

SUMMARIZED NATIONAL RISK ASSESSMENT 2023

National FATF Secretariat, Pakistan

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LIST OF ACRONYMS/GLOSSARY OF TERMS

AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
AMLA	Anti-Money Laundering Act, 2010
ATA	Anti-Terrorism Act, 1997
CDNS	Central Directorate of National Savings
CFT	Counter-Financing of Terrorism
DNFBPs	Designated Non-Financial Businesses and Professions
DPMS	Dealers in Precious Metals and Stones
ECs	Exchange Companies
FATF	Financial Action Task Force
FIs	Financial Institutions
LEAs	Law Enforcement Agencies
LPLAs	Legal Persons and Legal Arrangements
ML/TF	Money Laundering/Terrorist Financing
NACTA	National Counter Terrorism Authority
NRA	National Risk Assessment
NPOs	Non-Profit Organizations
Predicate Offence	Crime that generates proceeds that are subsequently laundered to make them appear legitimate.
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
TCSPs	Trust and Company Service Providers
TF	Terrorist Financing
Threat	An indication or warning of probable trouble, or of being at risk for something terrible.
VASP	Virtual Asset Service Providers
Vulnerability	A flaw in a system that can leave it open to a possible attack.

1. INTRODUCTION

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognized as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

As per FATF, identifying, assessing, and understanding Money Laundering (ML) and Terrorism Financing (TF) risks is an essential part of the development and implementation of a national anti-money laundering / countering the financing of terrorism (AML/CFT) regime therefore, countries are encouraged by FATF to undertake National Risk Assessment (NRA) for their ML/TF risks so that they may implement a risk based approach to AML/CFT by prioritization and efficient allocation of resources.

Being a responsible member of international community, Pakistan understands its obligations and is fully committed to take staunch measures to combat Money Laundering and Terrorism Financing hence, it completed its first comprehensive ML/TF National Risk Assessment in 2017, updated it in 2019 and has conducted its third National Risk Assessment in 2023.

2. OBJECTIVE OF THIS DOCUMENT

This document provides the findings of the Pakistan's National Risk Assessment 2023 to the readers in a brief form (Please note that the original report of NRA 2023 is very detailed). The purpose of this document is to provide guidance to the relevant stakeholders so that they can better understand their ML/TF risks and improve their AML/CFT controls. Stakeholders that are subject to Pakistan's AML/CFT laws are expected to use the findings of this document to update their internal risk assessment documents / Standard Operating Procedures in accordance with the findings of NRA 2023 and utilize their resources accordingly.

3. METHODOLOGY FOR CONDUCTING 2023 NATIONAL RISK ASSESSMENT

Pakistan conducted its first NRA conducted in 2017 using the World Bank's methodology. A subsequent NRA was undertaken in 2019 by using in-house hybrid methods which was more focused on inherent ML/TF threats and vulnerabilities.

Pakistan has made extensive improvements to its AML/CFT regime since 2019, 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 in NRA 2023, 04 rating scales used to assess the risks of ML/TF threats and vulnerabilities included **"Very High", "High", "Medium" and "Low"**. It is important to note that low risk doesn't mean that no action is required; rather, as required by law, each stakeholder needs to take sufficient measures and adopt controls related to the low-risk items also.

An NRA Core Committee comprised of senior members from all the relevant stakeholders was constituted in 2021. NRA Core Committee was centrally coordinated by the National FATF Secretariat of Pakistan and supervised working groups comprised of senior officers from **LEAs, Regulators/ Supervisors, Intelligence Agencies and Ministries/ Government Departments.**

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 Financial Institutions (FI), Virtual Asset Service Providers (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 following sources have been used to conduct the national risk assessment of Pakistan.

- i. Relevant Statistics/data/records from the concerned agencies/departments.
- ii. Relevant surveys, strategic analysis reports and other research documents.
- iii. Published research/reports of relevant international forums/organisations/bodies.
- iv. Media reports and open-source surveys.
- v. Focused meetings and discussions with relevant experts.

