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Print ISSN: [3006-2497](#) Online ISSN: [3006-2500](#)Platform & Workflow by: [Open Journal Systems](#)<https://doi.org/10.5281/zenodo.17552422>**An Analytical Study of Contemporary Methods and Effective Anti-Money Laundering Policies in Pakistan****Taj Kanwal**

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sirajmarri4444@gmail.com**ABSTRACT**

This research firstly discusses the money laundering a rising issue in world. Secondly it elaborates stages of money laundering, the methods of money laundering such as Hawala hundi, drugs trafficking, digital transfers, offshore banks, shell companies and other, its impact on economy. Thirdly, this research discusses laws combating money laundering hurdles in their implementation like; main reasons of increasing in crime ratio, throw light on banking sectors negligence and lack of awareness, non-complaint exchanges, gaps in the laws, lack of legal mutual assistance among foreign nations. Lastly, this research also underscores policies; regulations to be proposed for combating money laundering provide suggestions for the legislation and proper enforcement of laws in Pakistan for control of this victimless crime.

Keywords: Money Laundering, Hawala hundi, Crypto currencies, Digital Finances, Shell companies, Offshore Banks, drugs-smuggling, whistleblower, Economic Impacts, anti-money laundering laws

1. INTRODUCTION

The famous crime writer Robinson defined money laundering in following way:

"Money laundering is called what it is because that perfectly described what takes place-illegal of dirty, money is put through a cycle of transactions or washed, so that it comes out the other end as legal, or cleans money. In other words, the source of illegally obtained funds is obscured through a succession of transfers and deals in order that those same funds can eventually be made to appear as legitimate income." (Robinson, 1997).

"The conversion or transfer of property, knowing that such property is derived from any offense(s), for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in such offense(s) to evade the legal consequences of his actions" (United Nations, 1988, art. 3(1)(a)).

Money laundering is defined by the Financial Action Task Force (FATF) as the collection and handling of illicit proceeds to conceal their unlawful source (Financial Action Task Force, 2022).

Money laundering is a criminal stratagem utilized to hide the source of their unlawful revenues by offenders in order that they may utilize their "cleansed" wealth free from the intervention of law enforcement or unscrupulous underworld rivals. Conventional definitions emphasize on the tasks that are required and often divide down the process into three stages: (1) integration, (2) layering, and (3) placement, or derivatives on those subjects. But, in the contemporary world of today the term "money laundering" ought to be broadened to include a set of activities in which the money launderer hides his activities from an identified threat, but not from all possible means of investigation. The crucial step in the whole process is Conversion a variety of illicit funds into what appears to be legitimate income. These funds can come from corporate fraud, hawalahundi, digital currencies, street crime, bribery, official corruption, and even the funding of terrorism and others (Zali & Maulidi, 2018).

Money laundering is a concern in both developed and underdeveloped nations. It is estimated that between 2 and 5 percent of the global GDP is laundered annually, amounting to **US\$ 0.8 trillion to US\$ 2 trillion** each year (Amerhauser et al., 2023).

Tragically, ML (Money Laundering) is one among the main contributing variables to Pakistan's multifaceted crisis, which includes political unrest, financial crisis, declining rule of law, devaluation of the rupee, high rates of interest, and industrial declining condition. A Global Financial Integrity (GFI) report that used a limited scope to the quantifiable aspect of trade misinvoicing determined that Pakistan had lost an average of 7.8 billion per annum through the particular channel of illicit financial flow between 2008 and 2017 (Kar and Spanjers, 2019). Pakistan's risk score in terms of money laundering and financing terrorism is 6.11 according to the Basel AML Index (Public Edition) (Khan, 2023). Afterwards events that include the Panama Papers, the Paradise Papers, the Swiss leaks, and other media research that brought attention to the role offshore entities played in international money laundering programs, the issue of money laundering came to light and brought up calls for the creation and execution of efficient counter-money laundering initiatives on a worldwide level (Korejo, Rajamanickam, & Said, 2021).

Pakistan is a developing nation with widespread banking deregulations that affect its position internationally as well as its prospects for future development. The public is subjected to various forms of corporate and banking scams and misconduct, which causes massive financial losses and a disparate distribution of assets between individuals, ultimately impacting the economy (Yasir, Ahmed, & Anum, 2021). Apart from individuals and criminal groups, law firms, organizations, and their representatives may influence laws or other mechanisms in order to aid in the money laundering process, either through direct or indirect means (Ahen, 2022).

2. OBJECTIVES

- To critically examine the methods, anti-money laundering laws and its implementation hurdles in Pakistan
- To assess and propose relevant anti money laundering (AML) policies

3. LITERATURE REVIEW

Money laundering is the covert transfer of illicitly obtained funds across multiple locations to disguise their origin and evade taxation, transforming illegal earnings into seemingly legitimate assets (Korejo, Rajamanickam, & Said, 2021; Yasir, Ahmed, & Anum, 2021). It typically involves three stages: placement, layering, and integration of funds. Globally, money laundering is a serious economic offense, negatively affecting financial systems by devaluing capital, slowing growth, influencing interest rates and inflation, and deterring both foreign and domestic investment (FATF, 2022; Ahen, 2022). Criminals, including terrorists, drug traffickers, and other offenders, exploit money laundering to secure safe havens for their operations.

The crime is closely linked to other illegal activities such as tax evasion, smuggling, corruption, terrorism financing, and the trafficking of weapons and narcotics (Raza, Fayyaz, & Ijaz, 2017; Korejo et al., 2021). Tax evasion occurs when individuals conceal income or assets to avoid taxation, which can escalate into money laundering if funds are transferred secretly to foreign accounts (Iqbal, 2017). Weak fiscal regulations and government oversight also facilitate laundering, highlighting the need for stronger monitoring by financial institutions and regulatory agencies (Zali & Maulidi, 2018). Corruption exacerbates money laundering, as political and influential figures often hide wealth acquired through bribery or abuse of power (Ahen, 2022; Yasir et al., 2021).

Preventive measures include enhancing law enforcement efforts to block laundering channels, financial institutions monitoring transactions closely, and empowering tax authorities to operate independently of political influence (FATF, 2022; Khan, 2023). Effective regional and international coordination can mitigate the impact of money laundering and limit opportunities for criminals to exploit financial systems (Robinson, 1997; Zali & Maulidi, 2018)

Pakistan is fighting from two evils namely Money laundering and the threat of terrorism, both of which are aided by hawala. According to a report from the State Bank of Pakistan (SBP) informal remittances known as "Hwala" or "Hundi" are reportedly used for both money laundering and financing terrorism (Raza et al., 2017).

