

TERROR FINANCING AND LEGAL ENFORCEMENT EVALUATING PAKISTAN'S COMPLIANCE WITH FATF RECOMMENDATION

***Asadullah,**

Department of Law, Dadabhoy Institute of Higher Education, Pakistan

(ghotoasadullah762@gmail.com)

****Dr. Tansif Ur Rehman,**

Teaching Associate, Department of Sociology, University of Karachi, Pakistan; and Visiting
Faculty, Department of Law, Dadabhoy Institute of Higher Education, Pakistan

(tansif@live.com)(<https://orcid.org/0000-0002-5454-2150>)

*****Adnan Zawar,**

M.Phil. Research Scholar, Institute of Social & Cultural Studies, University of the Punjab,
Pakistan (adnan.zawar@gmail.com)

Abstract

Terror financing poses a major challenge in state and international security, and it requires the proper legal and institutional response in regard to international practices. It is on this basis that Pakistan is under consideration to comply with the recommendations made by the Financial Action Task Force (FATF) to deal with money laundering as well as terrorist funding. The research relates to the Pakistani legal system and enforcement on counter-terror financing that encompasses criminal law, regulatory control, the practice of investigation, and judicial practices. The functions of the law enforcement agencies, financial intelligence units, and supervisory authorities in the execution of the FATF requirements are discussed. Critical questions such as institutional coordination, effectiveness, and practical issues of enforcement and implementation concerns are also taken into consideration. The discussion reviews the engagement of Pakistan in the FATF process particular regarding the compliance requirement and the international oversight. This is important as it identifies the importance of a long-term implementation of the law and institutional capacity in the achievement of a successful alignment with the FATF recommendations and an intensification of Pakistan's counter-terror financing efforts.

Keywords: challenges, historical context, laws, opportunities, theoretical context

Introduction

The problem of terror financing poses a major concern to global peace, security, and economic stability since it enables the terrorist groups to organize, fund and execute transnational terrorist activities. The international community has reacted to this transnational danger by putting in place consensual legal and regulatory measures to combat the misuse of financial systems to perpetrate acts of terror (Adil & Noor-e-Hera, 2023). Financial Action Task Force (FATF) assumes the center stage in such activities since it is the one that provides international standards in its recommendations on anti-money laundering and counter-terrorist financing (AML/ CTF). The guidelines may serve as the benchmarks of evaluating the national legal systems, the practice of enforcement and the efficiency of the institutions (Haider & Akhtar, 2024).

The vulnerable case of Pakistan, difficult security conditions and under develop financial system had entangled it in an uncompromising global pressure regarding controls on terror funding. Over the years, Pakistan has undertaken a number of legislative and administrative reforms to fulfill its domestic laws in line with FATF, which include criminalization finance of terrorism, regulation of financial institutions, and improved investigative and prosecutorial process (Sardar et al., 2025). However, the question of whether the implementation, inter-institutional coordination, and uniformity in the legal enforcement had been effective has been kept (Hassan, 2024).

The law enforcement facet is the determinant in the procedure of converting the statutory framework to practical outcomes (Inamullah & Aleemi, 2024). The capability of the law enforcement agencies, financial intelligence units regulator and the judiciary determines the degree of conformity between a formal and substantive one (Abdulla et al., 2024). The

checking of the compliance of Pakistan's FATF recommendations must therefore be not only founded on the review of the laws on paper but also include an assessment of the manner in which the laws are applied and the performance of the institutions (Kanwal et al., 2025). The article situates the concept of terror financing within the legal and regulatory framework of Pakistan, which encourages its interaction with the international demands and the local enforcement issue, and highlights the general implications of such a rule of law and international image.

Research Justification

Funding of terror groups remains an unending challenge of both national and international security that undermines the stability and the rule of law in a state. The constant participation of Pakistan in the Financial Action Task Force (FATF) process has continued to place its legal and enforcement mechanism to curb terrorist financing in the limelight. Even though legislative amendments to the domestic legislation have been made to make the laws aligned to international AML/CFT standards, the problem of effective implementation and enforcement continues to arise in the academic, policy, and legal discourse.

