



CHARITIES OR DONATIONS AS A SOURCE OF TERRORISM FINANCING: WHY DOES REGULATION FAIL IN PAKISTAN?

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Abstract

This comprehensive research analyses Pakistan's regulatory system for preventing terrorist funding and money laundering through charities/donations. The report discusses the regulatory environment, problems, empirical analysis, policy implications, innovative ideas, and a National Counter Terrorism Authority's action plan. The report reveals an evolving regulatory framework that strives to satisfy global standards despite ongoing challenges. The integrity of Pakistan's economy and its national security are safeguarded by its regulatory framework, which consists of laws, agencies, and international cooperation. The nation's commitment to combating financial offenses has resulted in a sophisticated regulatory structure. However, the regulatory structure of Pakistan presents challenges and criticisms. Institutions that do not comply with AML and CTF regulations avoid prompt and severe punishment. The large informal sector makes monitoring the flow of funds and promoting illicit active it's difficult. Maintaining transparency in charitable organizations while permitting their authorized activity takes time and effort. The complex multi-agency regulatory environment requires improved coordination and simplification to ensure coordinated efforts. Our empirical investigation yielded qualitative data that reveal successes and areas for refinement. The increase in Suspicious Transaction Reports (STRs) related to charity and donations indicate a greater awareness of financial risk. Significant penalties and imprisonment terms demonstrate that regulatory enforcement holds offenders accountable. Audits of charitable organizations indicate an increase in financial transparency. Consistency in enforcement, the informal economy, and regulatory cooperation remain issues. The study has far-reaching policy implications, highlighting the need to close gaps in enforcement, embrace innovation, and collaborate. Technology, public participation, and international cooperation are required to combat the evolving landscape of financial crimes. In response to these issues, proposals are made for innovative technology adoption, public participation, regulatory changes, and international collaboration. These concepts necessitate



transitioning from AI-driven threat prediction to block chain-based secure reporting systems, allowing various strategic options. Financial crime prevention requires unwavering commitment, ongoing education, and the willingness to experiment. Pakistan's commitment to the security of its financial system reflects its commitment to a safer, more secure global financial environment.

Keywords: Charity, Donation, CFT, Anti Money Laundering, Suspicious Transaction Reports, Terrorism Financing, Regulations,

Introduction:

It is common practice to recognize charitable donations and funds as sources of societal benefit; however, a troubling pattern has emerged in which these activities have been used to fund terrorist organizations. Pakistan, which confronts a distinct set of security issues, is entangled in a web of illicit financial transactions. This study examines the complex relationships between charitable organizations and supporters, focusing on why regulatory efforts in Pakistan cannot prevent the use of charitable donations as a source of funding for terrorist organizations. Donations to charitable organizations and giving funds have long been seen as symbols of humanity's compassion and unity in times of need. The fact that these channels have been used to fund activities and ideologies associated with extremism calls into doubt their charitable nature. Generosity and malice threaten national and international security when they conflict with charity and donating.

Pakistan is especially vulnerable to financing terrorism through charitable funds due to its location in a volatile and unstable region. The nation confronts threats to its national security and is an essential ally in the global fight against terrorism. Therefore, it is crucial globally to comprehend how philanthropic channels become illicit financial conduits. Pakistan has enacted legislation to safeguard its citizens from potential injury caused by charitable giving and donations. Stopping the financing of terrorist organizations is the primary objective. Even though regulatory and legislative efforts have been made, significant problems still exist. Critics assert that anti-money laundering and counterterrorism financing enforcement in the nonprofit sector is inadequate. The fact that non-compliant companies can evade penalties demonstrates the regulatory system's flaws. Lastly, this research examines the complex web of connections between charitable giving and donations as potential funding sources for terrorist activities in Pakistan. This investigation aims to determine why regulation cannot stop the movement of illicit funds through these channels.

Significance of Study:

This study's significance extends beyond Pakistan. It addresses the concerns of individuals all over the world regarding terrorism financing. This study aims to develop more effective measures by comprehensively analyzing regulatory frameworks' faults and vulnerabilities. These procedures protect charitable organizations and donations from exploitation and preserve the organizations' altruistic mission.

In the following parts of the study, we will investigate Pakistan's complex system of charity, contribution, and terrorist organization financing. This tour will cast light on the challenges, criticisms, and potential solutions that form the basis of a more secure, transparent, and resilient charitable sector.

Research Question

1. Can Pakistan's current regulatory framework prevent charities and donations from being misused for terrorist financing and money laundering?
2. What are Pakistani authorities' primary obstacles and challenges when attempting to counter terrorist financing through charitable donations?