Hawala system, an informal remittance network also known as "hundi" or "Chiti banking," which facilitates illicit financial transactions and supports criminal and terrorist activities, including pre-9/11 al-Qaeda transfers (Raza, Fayyaz, & Ijaz, 2017). Factors such as lack of regulatory oversight, mixing of legal and illegal transactions, and cross-border capital transfers make Hawala a significant threat to global financial security. Informal Hawala/Hundi remittance system can still be considered a major vulnerability of Pakistan, with government crackdowns effectively redirecting the illicit flows, and formal worker remittances estimated to be between \$35 billion and \$36 billion in their current fiscal year (FY22425) (Aurangzeb, 2024). To combat this, Pakistan has banned 72 suspected terrorist organizations and implemented measures to integrate informal money changers into the official banking system, requiring registration with the Securities and Exchange Commission before

licensing by the SBP. Effective supervision, regulation, sanctions, and awareness-raising are essential to curb Hawala-related crimes (Raza et al., 2017). According to Ishrat Husain, a Pakistani economic analyst, illicit wealth accounts for about \$200 billion, or 56% of Pakistan's GDP (Hashim, 2020).

The size of the illicit financial activity in Pakistan poses a serious threat to the formal economy since the present magnitude of the shadow economy is approximated to be equivalent to an approximation of 40 percent of the Gross Domestic Product (GDP) (Transnational Alliance to Combat Illicit Trade [TRACIT], 2025). It is an enormous parallel economy, with high inflation and a highly complicated tax system, where illicit trade is significant in most sectors of the economy including food, petroleum products and pharmaceuticals, and the total illicit market is estimated to cost the country hundreds of billions of rupees of lost tax revenue each year (TRACIT, 2025). This endemic problem is a huge burden to legal business, a bane to the financial stability of the government, and a liability to the consumers of hazardous substandard and fake products.

Pakistan's organized crime dilemma money laundering: the way forward:

Although ML (Money Laundering) might not appear quite as serious like other illegal activity to an ordinary person, its effects are severe and widespread. The criminals conceal and move the proceeds of their illicit activity in order to evade detection, keeping authorities from connecting them with the crime. In essence, money returns to the financial institutions as legitimate payments that are easily extracted and utilized within the economic system during the placement, layering, and integration stages of money laundering. ML (Money Laundering) is thought to be the third-biggest sector throughout the entire globe as an international threat. Approximately \$800 billion to \$2 trillion in US dollars, or 2-5% of the world GDP, is laundered each year. Nevertheless, it can be difficult to figure out the exact quantity being laundered due to the secretive nature of money laundering (UNODC, 2023). Pakistan is facing multifaceted crisis including declining stability, collapse of the economy, currency depreciation, high interest rates, and decline in manufacturing amid them ML (Money Laundering) is one of the main contributing elements or a big challenge to economy. Previously the money laundering was growing vigorously due to lack of check and balance after the involvement of FATF the issue was highlighted and addressed but still its surviving due the lack of implementation of laws unreported money transactions are affecting Pakistan deeply by leading it towards the disruption of banking sector, revenue from taxes are lost as a result, corruption and criminal activity are encouraged, and legal integrity is undermined, growth and development as a whole are impeded broadly.

There are national and international measures are taken for prevention of money laundering. Governments may prosecute individuals involved with money laundering operations in accordance with principles provided by the UN Convention Against Transnational Organized Crime. Monitoring customer activity and spotting transactions that are suspicious is a crucial part of this. Institutions are required to keep thorough records of transactions and report such activity to financial investigation units. In addition to technical developments like artificial intelligence (AI) and big data software, it makes it easier to identify questionable transactions, which raises the bar for system sophistication. The United Nations Security Council Act, 1948 (UNSCA) authorizes the enforcement of UN sanctions by government agencies against people and organizations connected to terrorism or the global circulation of weapons.

For the countering the money laundering various steps are taken by Pakistan government, which shall be discussed below:

Firstly, The Anti-Money Laundering Act, 2010 (AMLA) establishes international collaboration, preventive measures, investigation, prosecution, and criminalization of money laundering and funding of terrorism. *Secondly*, The AML/CFT/CPF4 Regulations, which addresses risk administration, customer due diligence, targeted sanctions, transaction reporting, record-keeping, banking, transfers, new technologies, internal controls, and high risk jurisdiction preventative measures, are enforced by the State Bank of Pakistan (SBP). *Thirdly*, The Anti-Terrorism Act, 1997 for the control of terror financing, *fourthly*, The Mutual Legal Assistance (Criminal Matters) Act, 2020 provides mechanism for mutual and legal assistance.

Pakistan is determined to redressing the wrongs that have been caused by its history of monetary exploitation, both from within and outside the country. In order to counter this persistent threat, it would be imperative to support important national institutions, join the Egmont Group membership, and persistently campaign for the return of laundered funds. The loss of credibility, the deterioration of values, and the corruption of organizations are the real costs of money laundering, are not financial gains (Centre for Governance Research [CGR], 2023). President Musharraf enacted a presidential ordinance on September 8th by recognizing the necessity of Asia/Pacific Group on Money Laundering (APG) bringing the much-anticipated AML act into effect. Pakistan has yet to do more to adhere with global criteria, particularly the fundamental FATF Recommendations about making money laundering and the disclosure of transactions that are suspicious illegal.

The anti-illicit finance regime in Pakistan has gone through a radical modernization that has shifted away to a tentative legal initial stage to a centralized system which is internationally oriented. The legal crusade against money laundering was initially launched in the year 2007 when the Anti-Money laundering Ordinance, 2007 was passed that gave a basis to the financial intelligence collection, such as the establishment of the Financial Monitoring Unit (FMU). The foundational Anti-Money Laundering Act, 2010, and its equivalent, the Anti-Terrorism Act, 1997, subsequently replaced this Ordinance. These early statutes though fundamental, did not have centralized coordination and narrow scope of operation, which would be needed in the face of multifaceted and modern attacks. This is a significant legislative shift which has brought about the current regime making the National Anti-Money Laundering and Counter Financing of Terrorism Authority (NAMLCFT) Act, 2023, a centralization of the coordination, policy, and strategy under a single umbrella entity.