Most of the literature focuses on the legislative changes and policy commitments and lacks consideration of the practical elements of enforcement, including the quality of investigation, inter-agency cooperation, competence, and judicial outcomes. An area of weakness could be the research focus on legal enforcement and the opportunity to achieve compliance beyond legal alignment to create measurable outcomes. This is especially significant in the Pakistani context, in which the institutional capacity, the procedural limitations, and the legal complexities have an impact on enforcement.

The existence of this study can be explained by the fact that it can be beneficial to academic knowledge and to policymaking. It provides an accurate theoretical and historical scenario of compliance in Pakistan in terms of international standards, which helps in understanding the relationship between the international standards and the legal systems of the countries. The findings will inform policymakers, the legal community, and regulators of which areas the laws and mechanisms need to be strengthened to ensure sustainable enforcement of the FATF recommendations.

Literature Review

The existing research on the subject of terror financing identifies the complexity and transnational nature of terror financing and the need to take measures at the international level (Sardar et al., 2025). The general opinion among researchers is that the process of terrorist financing cannot be compared to money laundering in numbers and organizations since it can be supported with limited amounts of money that can be easily obtained both legally and unlawfully that is particularly hard to trace and prevent (Urooj, 2024). This difference has become a popular topic of research on global Counter-Terror Financing (CTF) regimes and risk-based regulatory frameworks (Sultan & Mohamed, 2023).

Scholarly and policy-oriented literature addressing the role of the Financial Action Task Force (FATF) in setting international standards of AML/CFT are quite numerous (Adil & Noor-e-Hera, 2023). According to researchers, FATF recommendations are soft law tools, but they have a powerful impact due to peer reviews, mutual evaluations, and listing mechanisms (Haider & Akhtar, 2024). Some of the research works consider the FATF pressure as a motivating factor to amend the legislation in the developing states, and the problem of sovereignty, compliance costs, and uneven implementation capacity (Inamullah & Aleemi, 2024).

The FATF monitoring and grey-listing experience on Pakistan occupies much of the literature on the subject. The legal community has considered amendments to the anti-terrorism, anti-money laundering, and other financial regulation laws in Pakistan, and the

formal legal correspondence with the international norms in this country has significantly improved (Abdulla et al., 2024). However, empirical and doctrinal research tends to show that legislative compliance and enforcement have gaps. Among the issues, it is usually a lack of inter-agency coordination, prosecutorial capacity, trial delays, and the problem with getting convictions (Sultan & Mohamed, 2023).

The other studies concentrate on the institutional capability and effectiveness of the judiciary as a predetermining factor to implemented CTF. It is indicated in comparative literature that it is not enough to have laws that are imposed but specialized training, financial intelligence sharing, and judicial knowledge of sophisticated financial crimes to be implemented (Ali et al., 2025). Overall, the literature agrees that the FATF related changes in Pakistan cannot be assessed based on the statutory also based on the results of the actual implementation. This background locates the existing study within the framework of the existing academic debates on compliance, the efficacy of enforcement, and the general sense of international counter-terror financing requirements (Hassan, 2024).

Historical Context of Terror Financing and Legal Enforcement of Pakistan's Compliance with FATF Recommendation

The problem of terror financing has taken center stage in the late twentieth century when the terrorist organizations started to use the well-organized financial systems to finance their operations (Kanwal et al., 2025). Initial international initiatives in beating financial crimes were mainly on money laundering that was associated with drug trafficking. However, this has changed drastically after the incident of September 11, 2001, whereby the role of the financial systems as the enablers of terrorism has taken center stage (Sardar et al., 2025). In response to this, the Financial Action Task Force (FATF) was expanded to focus on counter-terrorist financing and gave Special Recommendations to block money flows to terrorist groups (Urooj, 2024).

The participation in counter-terror financing systems in Pakistan was altered in accordance with these alterations in the world. To begin with, terrorism was mainly fought under domestic laws on the security platform the financial front was given little concern (Haider & Akhtar, 2024). The international commitments and the security issues in the region led to the international system adopting financial controls in Pakistan. Laws against money laundering and financing of terrorist activities were slowly reinforced, especially during the international monitoring and evaluation procedures (Adil & Noor-e-Hera, 2023).

