maiden visit to Moscow.

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