The important changes of 2020, which support this structural improvement, are the Anti-Money laundering (Second Amendment) Act, 2020 (that broadened the range of regulation to Designated Non-Financial Business and Profession (DNFBPs)) and the Anti-Terrorism (Third Amendment) Act, 2020 (that introduced the essential advanced investigative methods (interception of communication and controlled delivery)). Taken together, this transformation can be seen as a radical change in the tentative legal beginning to a complex, widespread, and enforced system of national rules that are intended to be structured to the global standards of compliance.

4. THEORETICAL FRAMEWORK:

Criminological theories help explain the motivations behind criminal behavior and guide predictive and preventive efforts across various types of crime. Some theories view crime as a result of rational decision-

making, where individuals weigh the costs and benefits before acting. Others emphasize the role of community and social environments in preventing crime by fostering safety and security. Additionally, certain theories focus on individual traits, suggesting that inherent characteristics influence how people respond to adverse situations. Together, these perspectives provide a comprehensive framework for understanding and addressing criminal behavior (Criminology.com, 2021)

Rational choice and money laundering:

A school of thought that is called "rational choice theory" contends that people make decisions based mostly on their personal preferences. Cesare Beccaria's work from the late 1700s is credited with constructing rational choice theory. as subsequently, other viewpoints have been added as well as developed within the theory, including the theory of routine activity, scenario-based crime prevention, and the deterrence. Numerous violations, such as drug abuse, robberies, vandalism, and white-collar crime, have been examined through the lens of rational choice (Rational choice theories, n.d.). In criminology, the theory of rational choice holds that people who engage in crimes do so after engaging in an intentional way of weighing the advantages and disadvantages of doing so.

According to this theory, an offender's choice to engage in legal or illegal behavior is based on their own assessment of the pros and cons of their actions, taking into account factors like the likelihood of success, personal values, and the possibility of being caught and punished. Organizations are established in order to benefit the public and contribute to social well-being. Nevertheless, certain authorities profit at the expense of others while abusing the position and authority bestowed upon them. These white-collar offenders harm consumers by engaging in illicit activities.

Social learning theory:

This approach that the people absorb all criminal behaviors through social learning, in which they absorb information gathered from their observations associated with other offenders and incidents involving crime. Thus, using learning theory as a framework, this study gazes at financial offenses in Pakistani companies. People in Pakistan are encouraged to commit crimes by the social milieu of organizations there, particularly when they witness others engaging in similar behavior and where there is no legal process for such cases.

Theory of convenience:

According to the convenience theory, white-collar criminal activity and misconduct happen in situations where there are three factors present: a corporate opportunity to engage in and cover up crime, personal intention for unlawful conduct, and a monetary motivation that benefits a person or the organization. Since white-collar criminals create damages into communities on both a direct as well as an indirect basis, studying the intention behind white-collar crime is essential. Money laundering is a serious crime continuously growing in Pakistan and affecting economy of Pakistan. High profile criminals in shape of elites, leaders, government officers are indulged in these heinous activities which might not be violent but are more dangerous than violent crimes.

5. RESEARCH METHODOLOGY

The study is a qualitative and analytical study, with focus on an intensive and desk based policy and legal analysis. The paper analyzes thoroughly the available scholarly sources, official documents, and primary legal

texts, such as the Anti-Money laundering Act, 2010 (AMLA), the National Anti-Money laundering and Counter Financing of Terrorism Authority (NAMLCFT) Act, 2023 and the Financing Action Task Force (FATF) reports. In particular, the approach utilizes content analysis to deconstruct critically the current means of money laundering (including Hawala/Hundi and digital finance) and assess the success and implementation challenges of the existing AML policies in Pakistan. Such a theoretical framework as the Rational Choice Theory and the Convenience Theory informs the explanation of the motivation to commit money laundering by white-collar offenders and organized crime, thus creating the framework on policy gaps. Lastly, the analytical review is the foundation of the proposed policy recommendations that are evidence-based and targeted to enhance legislative enforcement and regulatory frameworks

6. RESULTS AND DISCUSSION

This paper discusses the concept of money laundering and money laundering process and procedures in Pakistan, using the FATF reports. It is also very critical in analyzing the anti-money laundering laws and hurdles in the implementation in Pakistan. Lastly, it evaluates and recommends pertinent anti-money laundering (AML) policies in Pakistan. The thematic view is used to discuss the research. Thematic analysis is one of the methods to examine qualitative data. It is usually applied to a set of texts. The researcher thoroughly examines the data in order to identify continuing themes -topics, concepts, and sequences of meaning (Caulfield, 2019).

Money laundering:

The act of making funds gained illegally appeared as though they come from authorized sources by hiding or concealing the actual source is known as laundering of funds. It commonly occurs in conjunction with more violent offenses like extortion, robbery, and trafficking in drugs (INTERPOL).

A method employed by criminals to conceal the source of their illegal earnings so they can enjoy their "purified" funds free from the intervention of government agencies or opportunistic underground adversaries (Simser).

The illegal activity of grabbing profits obtained by means of deception and passing that by a series of financial institutions to make them appear as lawful gains via corporations that are operating legally is known as money laundering (Bonner and O'Brien 1999).

Financial offenses have existed since the beginning of the sixteenth century, according to criminology's historiography. Money laundering is an international concern that all nations address together, as evidenced by the past. It is not specific to any particular nation (Ahmed, Siddiqui, & Choudhry, 2013). Financial offenses are distinguished via white collar crimes by their particular financial impact and ability to harm the economic health of a country (Friedrichs, 2009).

A few of the many common cases of financial deception include unauthorized the trading of currencies, fraudulent investments, theft of funds, banking scams, and laundering of funds (Sudjianto et al., 2010).

Countries like Afghanistan Pakistan and South Africa and others are mostly hit by money laundering due to the reasons of political influences and also weak implementation of laws. The image given below shows the high risk of money laundering.