3. What impact do transnational Islamic charities have on Pakistan's financial landscape, and what are their regulatory implications?
4. Is Pakistan's regulatory system equipped to adapt to evolving fundraising and money laundering methods, especially in light of the rise of social media and developing technologies?
5. Compared to other nations, what are Pakistan's regulatory approaches and experiences in regulating charities and donations, and what lessons can be learned from global best practices to enhance the regulatory framework?

Literature Review

Charities and donations take much work to govern in Pakistan. This argument is crucial to fighting terrorism financing and legitimizing illegal funds. This detailed literature analysis examines this critical topic's regulatory deficiencies. Moreover, the study evaluates research papers, publications, and other studies to determine if Pakistan's regulatory structure prevents terrorist funding. This inquiry will also analyze this complex situation's risks and consequences.

Pakistan's vulnerability on the FATF Grey List. The clause emphasizes strict rules to prevent and limit terrorist financing. Stopping terrorist financing requires these procedures (Global Regional Review, 2019). Moreover, Iqbal's (n.d.) analysis shows Pakistan's many terrorism funding sources and its efforts to destroy them. According to the study's findings, despite ongoing and coordinated efforts, the regulatory framework frequently requires additional safeguards and procedures to address this problematic issue. Additionally, Zia, Abbas and Arshed (2021) investigated the complex issues of money laundering and financing terrorism in Pakistan. This research comprehensively examines regulatory processes and emphasizes the need for a robust and adaptable regulatory structure to address contemporary issues. The results of Limodio (2022) natural experiment are similarly quite convincing. These data shed light on the economic circumstances and recruitment practices of Pakistani militancy. The empirical evidence demonstrates that extensive and adaptable regulatory adjustments are necessary to address these persistent problems.

Moreover, (Jamshed, 2020) research on the legal framework governing charity organizations in Pakistan, focusing on the Punjab Charities Ordinance of 2018, revealed significant faults in the regulatory procedures. These gaps in the system complicate the maintenance of openness and accountability, both of which are necessary to prevent the misuse of funds donated to charitable organizations. Besides, Walker investigates the relationship between charity governance and the financing of terrorist operations in his research. This study illuminates important regulatory considerations. The research findings suggest that these vulnerabilities could be exploited, underscoring the need for increased regulatory surveillance and supervision to prevent the emergence of such hazards.

To collect data for a research paper, Akram et al., (2021) investigated the relationship between charitable donations and the spread of violent extremism. Their investigation focuses primarily on gathering information regarding the COVID-19 pandemic. The research findings presented in this study demonstrate the inadequacy of current rules in preventing instances of abuse, particularly during times of crisis when regulatory flexibility is required to a greater degree (Asghar et al., 2015; Asif et al., 2022). The thorough study on Pakistani charity laws and terrorist financing conducted by (Jamshaid, 2021) sheds light on the complex problems associated with regulatory systems. This academic study illuminates the difficulties associated with finding solutions to these problems. The paper analyzes the regulatory environment's challenges and recommends substantial changes to address increasing concerns and risks.



Abbasi (2018) in his doctoral dissertation investigates the International Islamic Relief Organization of Saudi Arabia in Pakistan. This study examines the complex regulatory challenges that arise due to multinational organizations' impact on domestic nonprofits. In addition, the research conducted by (Mukhtar, 2018) examines the issues of money laundering and terrorism financing, as well as Pakistan's position within the Financial Action Task Force (FATF). This article emphasizes the importance of establishing regulatory measures to address these complex issues effectively and enhance Pakistan's global standing.

Ahmed and Romaniuk (2021) argued in their research on the counter-terrorism measures enacted in Canada and their repercussions on human security, civil society, and charitable organizations has broadened our perspective. This global approach emphasizes the significance of international cooperation and coordination in resolving legislative obstacles pertaining to charitable donations and other forms of giving as income sources, aiming to overcome these obstacles. However, the violations of Pakistani law about the financing of terrorist organizations and the transfer of illicit funds will be the subject of Sanaa's doctoral dissertation (2020), which she intends to defend. The report provides an in-depth analysis of the factors that contributed to, the underlying causes for, and the subsequent effects of these violations. The statement emphasizes the identification of systemic regulatory framework deficiencies that contribute to the continuance of illicit financial activities.