As stated earlier, the NRA 2023 exercise aims to conduct an objective and comprehensive inherent and residual risk assessment of the current and emerging ML/TF risks faced by Pakistan. Additionally, it aims to feed into the AML/CFT risk assessments carried out by regulators/supervisors of financial institutions, DNFBPs and other sectors. The summarized version of the findings of NRA 2023 is provided below:

4. SUMMARY OF NRA 2023

Pakistan's geo-strategic location, economic and social dynamics and porous border with Afghanistan have been taken into account while conducting the NRA-2023. The contextual factors of Pakistan's demographics, economic situation, literacy rate, undocumented economy and other global, regional and domestic factors were also considered while assessing ML & TF threats and vulnerabilities. NRA 2023 includes a detailed assessment of sectors such as financial sectors, Designated Non-Financial Businesses and Professions (DNFBPs), National Savings (NS), Legal Persons & Legal arrangements (LPLAs) and Non-Profit Organizations (NPOs) while the unregulated emerging area of virtual assets and virtual asset service providers was also evaluated to the extent of available data.

4.1. MONEY LAUNDERING RELATED THREATS ASSOCIATED WITH PREDICATE OFFENCES

Money laundering (ML) is a cognisable offence under the Anti-Money Laundering Act (AMLA) 2010. For the assessment of ML Threats, 23 major predicate offences were empirically examined in line with FATF methodology. Please note that predicate offences refer to crimes that generate proceeds that are subsequently laundered to make them appear legitimate. 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 assessed as 'Very High' risk while **illicit trafficking in narcotic drug & psychotropic substances, trafficking in human beings & migrant smuggling, frauds & forgeries and cyber-crimes** were rated as "High" risk. The remaining predicate offences were assessed as "Medium" or "Low" ML threats from Pakistan's perspective. It is important to consider that 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.

The tabular form of the ML threat rating against each predicate offence is provided below:

Table 4.1. (a) Ratings of ML Threats by Predicate Offence		
Sr. No.	Type of Crime in Pakistan	ML Threat Rating
		2023
1	Corruption and Bribery	VH
2	Illegal MVTs/Hawala/Hundi	VH
3	Tax Crimes (Related to Direct Taxes and Indirect Taxes)	VH
4	Smuggling; (Including Customs Duties and Taxes)	VH
5	Cash Smuggling	VH
6	Illicit Trafficking in Narcotic Drugs and Psychotropic Substances	H
7	Trafficking in Human Beings and Migrant Smuggling	H
8	Fraud and Forgery	H
9	Cyber Crime	H
10	Kidnapping, Illegal Restraint and Hostage-Taking	M
11	Illicit Arms Trafficking	M
12	Extortion	M
13	Insider Trading and Market Manipulation	M
14	Counterfeiting and Piracy of Products	M
15	Environmental Crimes	M
16	Robbery or Theft	M
17	Sexual Exploitation, Including Sexual Exploitation of Children	L
18	Illicit Trafficking in Stolen and Other Goods	L
19	Counterfeiting Currency	L
20	Murder, Grievous Bodily Injury	L
21	Maritime Piracy	L

Key ML Sources and Channels

The ML threat assessment of predicate offences indicated that most of the funds used in money laundering were the illegal proceeds generated from committing the predicate offences; however, the activities like underreporting of legal business income/trade volume/wages/investments, as well as hiding assets or funds in offshore accounts or other undeclared financial irregularities also resulted in money laundering. The major channels used to launder proceeds generated from predicate offences included illegal MVTs/ hundi/ hawala, cash smuggling, bank accounts, real estate, construction industry, cash-intensive businesses, DPMS, and front & shell companies, etc. A summary table of key sources and channels used for ML is provided below:

Table 4.1. (b) Key Sources and Channels used for ML	
Sr. No.	Major Sources
1	Illegal proceeds generated from committing predicate offences including but not limited to embezzlement, kickbacks/commissions/bribes, extortions, drug trafficking, human trafficking, bonded labour, illegal organ removal, corruption, smuggling, fraud, illegal gambling, smuggling of people and weapons, tax evasion, false tax claims/credits/refunds, hawala/Hundi or any other predicate offence listed in the Schedule-I of AMLA,2010.
2	Under-invoicing or over-invoicing as well as underreporting of legal business income/trade-volume/wages/investments, as well as hiding assets or funds in offshore accounts or other undeclared financial irregularities.
Sr. No.	Major Channels
1	Cash/ Cash couriers
2	Illegal MVTs
3	Benami Accounts and properties
4	Shell companies
5	Front import & export companies
6	Offshore bank accounts
7	Trade-based funds transfers
8	Payment through intermediaries/ third parties
9	Investment in real estate/ Precious metals & stones/ other high-value assets
10	Investments in stocks/bonds/investment funds
11	Cryptocurrency

4.2. TERRORISM AND TERRORISM FINANCING RELATED THREATS

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. Utilising the expertise of National Counter Terrorism Authority (NACTA), Pakistan formed a working group to conduct the assessment of terrorism and terrorism financing threats. The working group was led by the NACTA and included federal and provincial authorities to get input and data from all the relevant stakeholders on the overall landscape of terrorism and terrorism financing in the country. The assessment also took into account international reports and reliable open-source information.

Pakistan has proscribed 78 terrorist organizations under the Anti-Terrorism Act 1997, which is available publicly on the NACTA website. Please note that all these 78 proscribed TOs are not active rather, most of them are inactive, dismantled or merged into other TOs. A detailed **assessment of TF threats** was carried out during the NRA 2023 process by assessing a total of 87 terrorist organisations (TOs), including 78 proscribed TOs as well as some other non-proscribed and UN-listed entities. 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. Based on the assessment, **04 TOs were considered as “very high” risk, 08 as “high” risk, 07 as “medium” risk and the remaining 68 as “low” risk.**

Key TF Sources and Channels

LEAs regularly consider and examine possible sources and channels during TF investigations which could be exploited or misused by terrorist organizations to fund their activities. A detailed assessment of these sources has been carried out during NRA 2023, considering their prevalence in TF investigations since 2019, use of the sources by TOs in funding their activities and the perceived TF threat posed by each source. A detailed assessment of the sectoral channels has also been carried out by considering TF investigations involving these channels since 2019, relevant

terrorist organizations, if any and perceived TF threats posed by each channel, including potential for misuse in TF. A summary table of risk ratings of all sources and sectoral channels exploited for TF is provided below:

Table 4.2. Key Sources and Channels exploited for TF		
Sr. No.	Sources	NRA 2023
1	Donations	Very High
2	Extortion	Very High
3	Narcotics trafficking	High
5	Cash smuggling	High
4	Misuse of Properties	Medium
6	Kidnapping for ransom	Medium
7	Goods/ Natural resources smuggling	Medium
8	Skin/ Hides collection	Low
Sr. No.	Channels	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 & <i>Modaraba</i>	Low
10	Microfinance	Low
11	Legal persons & legal arrangements	Low

Please note that Pakistan has a large diverse, and vibrant Non-Profit Organization (NPO) sector and 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.

4.3. ASSESSMENT OF INHERENT ML/TF VULNERABILITIES BY SECTOR

In addition to assessing ML and TF related threats, NRA 2023 also assessed how vulnerable different financial and DNFBP sectors were to ML and TF. It is important to understand that vulnerability refers to characteristics, traits or other features that can be exploited by threats or may facilitate their activities.

While conducting the **Inherent Sectoral Vulnerability Assessment**, Financial Sector, Designated Non-Financial Businesses & Professions (DNFBPs) and Legal Persons and Legal Arrangements (LPLAs) were examined.