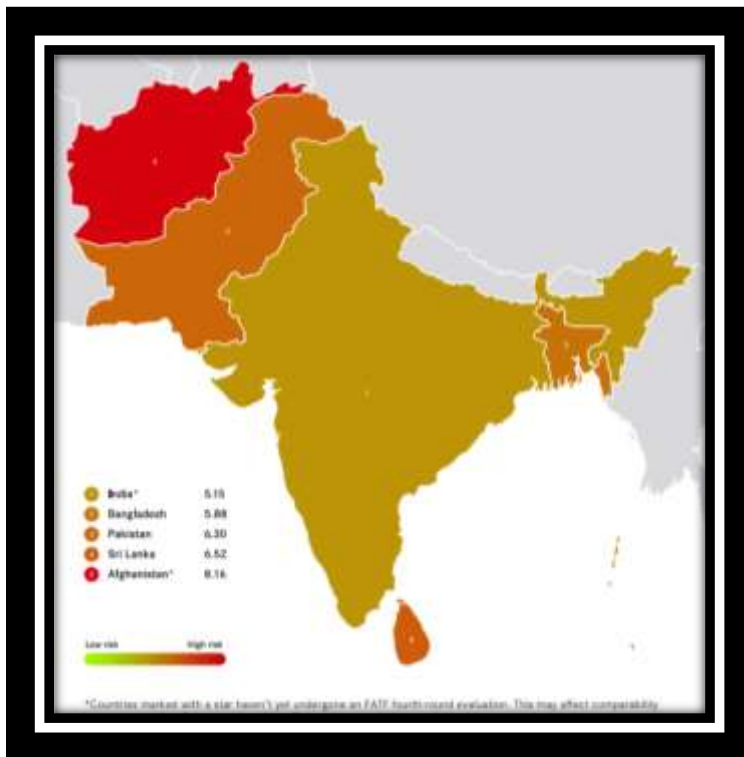


FIGURE: 1.1 FATF report counties with risk of ML

Due to the weak banking systems and financial branches exist in a nation such as Pakistan. Criminalized groups are persuaded to conceal their illegal earnings by taking advantage of weak institutions' vulnerabilities. A variety of sociologists' and criminologists' perspectives were used to view such underlying factors (Shaikh & Burfat, 2018). The FATF criminalized proceeds coming from additional sources such as illegal arms sales, fraudulent trading, theft of funds, corruption, and deceit, broadening the scope of money laundering criminal resources. Subsequently, an effort to address this growing issue—which includes acts that finance terrorism—the scope of the money laundering laws is being gradually expanded (Ali & Khan, 2022). Money laundering a heinous and non-violent crime occurs silently, the whole laundering process occurs in three stages. Firstly it consists of placement secondly layering thirdly or finally, integration. Financial crimes are overseen by a number of regulatory organizations and agencies in the nation. The Federal Investigation Agency (FIA) and the National Accountability Bureau (NAB) are notable organizations with monetary crime units that look into pertinent offenses. Additionally, a Financial Monitoring Unit is tasked with locating and looking into financial crimes throughout the nation.

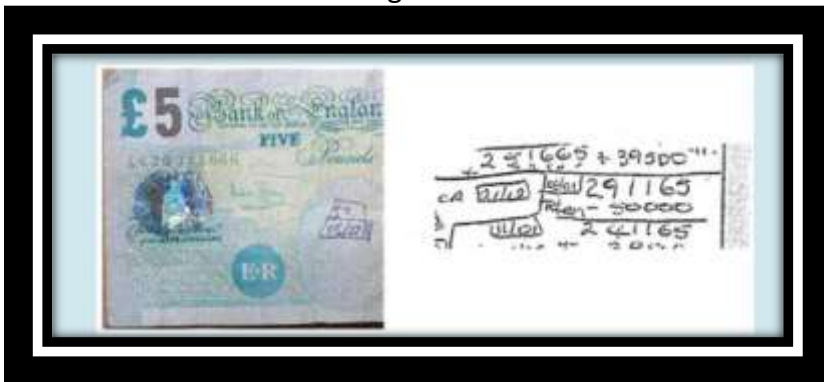
6.1 METHODS OF MONEY LAUNDERING IN PAKISTAN

Money laundering is done through various modes and methods, launderers of money do not use same method or a single method. To avoid the accusations and detection of crime they use alternative modes, that shall be defines under here:

HAWALA HUNDI:

Hawala, also known as Hundi, is an informal money transfer system widely used across the world, particularly in countries with strict financial regulations or underdeveloped banking systems. The term “Hawala” originates from Arabic, meaning “transformation” or “change,” and both terms are used interchangeably. Historically, migrant workers used Hawala to send money to their families by token using. Operating largely outside formal banking channels, it is vulnerable to abuse, including fraud, money laundering, and loss of funds. Some countries, such as the United Arab Emirates (UAE) and the United Kingdom (UK), regulate Hawala by requiring hawaladars to register with authorities like the Central Bank of the UAE and HM Revenue and Customs (HMRC) and comply with record-keeping and reporting requirements (Ahmed et al., 2013; Ali & Khan, 2022).

The Hawala system involves a structured process for transferring illicit funds. A **Manager or Money Broker** organizes the collection of proceeds (e.g., from drug sales) and coordinates their delivery to the intended recipient, often working with multiple criminal networks across countries. A **Collector/Manager** gathers the funds from offenders and delivers them as directed by the Manager. A **Coordinator** acts as a middleman, overseeing parts of the laundering process for several Managers. Finally, a **Transferor** physically handles and moves the funds to the Manager.

**Token/Parchii****HAWALA CASES:**

Hawala has been linked to financial scandals or used to facilitate illegal activities in a number of instances. The Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury revealed in 2015 that it had sanctioned a group of individuals as well as companies with headquarters in Afghanistan and Pakistan for using the *hawala* system for facilitating the exchange of opium and various other illegal drugs. Both individuals and companies were charged with laundering drug trafficking gains as well as conveying money to the Taliban and various other terrorist groups via the *hawala* system. The people and companies had been designated as "Specially Designated Narcotics Traffickers" by OFAC, who additionally imposed fiscal penalties against them by freezing all of their assets and prohibited transactions with to them (Financial Action Task Force, 2014).

OFFSHORE COMPANIES: BANKS:

Dirty money has spread throughout the worldwide banking system. Even after many years of improvements to tightening laws meant to combat money laundering and overseas tax avoidance, many people still manage to

hide their assets abroad with a fair amount of apathy with the aim to avoid paying taxes or facing legal repercussions.

Many shell companies have registrations in offshore nations in a lack of supervision as well as elevated degrees of confidentiality. These locations facilitate the creation and operation of shell companies, money transfers between user accounts, and evading law enforcement (Sharman, 2010). Due to the fundamental difficulty of tracking money once it leaves the country and moves offshore, tax agencies and economic intelligence departments also find it challenging to stay up to information.

As official figures do not include the majority of resources held by individuals in offshore tax-free zones, they significantly overestimate the actual foreign assets values of wealthy nations. Approximately 8% of the total household financial assets worldwide is kept in offshore jurisdictions, with 75% of that amount remaining unreported, about 10% of the global (GDP) gross domestic product (Zucman, 2013).