Udawatte (2023) in his master's thesis analyses numerous strategies designed to combat money laundering and the financing of terrorism in the Middle East, focusing on Pakistan as the primary research subject. This report emphasizes the importance of implementing comprehensive regulatory changes to effectively respond to the ever-changing scenario of terrorist financing and money laundering. Besides, the research conducted by Keatinge and Keen (2020) investigated the use of social media platforms for terrorism-related fundraising and funding activities in contemporary society. According to their findings, social media platforms offer unique channels for unlawful financial activity, which creates new challenges for regulatory authorities tasked with monitoring and regulating issues of this nature.

Hence, the extensive corpus of the literature analyzed for this research provides insights into the significant challenges and regulatory gaps associated with controlling charities and donations as sources of financial sustenance in Pakistan. These observations are included in the study's findings. The challenges include legal exemptions, international philanthropic organizations, international money laundering, and the illegal use of charitable donations. Examining the perspectives of individuals from other nations and comparing them with other locations are two methods to gain new insights into the global nature of these issues. To combat the perils posed by terrorist financing and money laundering, it is necessary to adopt comprehensive reforms, develop international cooperation, and create adaptable regulatory frameworks. Without doing so, these hazards cannot be effectively mitigated. The immense corpus of research available may provide policymakers, academics, and practitioners in Pakistan and elsewhere with critical new perspectives, thereby aiding these groups in successfully navigating and addressing their enormous challenges.

Theoretical Framework

Terrorism Financing Theories

Crime-Terror Nexus Theory: According to Varese (2017), this theory suggests that criminal organizations and terrorist groups collaborate almost always. Terrorist organizations may fund their operations through illegal activities such as money laundering, drug trafficking, and illicit products. According to the



study of (shaw et al., 2018) this concept helps explain how unlawful funds can be legitimized and moved through charitable organizations to finance terrorist activities.

Terrorist Financing Typologies: These theoretical frameworks, according to (Dishman, 2005), classify the techniques and sources of terrorist financing, including charitable contributions and donations. According to (Venzke, 2005), self-financing, state sponsorship, and philanthropic support are the most prevalent forms of funding. If you have a solid grasp of these classifications, you will be able to investigate the sources and methods of terrorist financing, including charities and donation.

Anti-Money Laundering (AML) and Counterterrorism Financing (CTF) Theories

Crime Prevention through Environmental Design (CPTED): According to Crowe and Zahm, (2009), a theoretical paradigm known as Crime Prevention through Environmental Design (CPTED) focuses on the construction of physical and regulatory settings to reduce criminal activity opportunities. (Bennett et al., 2019) This theory can be used to evaluate the capacity of Pakistan's charity and contribution regulation system to prevent exploitation and illicit financial activities.

Regulatory Capture Theory: According to the regulatory capture theory, regulators risk becoming "captured" by the businesses they are entrusted with regulating (Stigler, 1971). According to Carpenter and Moss (2014), this technique can be used to determine whether the regulatory framework is hindering Pakistan's efforts to combat terrorism financing. Investigate whether charitable organizations and the authorities responsible for regulating donations are influenced by these organizations or other actors, which could hinder their ability to enforce laws prohibiting the financing of terrorism.

Globalization and Transnational Charities Theories

World Systems Theory: Wallerstein (1974) asserts that this economic theory investigates the global economy and the participation of individual nations and regions. According to Chase-Dunn and Babones (2006), this theory can be used to examine how Pakistan's global economic position affects its potential vulnerability to terrorism financing by foreign charitable organizations and donors. According to Patomaki (2008), globalization and heightened economic interdependence may hinder Pakistan's ability to manage the funding flows of international charitable organizations.

Transnational Advocacy Networks Theory: According to Keck and Sikkink's (1998) theory of transnational advocacy networks, the central focus is non-state actors collaborating across borders to solve global problems. According to (Smith et al., 2019), your research on Pakistani regulatory systems and global Islamic charities may be helpful. Analyze how these advocacy networks support or oppose legislation about charity and donation, as well as how they affect the regulatory environment in Pakistan (Asif & Sandhu, 2023; Mushtaque et al., 2021; Tarrow, 2010).

Regarding Theories of Technology and Adaptation

Institutional Isomorphism Theory: According to the theory of institutional isomorphism, organizations will employ practices and structures similar to those of other organizations to adapt to institutional influences (DiMaggio & Powell, 1983). Use this hypothesis to determine if the global standards for countering the financing of terrorism affect Pakistan's rules governing charitable funds and donations (Scott, 2014). Investigate whether or not international organizations such as the Financial Action Task Force (FATF) affect changes to regulatory policies in Pakistan (FATF, 2020).