4.3.1. Financial 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) hence, the **inherent Sectoral Vulnerability Assessment** examined ten sub-sectors in the Financial Institutions (FIs) sector. Of these sectors, four are regulated by SBP, five by SECP and the Central Directorate of National Savings is regulated by the National Saving Supervisory Board. A summary table of vulnerability ratings of financial sectors is given as under;

Table 4.3.1. Inherent Vulnerability Assessment Ratings of the Financial Sectors			
Sector		Supervisor	NRA 2023 Risk Rating
Sr. No.	Financial Sector		
1	Banks	SBP	Very High
2	Microfinance Banks (MFBs)		High
3	Exchange Companies (ECs)		High
4	Development Finance Institutions (DFIs)		Low
5	Securities Market	SECP	Medium
6	NBFCs (Fund Management)		Medium
7	NBFCs (Lending & <i>Modarbas</i>)		Medium
8	Life Insurance Companies		Medium
9	Non-Life Insurance Companies		Low
10	Central Directorate of National Savings (CDNS)	National Saving Supervisory Board (NSSB)	Medium

4.3.2. Designated Non-Financial Businesses & Professions (DNFBPs)

Designated Non-Financial Businesses & Professions (DNFBPs) are comprised of real estate agents (including builders/ developers), Dealers of Precious Metals & Stones (DPMS), accountants and lawyers (including trust and company service providers -TCSPs and notaries). All these sub-sectors falling under the Designated Non-Financial Businesses and Professions (DNFBPs) were examined in NRA 2023. These sectors have been assessed based on their unique characteristics, clientele, the offered products and services, their geographic reach, and the channels they operate through. A summary table of vulnerability ratings of DNFBP sectors is given as under;

Table 4.3.2. Inherent Vulnerability Assessment Ratings of the DNFBP Sectors			
Sector		Supervisor	NRA 2023 Risk Rating
Sr. No.	DNFBP Sector		
1	Real Estate Agents	FBR	Very High
2	Dealers in Precious Metals & Stones (DPMS)		High
3	Lawyers, TCSPs and Notaries	PBC/ SECP	Low
4	Accountants	ICAP /ICMA	Low
		FBR	

4.4. LEGAL PERSONS AND LEGAL ARRANGEMENTS (LPLAS)

A detailed analysis has also been conducted to assess the inherent vulnerability associated with **Legal Persons and Legal Arrangements (LPLAs)** and their formation. In Pakistan, legal persons are companies, limited liability partnerships (LLPs) and cooperatives while legal arrangements include trusts and *waqfs* (a form of Islamic charitable trust). Companies and LLPs are registered and regulated by the Securities and Exchange Commission of Pakistan at the federal level. In contrast, cooperatives, trusts and *waqfs* are registered and regulated under provincial and territorial laws. A summary table of vulnerability ratings of LPLA sectors is given as under;

Table 4.3.3. Inherent Vulnerability Assessment Ratings of the LPLA Sectors			
Sector		Supervisor	NRA 2023 Risk Rating
Sr. No.	Type of LP/LA		
1	Private Limited Companies	SECP	Very High
2	Public companies		Low
3	Companies Limited by Guarantee		Low
4	Foreign Companies		Very High
5	Limited Liability Partnerships (LLPs)		Medium
6	Cooperatives	As per provincial and territorial laws	Low
7	Trusts		Medium
8	Waqfs		Medium

It is important to note that LPLA are required to comply with the beneficial ownership obligations which means that they need to maintain and update the identity and information of their ultimate owners or controllers in order to combat money laundering, terrorist financing, and other predicate offences.

4.5. CONSEQUENCES OF ML/ TF RISKS

The **consequences of ML and TF** risks 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, this caused a cumulative decline of about USD 38 billion to the real GDP in Pakistan. 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.

5. CONCLUSION

This summary of NRA 2023 provides critical ML/TF risk information to stakeholders, including law enforcement authorities, regulators/ supervisors, their regulated sectors/ entities and other competent authorities, so that they can have a clear understanding of the inherent ML/TF risks and can develop and implement the effective preventive measures and controls in line with the risk-based approach on an on-going basis.