SHELL COMPANIES:

Non-trading entities known as "shell companies" lack an actual headquarters but continue to conduct corporate affairs, and employ people (Khan & Akhtar, 2023). In order to hide the nature and origin of the ill-gotten gains, professional criminals frequently establish a "*shell company*"—a non-trading company created as a the center for an illegal operations—compile forged accounting records, indicate company revenue and earnings falsely, and finally give a variety of income taxes. Their coworkers eventually join them in the offenses, of course, after realizing how successful this behavior is. By taking advantage of foundations and unidentified businesses, shell corporations are used to hide dubious business dealings (Zali & Maulidi, 2018).

Such companies have been intentionally established in order to hide the asset data from individuals, authorities, and everyone else. This allows scammers to avoid remitting revenue taxes, cover up ill-gotten gains, and easily navigate around AML prerequisites. Although one can find legitimate reasons to establish a shell company, like when a newly formed business needs to raise money, they're usually employed for illicit purposes (Unger & Busuioc, 2007). Ireland and money other European states offers lowered rates of taxation to foreign companies that make monetary investments and these areas are deemed save custody's for the investors of the corrupt businesses and illegally money launderers (He, 2010). A famous example regarding Pakistani offshore accounts involves the Panama Leaks scandal (Imran Khan v. Muhammad Nawaz Sharif, 2017). A number of leaks resulted in the identities of prosperous Pakistanis public, such as justices, legislators, ex-military workers, and government employees that utilized shell corporations to hide the money they owned. 11.5 million Pages of paperwork leaked by a Panamanian legal firm could link lawmakers, offenders, and celebrities to using shell corporations to hide their wealth in tax havens overseas. Known as the "Panama Documents," The data which has released is exposing a shadowy realm of shell corporations that affluent people employ in order to purportedly conceal funds, as well as the possible participation of lawyers and financial institutions in purportedly aiding in concealing the funds (Fornos et al., n.d.). Ultimately, employing the shell companies in laundering funds operations, poses an imminent danger to the effectiveness of Pakistan's monetary system. Major challenges that Pakistani banks must overcome include funding terrorist activities and the laundering of cash(Khan & Akhtar, 2023).

DRUGS TRAFFICKING:

Pakistan is among the “Golden Crescent” areas (Kukreja, 2003), a region in which trading and cultivating of opium is common (Qureshi, 2017). There is a significant amount of opium production and exports roots within the nations around it, including Iran, Afghanistan, and India (Bowling & Sheptycki, 2012). Pakistan is still a significant country used as a transport for illegal drugs coming from Afghanistan (UNODC, 2002). Drug owners, who carry out operations covertly within Pakistan and its surrounding nations, pay drug dealers for transporting their narcotics throughout borders in exchange for funds. The monetary circulation is typically done covertly and without reporting, resulting in laundering of cash. Especially if the drug dealers possess substantial connections with the political system, since they may employ their influence to secure behavior or induce the appropriate officials and agencies (Qureshi, 2017).

CASES OF ML:

Ayyan Ali, a model from Pakistan, was detained at the Islamabad Airport after it was discovered that the backpack she was carrying contained US\$506,000. It was rumored that her flight was traveling to Dubai (Bhatti, 2015), this sum was much more compared to the \$10,000 and \$60,000 annual optimum cash limits that may be carried out of Pakistan.

In a comparable manner, the Axxact affair alleges that Axxact, a Pakistani IT company, operated a fraudulent diploma mill and laundered hundreds of thousands of dollars through offshore accounts in the US and Dubai. Axxact's CEO was among the many individuals who were detained and convicted in this case (Sultan et al., 2022). The Pakistani conglomerate's managers were accused of laundering hundreds of millions of rupees through offshore entities as well as institutions in Dubai and the UK according to the Omni Group matter. Studies state that bribery and scams were used to obtain the funds from multiple government grants. A complex web of shell companies along with additional monetary arrangements was used in the present instance to conceal the actual proprietor of the property in question (Ali, Waqar, & Haris, 2019).

It was alleged that the CEO of the security services company in Pakistan committed invoicing deception by using an array of fake companies in the case of f M/s TMC (Pvt.) Ltd. The incident highlighted the risks associated with invoicing a scam in Pakistan and the use of shell companies in these kinds of operations. It also highlighted the importance of effective internal safety measures and painstaking checks and balances protocols (Khan & Akhtar, 2021).

6.2 ANTI-MONEY LAUNDERING LAWS IN PAKISTAN:

The Islamic Republic of Pakistan has put into effect a number of laws to combat money laundering, the main one having been:

Anti- money laundering act, 2010:

The Anti-Money Laundering Act of 2010 is the primary piece of regulation pertaining to combating terrorism funding. Administrative duties governing, criminal, procedural, and global cooperation-related topics are covered by the innovative statutes. AMLA (2010) outlaws the funding of terrorist activities and the laundering of funds while putting in place safeguards, investigative procedures and criminal prosecution as well as global collaboration.

Anti- money laundering amendment act 2020:

The AMLA adopted amendments two times in 2020 to fulfill the inconsistencies found according to the FATF.

AML/CFT/CPF Regulations - guidelines On Targeted Financial Sanctions (TFS) Under UNSC Resolutions:

Laws pertaining to the financial sector, payments, emerging technologies, internal auditing, specified penalties, mitigation of risk, consumer due diligence, documentation, and remedies for regions with elevated risks.

THE ANTI-TERRORISM ACT, 1997

The Anti-Terrorism Act, 1997 (ATA) establishes specialized courts, investigative institutions, and criminal prosecution officials to handle cases involving the funding for terrorist activities. It also sets forth the definitions and penalties for terrorist activities. Any outsider or Pakistani national who engages in raising funds, employs private or public assets, or obtains information that could be employed in later years to support terrorist activities within Pakistan or another nation shall be dealt with in accordance with sections 11H–K of the ATA.

THE FOREIGN EXCHANGE REGULATION ACT, 1947:

Authorizes the SBP to grant permissions, licenses, and approvals to facilitate these transactions, as well as supervises operations in "*foreign exchange and foreign securities*."

THE MUTUAL LEGAL ASSISTANCE (CRIMINAL MATTERS) ACT, 2020:

This act establishes and provides the rules and processes for requesting and offering reciprocal legal help in criminal cases involving different nations.