Technological Determinism Theory: Technology is the primary generator of social and economic development, according to (Winner, 1980) Technological Determinism Theory. Use this theory to examine the effect of social media and online fundraising platforms on the regulatory frameworks regulating money



flow into terrorist organizations (Castells, 2000). (Bellovin et al., 2019) Examine how technology may make financial monitoring and controlling charities and donations more difficult.

Behavioral Economics Theories

Prospect Theory: The Prospect theory investigates how individuals make decisions in the face of uncertainty and risk (Kahneman & Tversky, 1979). Utilize this theory to investigate the motivations and actions of those financing terrorism, including donors, charities, and regulators (Asif & Shaheen, 2022; Camerer, 2003). Assess the impact of cognitive inconsistencies such as risk-aversion and framing effects on the financing of terrorism decision-making process.

Methodology

Research Design

This qualitative study investigates the complicated relationships that exist in Pakistan between charity organizations, donations, and the financing of terrorist organizations using secondary data. Due to the complexity of this study, (Creswell and Creswell, 2017) recommend qualitative research, which is renowned for its nuanced insights and diverse perspectives.

Data Collection

Data Sources. This qualitative investigation uses a carefully chosen gathering of secondary data from various reputable sources. The sources include peer-reviewed academic journals, venerable government publications, reports carefully compiled by financial institutions, seminal documents from internationally renowned organizations such as the Financial Action Task Force (FATF), and a vast corpus of relevant books, research articles, and comprehensive reports. This meticulous selection of secondary data sources aims to develop a comprehensive, multifaceted, and historically informed understanding of the issue under investigation.

Data Selection Criteria. Careful data selection ensures the integrity and dependability of secondary data sources used for qualitative analysis.

Relevance: The selection of data sources is determined by their direct relationship to the study's objectives. This criterion prioritizes articles that discuss philanthropy, donations, financing terrorist organizations, and Pakistani laws.

Credibility: For their credibility, academic journals with peer reviews, official reports from governments throughout the world, and authoritative publications from institutions with a worldwide reputation are highly regarded. The emphasis placed on credibility contributes to the research's enhanced analytical power.

Diverse Perspectives: The numerous data sources offer a wide range of perspectives and insights that can be combined to form a more complete picture. This comprehensive strategy ensures that academics, government officials, and civil society stakeholders are all involved in the study, resulting in the compilation of a complete set of narratives.

Temporal Span: Due to the significance of the investigated topic, the research spans a considerable amount of time. Using data from multiple periods enables the identification of trends, the revision of narratives, and the modification of regulatory frameworks.

Data Analysis

Data Coding and Categorization. The data in this qualitative study must be collected and categorized systematically. This complex procedure involves classifying secondary data into thematic and sub-constellations to identify recurring themes, concepts, and patterns.



Content Analysis. The fundamental purpose of content analysis, which serves as the cornerstone of analytic approaches, is extracting meaning and insights from qualitative data. Researchers examine the documents, reports, and publications with the utmost care. This study illuminates the fundamental concepts, narratives, and debates surrounding Pakistani philanthropy, contributions, and the financing of terrorist organizations.

Narrative Analysis. Narrative analysis, the investigation of the stories recounted by secondary data, is an integral part of this study. This study examines how different narratives influence people's perceptions, attitudes, and policies regarding terrorist funding and related issues.

Ethical Considerations

This investigation should be governed by ethics, like a compass. Correctly identifying and acknowledging the origin of all data is a top priority. Ethical guidelines for the responsible use of data are adhered to at each stage of the research procedure. These guidelines safeguard the privacy and confidentiality of participants.

Limitations of the Study

Thoroughly conducted research acknowledges its limitations. Limitations include the availability of data, the potential for bias in secondary data, and the quantity of secondary data. In this study, secondary data sources limit the quantity and quality of the collected data. This qualitative study investigates Pakistan's charitable giving, donation practices, and financing of terrorist organizations using secondary data. Ethics, content analysis, narrative analysis, classification, and categorization are all included in the research methodology.

Regulatory Framework in Pakistan

Pakistan's counterterrorism finance, charities, and contributions regulations safeguard the country's financial system and prevent the misuse of currency for terrorist purposes. Credible sources and research evaluate Pakistan's complex regulatory framework in this section.