The interactions between Pakistan and the FATF have been described as periods of increased attention, including having been placed on monitoring lists that required the implementation of action plans with timeframe (Sultan & Mohamed, 2023). These trends accelerated the process of law reform and institutionalization in the financial institutions and law enforcement institutions in Pakistan (Ali et al., 2025). According to the historical development, the global counter-terror funding standards have expanded to affect the legal and enforcement environment in Pakistan, linking local reforms to the international requirements and enforcement actions (Inamullah & Aleemi, 2024).

Theoretical Context of Terror Financing and Legal Enforcement of Pakistan's Compliance with FATF Recommendation

Transnational legal process and deterrence theory, international regulatory compliance theory represent the theoretical frameworks of the discourse of terror financing and its legal implementation. The theory that explains the reaction of states to international norms and standards is the compliance theory, which is characterized by coercion, persuasion and reputational incentives. When it comes to counter-terror financing, the FATF recommendations are used as powerful soft law tools that influence domestic legislative changes in the absence

of formal binding jurisdiction. The economic, diplomatic and reputational costs of non-compliance or further surveillance help states to comply.

Transnational legal process theory is also used to describe how international norms can be domesticated into national legal systems through repeated interactions between international organizations, states and the national institutions. The mutual evaluation and the reports and action plans of FATF result in processes that encourage change in legislation and institutional restructuring through the iterative process. This theory reveals the interaction between international demands and national sovereignty particularly in developing nations such as Pakistan.

The other theoretical instrument of analysis is the deterrence theory, which is also focused on the effectiveness of law enforcement. According to this theory, it is not sufficient to criminalize terrorist financing and lack convincing enforcement, investigation, prosecution and penalties. The perceived severity and the assuredness of punishment influence the compliance behaviour of both individuals and institutions. It is these theoretical frameworks that, when combined, can be used as a foundation on which the compliance of Pakistan at the suggestions of the FATF can be evaluated, with the focus on how the international pressure, the adjustment of the local legislation and the efficiency of the enforcement in the war against money laundering services can be traced.

Laws Regarding Terror Financing and Legal Enforcement of Pakistan's Compliance with FATF Recommendation

1. Anti-Terrorism Act, 1997: The Anti-Terrorism Act, 1997, refers to the key legislation in Pakistan that addresses terrorism and terror financing. It makes crimes out of acts of terrorism and the provision or collection of money for acts of terrorism. The act allows the law enforcement agencies to interrogate, arrest, and prosecute organizations and individuals who finance terrorism. Special Anti-Terrorist Courts (SATCs) allow expedited hearings, and legislation allows freezing and confiscation of any assets related to terrorist activities. The definition of terrorist financing has been expanded to cover modern financial instruments and new ways due to amendments.

2. Anti-Money Laundering Act, 2010: The Anti-Money Laundering Act, 2010, prohibits money laundering and terrorist financing. It also mandates that the financial institutions/banks report any suspicious transactions and maintain records under the framework of Customer Due Diligence (CDD) and Know Your Customer (KYC). The Act establishes the Financial Monitoring Unit (FMU) as the central institution for the reception, analysis, and sharing of financial intelligence. The FMU also coordinates with law enforcement institutions and helps in the prosecution of illegal fund flows. The law will enable the government to seize and/or freeze property before the person has been convicted of financing terrorist activity. The AMLA has been amended from time to time in order to reflect changes and compliance with the recommendations of the Financial Action Task Force (FATF) and the international AML/CFT standards.

3. United Nations Security Council (Implementation) Act, 2020: The Act allows Pakistan to enforce the resolutions of the UN Security Council regarding terrorism. It enables the naming of individuals and organizations that are involved in terrorism, and it leads to actions like freezing of assets, restrictions on traveling, and imposition of arms embargoes. The act ensures the domestic implementation of the international obligations, which will help to follow the FATF recommendations.

4. Securities and Exchange Commission of Pakistan AML/CFT Regulations: The SECP AML/CFT regulations impose similar requirements on non-banking financial institutions, companies, and specified non-financial businesses and professions. They require surveillance,

record keeping, and reporting so that the funds are not misused to finance terror and a complete legal enforcement system is established in the financial sector of Pakistan.