- Securities And Exchange Commission Of Pakistan Anti- Money Laundering Counter Financing Of Terrorism Regulations (2020)
- Directive Targeted Financial Sanctions (TFS) Obligation And Reporting (2020) Reporting
- Anti-Money Laundering, Combating The Financing Of Terrorism & Countering Proliferation Financing (AML/CFT/CPF) Regulations
- Fbr Aml/Cft Regulations

6.3 CRITICAL EVALUATION OF MONEY LAUNDERING LAWS:

"A person is guilty of the crime who acquires, converts, possesses, use or transfer of property, knowing or having reason to believe that such property is proceeds of crime; conceals or disguises the true nature, origin, location, disposition, movement or ownership of property, knowing or having reason to believe that such property is proceeds of crime; holds or possesses on behalf of any other person any property knowing or having reason to believe that such property is proceeds of crime; or participates in, associates, conspires to commit, attempts to commit, aids, abets, facilitates, or counsels the commission of the acts specified above (Anti-Money Laundering Act, 2010). But the definition of "**proceeds of crime**" is too broad. Thereby, comprehending the realm of "**proceeds of crime**" is crucial to comprehending the offense of "**money laundering**."

In general, the term "**proceeds of crime**" refers to funds or other valuables that culprits obtain while committing crimes.

"**Proceeds**" refers to nearly any type of assets created or derived, either directly or through indirect means, from the carrying out of a crime specified in paragraph 1(3) Article, which deals with drug-related crimes.

"**Property**" is defined as "**belongings that are of every kind, if corporeal or incorporeal, whether immovable**"

or movable, tangible or intangible, and legal paperwork or devices showing ownership to, or interest in, such assets." This merely indicates that "proceeds are assets obtained by" the misuse of drug-related criminality (United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988).

The definition of "**proceeds**" according to "UN-Palermo and Convention against Corruption" expands further connected with **drugs proceeds** to include severe offenses like corruption, embezzlement, assets concealing, and corruption. This broadens the definition of money laundering by including severe and predicate offences.

"Predicate offence" means an offence specified in Schedule-I to this Act; "means defined in anti-money laundering act 2010 (Anti-Money Laundering Act, 2010). An asset of any sort produced either directly or through indirect means throughout the carrying out of a predicate or foreign grave offense is considered to be part of the "proceeds of crime," and the offenses listed under the Schedule in AMLA 2010 are classified as "predicate offenses." **"Property"** means property or assets of any description, whether corporeal or incorporeal, movable or immovable, tangible or intangible, and includes deeds and instruments evidencing title to, or interest in, such property or assets, including cash and monetary instruments, wherever located, (Anti-Money Laundering Act, 2010) **property involved in money laundering"** means, regardless of who holds or has held the property, proceeds of crime, property derived or obtained directly or indirectly from the offence of money laundering and property used or intended to be used in commission of the offence of money laundering, a predicate offence or a foreign serious offence" Through the prior description, it is evident that profits originate through any type of unlawful conduct, no matter how severe; it is the gravity of the offense which relates those funds to the funds laundering crime. Finding the criminological components of "*money laundering*" is therefore important.

6.4 HURDLES IN IMPLEMENTATION OF LAWS:

The diverse application of the ML (Money Laundering) offense has given rise to regulatory problems that could impede the statute's effective execution.

Primarily, currently there's is no uniformity amongst governments regarding the issues raised by the money laundering offense. It has been observed that different countries have different perspectives regarding the goals of anti-money laundering (AML) laws. While a few see them as a means to combat tax avoidance, certain others see them as an anti-corruption indicate.

Secondly, predicate offences are not clearly neither mentioned nor described properly. As per the Palermo convention, predicate offences are of wide range and scope, but sooner with the FATF recommendation NO: 3 described the predicated offenses are "serious offenses" attached with penalty more than one year and minimum penalty shall not be less than 6 months. But no particular element is defined for the money laundering predicated offenses. Such as; Anti-Money Laundering Act 2010 gives list of predicated offenses under Schedule-I, Particular sections from the given laws fall in the category of the predicated offences:

- Section –I The Pakistan Penal Code, 1860 (Act XLV of 1860)
- Section –II The Arms Act, 1878 (XI of 1878)
- Section –III The Foreigners Act, 1946 (XXXI of 1946)
- Section III-A Prevention of Corruption Act, 1947 (II of 1947)*

- Section IIIB Foreign Exchange Regulation Act, 1947 (VII of 1947)- Illegal forex business**
- Section –IV The Copyright Ordinance, 1962 (XXXIV of 1962)
- Section –V The Pakistan Arms Ordinance, 1965 (W.P. Ordinance XX of 1965)
- Section –VI The Customs Act, 1969 (IV of 1969)**
- Section –VIA The Securities Act, 2015 (Act No. III of 2015)**
- Section –VII The Emigration Ordinance, 1979 (XVIII of 1979)
- Section – VIIA The Sales Tax Act, 1990****
- Section –VIII The Control of Narcotic Substances Act, 1997 (XXV of 1997)
- Section –IX The Anti-Terrorism Act, 1997 (XXVII of 1997)
- Section –IXA The Pakistan Environmental Protection Act 1997 (XXXIV of 1997)
- Section -X National Accountability Ordinance, 1999 (XVIII of 1999)
- Section -XI The Registered Designs Ordinance, 2000 (XLV of 2000)
- Section -XII The Trade Marks Ordinance, 2001 (XIX of 2001)*
- Section XIIA The Income Tax Ordinance, 2001*****
- XIII The Prevention & Control of Human Trafficking Ordinance, 2002 (LIX of 2002)*
- Section XIV The Federal Excise Act, 2005

From above mentioned schedule the laws, codes or acts and their particular sections are given, which fall in the list of predicate offences, but the main gaps are still unseen and ignored via legislatures or law makers such as;

1). (ANTI-MONEY LAUNDERING ACT, SECTION 21): OFFENCES TO BE COGNIZABLE AND NON-BAILE:

- (1) Notwithstanding anything contained in the Code of Criminal Procedure, 1898 (Act V of 1898) and subject to sub-sections (2) and (3),
 - (a) Every offence punishable under this Act shall be cognizable and non-bailable
 - (b) No person accused of an offence punishable under this Act for a term of imprisonment of more than three years shall be released on bail or on his own bond unless—
 - (i) The Public Prosecutor has been given due notice; and
 - (ii) where the Public Prosecutor opposes the application, the Court is satisfied that there are reasonable grounds for believing that he is not guilty of such offence and that he is not likely to commit any offence while on bail.
- (2) The Court shall not take cognizance of any offence punishable under section 4 except upon a complaint in writing made by,—
 - (a) The investigating officer; or
 - (b) any officer of the Federal Government or a Provincial Government authorized in writing in this behalf by the Federal Government by a general or special order made in this behalf by that Government: Provided that where the person accused is a reporting entity, the investigating officer or any other authorized officer, as the case may be shall, before filing such complaint, seek the approval of the

concerned AML / CFT regulatory authority which shall not withhold its decision for a period exceeding sixty days.