Legal Structure

AML/CFT Laws. Pakistan takes stringent measures to prevent money laundering and funding for terrorism. This regulatory framework derives from the Anti-Terrorism Act of 1997 and the Anti-Money Laundering Act of 2010. According to (FMU, 2010), these regulations facilitate the detection, prosecution, and punishment of money laundering and terrorist funding. The Anti-Money Laundering Act of 2010 deters effectively. Pakistan's Financial Monitoring Unit (FMU) accumulates, evaluates, and disseminates information on potentially fraudulent activities. This law requires financial institutions and money-handling organizations to conduct comprehensive client due diligence to safeguard the monetary system from illicit cash (State Bank of Pakistan, 2021).

FATF Compliance. The Financial Action Task Force (FATF), which establishes global AML and CTF standards, significantly impacts Pakistan's regulatory framework. Pakistan has been scrutinized and criticized internationally for money laundering and terrorist financing. Pakistan has taken regulatory actions to comply with FATF recommendations (FATF, 2020). Specifically, these include enhancements to customer due diligence, risk-based monitoring, and changes to legislation to address concerns posed by terrorist financing (FATF, 2020).

Regulatory Authorities

State Bank of Pakistan (SBP). The State Bank of Pakistan (SBP), the country's central bank, regulates and monitors Pakistan's financial institutions. It aids compliance with AML and CTF regulations.



State Bank of Pakistan (SBP) publishes numerous recommendations, circulars, and rules to increase the transparency of financial transactions and prevent the financing of terrorism (SBP, 2021). Implementation of SBP AML and CTF policies is among the recent developments. DNFBPs and financial institutions must implement suitable AML and CTF procedures to comply with these standards. In addition, the SBP conducts inspections and examinations of financial institutions to ensure compliance with these requirements, thereby creating a robust and vigilant regulatory environment (State Bank of Pakistan, 2021).

The Pakistan Securities and Exchange Commission (SECP). The Securities and Exchange Commission of Pakistan (SECP) regulates charities and other nonprofit organizations in Pakistan. (Securities and Exchange Commission of Pakistan, 2020) The Securities and Exchange Commission of Pakistan has taken steps to increase transparency and prevent financial misconduct in these entities. The exhaustive NPO requirements established by the SECP are notable. Nongovernmental organizations (NGOs) are required to register with the SECP, maintain precise financial records, and submit to regular audits under these regulations. According to the (SECP, 2020), these activities increase the regulation of the charitable sector by ensuring that charitable organizations maintain financial transparency and accountability.

National Counter Terrorism Authority (NACTA). NACTA is an integral part of Pakistan's coordinated endeavor to combat funding for terrorist organizations. NACTA is essential for developing policies and initiatives that enhance regulatory frameworks. This includes increasing inter-agency cooperation and taking a more unified approach to terrorism financing (National Counter Terrorism Authority, 2021).

Financial institutions can now report suspicious transactions and comply with AML and CFT regulations due to the development of the "NACTA AML/CFT Compliance Portal." The National Counter Terrorism Authority (NACTA) has streamlined operations related to terrorism financing by centralized reporting and compliance (National Counter Terrorism Authority, 2021).

Challenges and Criticisms

Despite the improvement in Pakistan's regulatory environment, numerous problems remain:

Lack of Enforcement: Pakistan's regulatory framework needs more AML and CTF enforcement. This deficiency is highlighted by regulatory bodies' slow actions against non-compliant organizations. According to research conducted by Rasheed and Raza (2020) lax enforcement allows certain unlawful financial transactions to go undetected.

Informal Economy: Because Pakistan's unofficial economy is so expansive, it is difficult for authorities to track money flow. Because most financial transactions occur outside the traditional banking system, monitoring and regulation are challenging duties. According to research conducted by Shabbir and Butt (2020), the informal sector is an ideal environment for money laundering and funding terrorist organizations.

Transparency of Charities: Maintaining transparency and accountability within charitable organizations can be difficult. Some charitable organizations have been accused of funding terrorism and squandering donations. According to Aijaz et al., (2019), the regulatory framework must balance the need for transparency and the legitimacy of nonprofit organizations.

Complex Regulatory Environment: Several authorities are working on anti-money laundering and counterterrorism financing within Pakistan's challenging regulatory framework. Complexity may increase regulatory oversight but has created coordination and regulatory overlap issues. Additionally, complexity may strengthen regulatory oversight. (Nasrullah et al., 2021) A comprehensive approach to combating the financing of terrorism necessitates regulatory reform.



Recent Developments

Pakistan has made endeavors in recent years to address these issues and improve the structure of its regulatory agencies as follows:

Amendments to AML and CTF Laws: Pakistan has implemented significant AML and CTF legislative amendments. As a consequence of these reforms, Pakistan's regulatory framework will follow international standards more, and enforcement will be strengthened. They ensure rigorous government oversight (Business Recorder, 2022).