Challenges for Terror Financing and Legal Enforcement of Pakistan's Compliance with FATF Recommendation

Law enforcement, regulatory bodies, the Financial Monitoring Unit (FMU), prosecutors, intelligence agencies, and other parties that are involved in the activities usually act independently, which leads to delays in the investigation, information-sharing gaps, and fragmented application of anti-terror financing acts. Not being able to operate as a team hinders legal and financial monitoring.

The other great problem is the extent to which the enforcement officials have institutional capacity. Most of the agencies are not specialized, equipped with modern investigation equipment, adequately staffed, and have adequate financial resources to trace the complex and, in most cases, transnational financial transactions. Informal financial systems, cross-border remittances, charitable organizations, and new digital platforms have become the main means of terrorist organizations, which are hard to track and control. These are the ways that terrorists can transfer funds without detection; hence, it becomes very difficult to enforce,

There are also weaknesses in the judicial and procedural systems. Despite the existence of laws like the Anti-Terrorism Act, 1997, the Anti-Money Laundering Act, 2010, and many more, which offer a holistic approach to fighting terrorist financing, there are often lengthy prosecutions. Judges and prosecutors, with regard to financial crimes, complex webs of transactions, and the prevailing counter-terror financing systems, tend to have a limited knowledge base. This lack of knowledge leads to poor convictions, acquittals, or dismissal of cases at times, lowering the overall efficiency of the enforcement of laws.

There are other challenges posed by the informal financial sector. The presence of an unregulated money transfer system, "*hawala*", an informal money transfer system, or some non-profit organizations that are not under control gives opportunities to the terrorists. Additional financing provided by non-monitoring sources. Furthermore, it is on the operational and administrative burden as FATF monitoring and international compliance pressure involve more expenses of operations and administration.

Opportunities for Controlling Terror Financing and Legal Enforcement of Pakistan's Compliance with FATF Recommendation

Pakistan's inclusion in counter-terror financing systems and in the financial system in accordance with the FATF guidelines provides an excellent opportunity to strengthen law enforcement and the financial infrastructure. Enhancing inter-agency coordination is one of the opportunities. Law enforcement bodies, regulators, Financial Monitoring Units (FMUs), intelligence agencies and prosecutors can implement information sharing mechanisms that are integrated to facilitate the coordination of investigations and monitoring of financial transactions. Cooperation can assist in reducing duplication of effort, in timely investigations and in the ability to detect timely the use of funds by terrorists.

The other opportunity is capacity building in the enforcement institutions. The ability of agencies to follow complex and transnational financial networks can be enhanced through the use of specialized training programs, recruitment of people with expertise, and investment in modern investigative tools. There can also be improvements in terms of judicial strengthening. Counter-terror financing regulations can enhance the efficiency and effectiveness of trials by increasing the awareness of financial crimes and complex transactions among judges and prosecutors. Having panels of experts or support units to deal with financial crimes may help the judicial system to deal with complex evidence, minimize delays in the process, and enhance conviction rates.

There are further opportunities in the formal financial sector and the regulatory systems. The AML/CFT regulations that are already in place and applied to banks, non-banking financial institutions, and non-profit institutions include those issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan. Further opportunities are gained through international interaction through the FATF standards. International partners can support Pakistan by peer reviews, technical assistance, and sharing of knowledge to ensure that domestic laws are in line with international standards, there are increased enforcement mechanisms, and also increase the credibility of the country in the international financial system. Utilizing these opportunities will allow Pakistan to enhance its enforcement of the law, along with its financial controls, to establish a more effective counter-terror financing system.

Discussion

The financing and execution of terror in Pakistan is a subject of research, and hence, it means that there are achievements and endeavors to adhere to the FATF recommendations. Pakistan has come up with the legal framework, such as the Anti-Terrorism Act, 1997; the Anti-Money Laundering Act, 2010; and the United Nations Security Council (Implementation) Act, 2020. These acts criminalize the financing of terrorism, provide investigative and prosecutorial infrastructures, and allow the freezing and seizure of assets. The regulatory framework of the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan ensures that banks and non-banking financial institutions, and non-profit organizations, conform to the AML/CFT requirements.