(3) The Court shall not take cognizance of any offence punishable under sub-section (1) of section 33 except upon a complaint in writing made by the FMU or investigating or prosecuting agency.

(4) The power and discretion on granting of bail specified in clause (b) of sub-section (1) are in addition to the power and discretion under the Code of Criminal Procedure, 1898 (Act V of 1898), or any other law for the time being in force on granting of bail Anti-Money Laundering Act, 2010).

Under section 21 sub-section (1) clause (a), any person commits crime that shall be cognizable and non-bailable: In cognizable and non-bailable offenses are defined under second schedule of Code of criminal procedure 1898 under section 4 subsection (1) clause (b) and (f).

'Bailable offence', 'Non-bailable offence'. *'Bailable offence' means an offence shown as bailable in the second schedule, or which is made bailable by any other law for the time being in force; and 'non-bailable offence' means any other offence (Code of Criminal Procedure, 1898).*

'COGNIZABLE OFFENCE'. COGNIZABLE CASE'. *'Cognizable offence' means an offence for, and 'cognizable case' means a case in, which a police officer, may, in accordance with the second schedule or under any law for the time being in force, arrest without warrant (Code of Criminal Procedure, 1898).*

Accordance with definition given in CRPC in cognizable offences police may arrest without warrant but in this scenario; under section 21 of AMLA (2010); while subsection-2 of this section provides court shall not take cognizance of the cases under section 4 unless a complaint is made (Anti-Money Laundering Act, 2010); even after being a cognizable offence.

2). SECTION 32 AMLA (2010):

As its discussed earlier under section 21 that it's a cognizable offense even though under this section it's an offense to search and inspect which is defines below:

"Any investigating officer exercising powers under this Act or any rules made hereunder, who, without prior permission from the Court, — (a) surveys or searches, or causes to be surveyed or searched, any building or place; or (b) detains or searches or arrests any person, shall for every such offence be liable on conviction for imprisonment for a term which may extend to two years or fine which may extend to fifty thousand rupees or both (Anti-Money Laundering Act, 2010).

3). SCHEDULE-I IS EXHAUSTIVE NEED TO BE ENHANCED BY ADDING OTHER LAWS:

AMLA act is amended in 2020 but still gaps are not fulfilled properly like a few laws in which offences are heinous and fall under predicate offences still are not added. A discussion shall be held below:

Illegal dispossession act 2005:

Illegal dispossession act is not given in the schedule, even though illegal dispossession is a crime the profits generated via land property by grabbing or dispossessing any person un lawfully and generates profits from this act.

420 section ppc:

Even though the said section defines the crime falls in the ambit of proceed of crime but its not still made part of predicated offenses:

“Whoever cheats and thereby dishonestly induces the person deceived to deliver any property to any person, or to make, alter or destroy the whole or any part of a valuable security, or anything which is signed or sealed, and which is capable of being converted into a valuable security, shall be punished with imprisonment of either description for a term which may extend to seven years, and shall also be liable to fine” (Pakistan Penal Code, 1860).

The sindh prohibition of preparation manufacturing storage sale and use gutka and man-puri act (2019):

This act is not included part of the schedule, the crime ratio of Gutka and Man-Puri is increasing from this a lot of money is generated which is not counted still in proceeds of crime like sale make use of Man-Puri and Ghutka, a serious cognizable offense, and generated money is being used any areas can constitute money laundering offenses.

Mutual legal assistance criminal matters) act 2020:

Even though the mutual legal assistance criminal matters act is established in 2020 but it is facing so many hurdles in the implementation due to the lack of assistance from the countries like UAE and others not co-operating in the matters like money laundering or *Hawala*. As per FIA officials “they made many attempts for the data which was suspicious or some transactions’ also, but continuous requests were being ignored no positive response has been given.

Income tax ordinance 2001 & protection of economic reforms act of 1992:

Although the Pakistani government professes to be tightening on those who evade taxes and illicit financiers, the country's legislation actually make these crimes easier to commit by tightening up the wrists of the law enforcement agencies and hindering them from taking serious steps. Absolute independence is guaranteed by Sections 111(4) of the Income Tax Ordinance of 2001 and by Sections 5 and 9 of the Protection of Economic Reforms Act of 1992 (Tribune, 2016).

The aforementioned rules state that no investigation may be conducted towards how anybody uses financial accounts to send funds into Pakistan illegally or surrenders foreign currency into the SBP in place of rupees. According to the ruling of the High Court of Lahore in *9Hudabiya Engineering (Pvt.) Ltd. v. Pakistan*, 1998), the Federal Board of Revenue (FBR) regulatory bodies are not authorized by law to conduct an investigation in foreign currency accounts. That type inconsistencies in legislation and agreements, like recurrent amnesty programs, pose a significant weakness to Pakistan's AML/CTF initiatives (Mukhtar, 2018).

Record keeping:

In banking sectors specially record are maintained of customers and many companies but still some banks are not maintaining records properly a few of banks attempted to make fabricated accounts and assisted launderers in money laundering. Such as, the central authorities revealed that seventeen staff members from numerous financial institutions against whom actions have been taken, Deputy Governor highlighted the shortcomings of the finance sector. Recently, the Senate Standing Committee on Finance was not persuaded by the State Bank

of Pakistan (SBP) in regards to an unanswered laundering of funds cases including Rs. 70 billion that was laundered in the pretense of imports solar power plants (Staff, 2023). “Senator Mussadik Malik” accuses the central bank of withholding data on purpose, despite the fact that the FBR had accurately provided certain details, including the particulars of banks and the persons involved in this Rs200–300 billion Trade-Based Money Laundering (TBML) (Haider, 2023).