Enhanced Scrutiny of Charitable Organizations: The SEC has prioritized conducting more audits of nonprofit organizations. The increased supervision is meant to encourage charitable organizations to be more transparent and prevent the illegal misuse of funds. According to the (SECP, 2020), these safeguards contribute to the security of charitable organizations.

Cooperation with International Bodies: Pakistan has increased its collaboration with international organizations, most notably the Financial Action Task Force (FATF), to strengthen its regulatory framework and address concerns over terrorism financing more effectively. Pakistan's participation in the fight against terrorist financing demonstrates that it is committed to adhering to international standards (FATF, 2020). However, Pakistan's laws regarding charity, donations, and the financing of terrorism are perpetually in flux. Regardless of legislative and regulatory efforts, enforcement issues, the informal economy, charitable transparency, and regulatory agency coordination must be addressed.

Recent occurrences illustrate Pakistan's commitment to the reform of regulatory rules and international standards. For the protection of Pakistan's financial institutions and the reduction of concerns regarding the financing of terrorism, constant surveillance, effective enforcement, and close collaboration with international entities are indispensable.

Analysis

In this extensive empirical study, we assess the effectiveness of Pakistan's complex regulatory framework in preventing the misuse of charity and donation funds for terrorism financing and money laundering. Specifically, we examine how effectively it prevents using these funds for money laundering. We can navigate the complex financial regulation landscape using statistical data, case studies, trend research, and regulatory reviews.

Regulatory Enforcement Actions

To prevent financial crime, regulatory requirements must be effectively implemented. Examining the regulatory enforcement activities in greater detail reveals that the regulatory framework can impose penalties. In 2019, financial institutions that violated AML and CTF requirements were fined PKR 10 million. These penalties demonstrate that regulators are willing to demonstrate to financial institutions that they will hold them accountable for compliance violations (SBP Annual Report, 2019).

Challenges and Areas for Improvement

Even though significant obstacles remain, these empirical data point to a potential strengthening of the regulatory system:

Enforcement Consistency: There has been criticism in the form of financial penalties and imprisonment, but it is difficult to administer these sanctions to every lawbreaker. Each company and individual implicated must face the appropriate consequences.

Informal sector: Due to the scale of the informal sector, it is not easy to monitor and regulate financial transactions. Innovation and alternative forms of financial management are required to solve this problem.



Coordination: The regulatory environment comprises multiple agencies, necessitating enhanced coordination and collaboration to reduce overlaps.

According to the findings of the empirical research, the Pakistani laws governing charitable work, donations, and the financing of terrorist organizations each have their advantages and disadvantages. The regulatory system's response may be observed in increased auditing of charitable organizations, enhanced law enforcement, and increased problematic transactions.

Positive Aspects and Achievements

Regulatory Responsiveness. Another benefit is the prompt action of regulatory authorities. According to the (NACTA's Safe Charity List, 2017), this is an efficient tool for the compliance of charitable organizations. This preventative strategy demonstrates the regulatory framework's dedication to promptly addressing potential violations, demonstrating to local and international stakeholders that Pakistan is actively combating illicit money activities.

Audits of Charitable Organizations. According to the Charities and Donations Audit Report published by the Ministry of Finance in Pakistan in 2020, it is heartening to learn that 90 percent of charity organizations have acceptable financial transparency and accountability measures. This indicates that a substantial proportion of these groups comply voluntarily with regulatory criteria, decreasing the likelihood of illicit money usage. A high compliance rate shows that a substantial number of nonprofit organizations are keeping their word and contributing to the accomplishment of regulatory objectives.

Critical Challenges and Areas for Improvement

Enforcement Consistency. Despite these successes, enforcing consistent punishments for all lawbreakers remains a significant challenge. However, financial institutions that violate AML and CTF requirements have been subject to substantial sanctions; however, it is still being determined whether or not these penalties are being implemented consistently and in a reasonable manner. Inconsistent law enforcement can be detrimental to the regulatory system and provide criminals with opportunities to exploit legal loopholes.

Informal Economy. Because Pakistan's unofficial economy is so vast, it is not easy to monitor and regulate financial transactions. According to the results of the empirical study, it is necessary to combat terrorism financing and money laundering outside of traditional financial institutions. A creative strategy and collaboration with informal financial systems are required to solve this issue comprehensively. A more comprehensive strategy that integrates the informal sector into the formal system is required to address the existing illegal financial inequalities.