Uncoordinated efforts between the agencies, institutional deficiencies, judicial procrastination, and procedural failures undermine the success of the investigation, prosecution, and prevention of terrorist funding. Hawala systems and unregulated money transfers are informal financial networks that remain weak links, which can be exploited by terrorists. It is also complicated by the continuous international inspection and demands of FATF that require immediate reforms and adherence, and can overload administrative and operating resources. There is an opportunity to improve enforcement and compliance at the same time. All of that helps – if agencies help us, if we do better investigations, if we do better use of technology, if judges learn more about financial crime, if we pay more attention to financial institutions.

Conclusion

Pakistan has been making considerable efforts in setting up legal and regulatory frameworks to comply with the FATF requirements, in order to counter terror financing. Key laws that provide a general framework to criminalize terrorist financing, which help to conduct investigations, prosecute, and freeze assets, include the Anti-Terrorism Act, 1997; the Anti-Money Laundering Act, 2010; and the United Nations Security Council (Implementation) Act, 2020. The regulation of banks, non-banking financial institutions, and non-profit organizations is also supported by the regulation issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan to ensure that the banks, non-banking financial institutions, and non-profit organizations fulfill the AML/CFT standards. In the meantime, we have chances of further enforcement through improved coordination, capacity building, judicial training, and improved monitoring of financial institutions.

Recommendations

One can mention a number of recommendations to make Pakistan a more effective partner in combating terror funding and be more compliant with the FATF requirements. It is essential to enhance coordination between agencies. Law enforcement agencies, regulatory bodies, the Financial Monitoring Unit (FMU), and prosecutors should be brought together and cooperate through common lines of communication and joint task forces for the exchange of information and concerted action to combat the terrorist financing networks.

The other suggestion is to develop institutional capacity. The efficiency of the authorities in tracing the complex financial flows and identifying new sources of terrorist financing, which operate as digital platforms and informal transfer systems, can be aided by special training, the use of modern investigative tools, and the recruitment of competent employees. There are also requirements for judicial capacity to be developed. The judges and prosecutors may be trained on financial crimes, counter-terror financing laws, and the understanding of complex financial evidence to minimize delay, enhance prosecution, and boost conviction rates.

Also, the compliance in the financial sector should be enhanced. Banks, non-banking financial institutions, and non-profits are encouraged to be compliant with the AML/CFT regulations, and also to have a risk-based monitoring, apart from suspicious transactions reporting as per the FMU. Foreign aid should also be used to the benefit of Pakistan and the FATF recommendations. Peer review, technical assistance, and knowledge exchange can facilitate domestic law and policy compliance with international standards, enhance domestic enforcement frameworks, and enhance the credibility of the international financial system.

Research Limitations

The reliability of the data and its comprehensive nature are hard to achieve due to the need to increase the level of transparency and frequent reporting in law enforcement and the courts. Second, the absence of detailed empirical research and the problems are related to the Pakistani context, which makes the analysis less profound. Third, the political and social sensitivities may make it difficult to conduct objective research since the results might be affected by the existing biases or the opposition of stakeholders. Also, the effect of cultural and religious standards on morality makes it more difficult to generalize the results in various areas and groups.

Lastly, the fast-changing legal and political environment in Pakistan may make research obsolete quickly, and updates will have to be done frequently. Such restrictions require a skeptical attitude towards the interpretation of research results and their policy and practice implications. Ethics are also influenced by cultural and religious norms, and, as a result, it is hard to extrapolate the results of different regions and populations.

Research Implications

This study on terror funding and the law in Pakistan has a number of limitations. Firstly, the availability of legitimate and current data is poor, as the information on the cases of terrorist financing, prosecutions, and performance of institutions is generally confidential or not available to the public. Second, the amount of analysis was limited by inaccessibility to official records and financial intelligence reports of law enforcement agencies and the Financial Monitoring Unit (FMU). Thirdly, the research material consists mainly of secondary sources such as government documents, legal documents, and FATF documents that are not always exhaustive in terms of providing the complete picture on enforcement and compliance.