Lack of technical skills:

In Pakistan special courts are established for the Anti-money launder, Anti-Terrorism, Anti-narcotics and for speedy trials many other courts are established but still there is a big problem that is judiciary facing is lack of technical skills and training of judges. Many laws are updated many laws need to be up dated but lack of expertise and professionals causing tensions among public and judiciary and relevant fields, such as above laws are facing hindrances in implementation due to such technical issues in them.

6.5 POLICIES SHALL BE PROPOSED FOR COMBATING MONEY LAUNDERING IN PAKISTAN

Pakistan is among the nations that continue to struggle with the laundering of funds. Economic offenses, which include the illicit trade of drugs and people, corruption, and funding of terrorist activities, are also major issues for Pakistan. Pakistan remains in a vulnerable and vulnerable position when it comes to laundering funds because it is surrounded by China, India, and Iran—three major participants in the illicit drug trade. Furthermore, their site is nearby a crucial pathway used for both drug and human trafficking. Pakistan ranks 21st in worldwide rankings for reducing corruption, out of 100 countries, based on the “*World Governance Indicator*”. Challenges with location corruption are making kidnappings fraudulent activity, and trafficking more likely. Given the location and dangers associated with corruption, Pakistan ought to implement a strong anti-financial criminal strategy (Financial Crime Report, 2023). Laundering funds poses a grave risk to the reliability of Pakistan's economic sector.

Significant challenges for Pakistani economy include funding terrorist activities and the laundering of cash. Therefore, the research comes to the conclusion that in order for Pakistan to eradicate illicit financing and establish a stable economy, stronger regulations and governing structures are required for the country's banks, along with the prompt and suitable enforcement of the aforementioned regulations. Listed below are a few shortcomings within the application of the regulations that have been found, particularly with regard to prosecuting and convictions. According to the opinions of various the experts, there are many flaws apparent weakness in the laws which need technical minds in the law itself; however, there are also significant flaws in the efficacy of those laws due to the way in which they are carried out and the way in which cases reported are examined. Due to the employment of shell companies, invoice fraud, and other sophisticated techniques, banks and law enforcement agencies find it difficult to identify and prevent monetary offenses. Aside from informational disparities, oversight and tracking obstacles and absence of transparency in certain countries, and a reluctance to use technological advances, additional statutory and technical obstacles make matters more complicated. The banking sector and agencies may detect and prevent operations associated with laundering funds and the funding of terrorism by putting into practice tactics like enforcing laws and regulations,

establishing investments in innovative technology, establishing capacity-building with education and training initiatives, collaborating globally to exchange information, and introducing awareness programs.

Whistleblower protection: Introducing legislation to protect individuals who report money laundering activities, encouraging more people to come forward with valuable information.

International cooperation: To successfully tackle illicit financing at international level, interaction and exchange of data should be strengthened with world bodies along with other nations. Likewise the INTERPOL, UAE and other countries that are barely providing information of money launderers and the criminals, the mutual agreements or conventions for co-operation and their implementation shall be made as soon as possible. Even though the Mutual legal assistance act is given in Pakistan but lack of international assistance still law is silent.

Technology and data analytics: Investing in advanced technologies and data analytics tools to detect suspicious financial transactions and patterns more efficiently. IT sector is poorly working in Pakistan hence this is need of hour to increase the number of expertise, so the new modes of money laundering can be easily detected and investigated. Laws can be easily made and amended with the assistance of the professionals and expertise.

Training and capacity building: Providing comprehensive training programs for law enforcement agencies, financial institutions, and relevant stakeholders to enhance their knowledge and skills in combating money laundering. Many sectors need technical education and trainings regarding these special laws such as judges, investigation officers, public sectors etc.

Public awareness campaigns: Conducting widespread awareness campaigns to educate the general public about the consequences of money laundering and the importance of reporting suspicious activities. Public is especially unaware of the cases like money laundering and others that's why are trapped easily by bankers, terrorists, fraudees and scammers.

7. CONCLUSION

Money laundering is universally recognized as a serious crime with far-reaching consequences. It serves as a mechanism for terrorists, drug traffickers, and other criminals to finance their operations and disguise the origins of illicit funds. The laundering process occurs in three stages—placement, layering, and integration—and despite the development of anti-money laundering (AML) protocols globally, significant gaps remain in their enforcement. Money laundering has a profound impact on national economies, devaluing capital, hindering growth, disrupting monetary policies, and eroding the trust in financial institutions. Furthermore, it provides a safe haven for criminals, including terrorists and drug dealers. In Pakistan and worldwide, AML laws are in place, but they are not effectively enforced, which allows perpetrators to continue exploiting gaps in the system. To combat this, regulatory bodies, law enforcement, and financial institutions must work together to strengthen preventive measures, monitor suspicious financial activities, and ensure stricter compliance with AML regulations. International collaboration, improved surveillance at borders, and more robust scrutiny of financial transactions by banks and money changers are crucial in disrupting money laundering networks. Additionally, tax authorities must implement more thorough and investigative approaches to track the earnings of the wealthy, while also ensuring independence from political or corrupt influences. Tackling corruption is essential to prevent the concealment of illegally obtained funds. Effective enforcement of AML regulations, combined

with robust oversight and cooperation across national and international boundaries, is key to curbing money laundering and its damaging effects on economies and societies.

8. RECOMMENDATIONS

In brief, the topic's conclusion follows:

- Firstly; The definition of money laundering given in Section 3 and cognizable offense section 21 of the AML Act, 2010 must be appropriately modified
- secondly; The financial crimes included in the list of predicate crimes need to be rechecked and offences given under 420 PPC, illegal dispossession act, The Sindh prohibition of preparation manufacturing storage sale and use Gutka and Man-Puri Act (2019) and other same nature must be part of the schedule of AML Act, 2010, particularly those added in 2016 that deal with the income tax law, should be reviewed again.
- Thirdly, Due to the costly nature of the battle over laundering of funds, certain funds ought to be given specifically for staff members developing skills via trainings. In order to defeat “*money laundering*”, prompt counsel and help from trainers or professionals with foreign training ought to be sought. Promptly clear and uniform executions of anti-money laundering laws are necessary.
- Fourthly, the administration, maintaining, and distribution of client data must be done with care. To lower the number of illicit financial offenses, efficient safety precautions and initiatives from law enforcement ought to be undertaken. Ongoing surveillance of operations in financial institutions alongside various industries is required.
- Fifthly; Whistleblower protection shall be given to the employees workers, so that money laundering shall be combated easily
- Lastly, to address cash laundering, international cooperation with organizations that establish and uphold anti-money statutes needs to be supported.

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