Coordination and Overlaps. Multiple agencies contribute to the complexity of the regulatory environment, which necessitates enhanced coordination and collaboration. Cooperation between diverse government agencies is advantageous, but its effectiveness and efficacy must be evaluated. By eradicating overlapping authority and duty, it is possible to streamline processes and prevent duplication of effort. In order to combat the financing of terrorism and money laundering, regulatory and law enforcement authorities must collaborate and share information.

The Critical Need for Rigorous Evaluation

The empirical research sheds light on the rules governing terrorist funding and money laundering in Pakistan's charitable sector. Nonetheless, it raises significant issues that require further investigation and evaluation. Both the financing of terrorism and the laundering of illicit funds are significant sources of concern. Are the measures implemented for regulation sufficient? Are punishments such as penalties and prison time deterrents, or are they merely symbolic? Convictions typically target lower-level operatives; does



the judicial system harm more extensive terrorism funding networks? Although there is a high number of accredited nonprofit organizations, this does not guarantee that there is complete openness; further examination may uncover problems.

Sustained Efforts and Innovation

The findings of this study highlight issues that require ongoing efforts, innovative solutions, and increased interagency cooperation. The structure of Pakistan's regulatory agencies must be revised to account for evolving threats and be subjected to a thorough review. The regulatory environment should discourage illegal financial activity while encouraging lawful philanthropic efforts. The empirical research concludes with a discussion of Pakistan's regulatory system's pros and cons in preventing terrorist financing and money laundering associated with charitable giving and donations. Even though reporting and regulatory response have been enhanced, the informal economy and consistent enforcement remain significant concerns. Pakistan must find remedies to these issues to protect its financial system and combat money laundering. All involved parties must maintain commitment, creativity, and cooperation to reach this objective.

Implications for Policy and Future Directions

This part of the research examines the fundamental issues that have emerged due to Pakistan's regulatory structure and provides an in-depth analysis of the policy implications these issues have for the fight against money laundering and the financing of terrorist organizations.

Understanding the Complex Challenges

It is essential to have a thorough comprehension of the numerous issues that exist within Pakistan's regulatory framework:

The prevalent informal sector in Pakistan presents a significant barrier to regulatory initiatives. This industry specializes in financial transactions that circumvent the restrictions imposed by conventional banking institutions. Due to their lack of transparency, informal transactions facilitate money laundering and terrorism financing.

Multiple institutions are involved in anti-money laundering and counterterrorism financing in Pakistan, resulting in coordination issues. Numerous agencies' presence contributes to improving regulatory monitoring, but it also causes coordination issues and duplicate work. Immediate attention must be paid to these diverse activities to consolidate regulatory duties and provide a unified strategy to combat terrorism funding.

Problems with Law Enforcement How Pakistan's regulatory framework is enforced has been contested on multiple occasions. Due to insufficient enforcement tools and regulatory failings to sanction non-compliant organizations, illegal financial operations have been allowed to continue with significant impunity. In order to improve the legitimacy and efficacy of the regulatory system, it is necessary to find a solution to this issue.

The fight for transparency in Pakistan's nonprofit sector faces unique obstacles. Charity contributes to solving societal problems, but openness and accountability remain obstacles. Recently, this industry has been plagued by suspicions that funds are being diverted for illegal purposes and by philanthropic organizations supporting terrorism. The regulatory framework must establish a balance between the need for legal philanthropic activities and the transparency of these organizations.

Critical Future Policy Implications

To solve these complex and deeply rooted problems, Pakistan's decision-makers must investigate new and rigorous policy implications.



1. Strengthening Enforcement Mechanisms: The primary policy objective is to strengthen enforcement instruments. To achieve this objective, stringent regulatory inspection and substantial regulatory personnel capacity expansion are required. With enhanced training and resource allocation, regulators can recognize and combat illicit financial activity more effectively. In order to serve as an effective deterrent and to ensure that all organizations, regardless of their size or level of influence, face equivalent repercussions for violations, it is necessary to establish sanctions for non-compliant institutions that are uniform and proportionate.

2. Integration of Informal Economy: In order to successfully integrate the informal sector into the official financial system, policymakers will need to be creative. Providing incentives for businesses and individuals operating in the informal sector to transition to official channels effectively reduces risk. Comprehensive public awareness campaigns can educate citizens about the perils of engaging in unofficial financial transactions and the benefits of using conventional financing.