Fourth, the terrorist financing scheme is constantly evolving (digital transactions and informal networks), which makes it challenging to address all aspects of the scheme at the regional and international level, as the political process surrounding the FATF ratings could influence the conclusions, and not addressing Pakistan's compliance in detail would have an impact on the conclusions. These constraints are indications of the limitations when it comes to establishing feasible enforcement outcomes.

Future Research Directions

The future studies of terror financing and legal enforcement in Pakistan can study a number of areas that would shed more light. The study of informal financial networks, namely hawala networks and unregulated online transactions, is the first step in understanding how they are used for funding terrorism and determining effective ways to monitor these networks.

The latter involves assessing the effectiveness of institutional coordination between law enforcement, regulators, and FMU, and case studies on interventions that have been effective and ineffective.

It can also be investigated as far as the capability and outcomes of prosecution are concerned, and the effect of legal knowledge, the efficiency of the prosecution procedures, and evidence collection on the conviction in cases of terrorist financing. It would be beneficial to make a comparison with the countries that have similar problems with FATF compliance. Lastly, examination of the impact of international support, FATF reviews, and technical assistance on the implementation of local policies can bring some clarity in how the regulatory framework and implementation strategies can be improved to make Pakistan's overall approach to combating terrorist financing more effective.

References

- Abdullah, A. K. H. A., Husain, F., & Ali, M. (2024). Charities or donations as a source of terrorism financing: Why does regulation fail in Pakistan?. *Inverge Journal of Social Sciences*, 3(3), 23-40. <https://doi.org/10.63544/ijss.v3i3.89>
- Adil, N., & Noor-e-Hera. (2023). Structural changes in Pakistan's financial system post-FATF. *Global Pakistan Studies Research Review*, 6(1), 12-27. [http://dx.doi.org/10.31703/gpsrr.2023\(VI-I\).02](http://dx.doi.org/10.31703/gpsrr.2023(VI-I).02)
- Ali, L., Malik, G., & Daudani, T. A. (2025). Strategic interventions to combat terrorism financing in Pakistan: Challenges and pathways. *Annals of Human and Social Sciences*, 6(3), 86-97.
- Haider, K., & Akhtar, N. (2024). Money laundering and terrorism financing through virtual currencies: Critical analysis of international and Pakistan's response. *Pakistan Journal of Criminal Justice*, 4(1), 195-210.
- Hassan, A. (2024). Impact of money laundering on economic system: International legal framework and corresponding development in Pakistan. *Law and Policy Review*, 3(1), 98-118. <https://doi.org/10.32350/lpr.31.05>
- Inamullah, M., & Aleemi, A. R. (2024). Enforcement of anti-money laundering policies in Pakistan: A narrative review. *International Journal of Trends and Innovations in Business & Social Sciences*, 2(4), 488-501. <https://doi.org/10.48112/tibss.v2i4.943>
- Kanwal, T., Karim, S., Rumar, R., & Ul-Haq, S. (2025). An analytical study of contemporary methods and effective anti-money laundering policies in Pakistan. *Advance Social Science Archive Journal*, 4(2), 1405-1426. <https://doi.org/10.5281/zenodo.17552422>
- Sardar, S., Rizwan, M., Saeed, N., & Burfat, G. M. (2025). Anti-money laundering preventive measures: A case study in line of defence adopted by Pakistani Banks. *The Critical Review of Social Sciences Studies*, 3(4), 1037-1054. <https://doi.org/10.59075/ty40qq78>
- Sultan, N., & Mohamed, N. (2023). The role of information sharing in combating money laundering: The importance and challenges of mutual legal assistance for developing jurisdictions like Pakistan. *Journal of Money Laundering Control*, 26(6), 1242-1260. <https://doi.org/10.1108/JMLC-09-2022-0128>
- Urooj, S. (2024). A dynamic threshold analysis of effect of Financial Action Task Force (FATF) measures on financial inclusion: Evidence from the world. *Journal of Money Laundering Control*, 27(4), 696-709. <https://doi.org/10.1108/JMLC-07-2023-0128>