3. Improved Coordination among Regulatory Agencies: Due to the complexity of Pakistan's regulatory structure, the roles of regulatory agencies must be reconsidered. In order to successfully combat the financing of terrorism, it is necessary to consolidate functions and eliminate redundancies. To leverage the authority of regulatory and law enforcement agencies, it is necessary to establish platforms for inter-agency coordination and information exchange.

4. Continuous Evaluation and Adaptation: Continuous evaluation and modification are essential components of proactive regulation, necessitating periodic assessments of regulatory frameworks' effectiveness. These in-depth analyses should be conducted transparently, highlighting improvement areas and correlating regulatory measures with evolving patterns of terrorist funding and money laundering. Continuous research and analysis are necessary to keep up with the changing nature of risks.

5. International Collaboration: Pakistan should collaborate more with international organizations, particularly the FATF, to strengthen its economy. As a result of this connection, global standards and best practices are better preserved, and the regulatory framework is able to obtain international assistance and expertise for its own development.

Therefore, the intricate challenges presented by Pakistan's regulatory structure require both critical and forward-looking thought. Suppose the recommended policy implications for the future are rigorously implemented. In that case, they have the potential to rebalance the regulatory landscape, increase its effectiveness in combating the funding of terrorism and the laundering of illicit funds, and foster an environment that is conducive to the legal philanthropic sector and the financial system.

Comprehensive Recommendations

This part of the research provides comprehensive recommendations for resolving Pakistan's regulatory framework's numerous problems with terrorism financing and money laundering. These recommendations draw attention to issues and provide specific guidance on resolving them.

- 1. Strengthen Regulatory Oversight and Capacity Building:** More oversight is required for effective regulation. The regulatory body's personnel capacity should be substantially increased. It is impossible to exaggerate the importance of regular training, new analytical tools, and workshop opportunities. Providing regulatory officials in Pakistan with training may enhance Pakistan's capacity to detect and prevent financial crime.
- 2. Integration of the Informal Economy:** Due to the substantial informal sector in Pakistan, it is not easy to monitor and regulate financial transactions. To address this issue, the government should aid



businesses and individuals in the informal sector in their transition to formal financial channels. By simplifying formalization processes and educating more individuals, it is possible to increase compliance and reduce the risks associated with unofficial financial transactions.

3. **Regular Regulatory Reviews and Adaptations:** The regulatory framework must be evaluated regularly to determine whether or not it is effective and where it can be enhanced. Independent experts and pertinent stakeholders must routinely examine the regulatory system in Pakistan. In order to combat rising risks, regulatory changes and enhancements should be informed by the findings.
4. **Investment in Advanced Data Analytics:** The application of data analytics can aid in the identification of dubious financial transactions, particularly in the informal sector. Tracking and analyzing financial transactions necessitates sophisticated data analytics tools and platforms, which Pakistan needs to improve. Regulatory agencies should be required to integrate these capabilities for real-time monitoring and analysis seamlessly.
5. **Public-Private Sector Collaboration:** the private sector's ideas and resources can aid in developing the regulatory system. The fight against terrorism financing and money laundering should entail the exchange of information between financial institutions and regulatory bodies.
6. **Strengthen Whistleblower Protections:** It is crucial to strengthen whistleblower protections because those who expose financial fraud do so at their own risk. Both the anonymity and legal rights of whistleblowers in Pakistan must be protected. It is crucial to develop methods for reporting instances of money laundering and financing terrorist organizations in strict confidence.
7. **Foster International Cooperation:** The fight against terrorist financing and money laundering requires global coordination of efforts. Pakistan would benefit from strengthening its diplomatic ties and cooperating more closely with international organizations such as the Financial Action Task Force (FATF) to enhance the movement of information and facilitate cross-border investigations.
8. **Comprehensive Training for Financial Institutions:** Pakistan must provide comprehensive training courses for financial institutions to educate them on how to comply with AML and CTF regulations. These initiatives should focus on altering patterns of financial illicit activity, compliance, and technological advancements for monitoring and reporting suspicious behavior.
9. **Public Awareness Campaigns:** The public must be aware of the risks posed by terrorism financing and money laundering through pervasive campaigns. This campaign emphasizes the importance of reporting suspicious activity and adhering to AML and CTF laws.
10. **Block chain-Based Transaction Monitoring:** The block chain's tremendous potential to promote financial transparency should not be understated. Pakistan can establish an immutable financial database using a transaction-monitoring system based on block chain technology. This would make it significantly more difficult to conceal illicit activities by divulging instantaneous currency transactions. It can facilitate audit traces and enhance traceability, which is essential in the fight against money laundering and terrorism financing.
11. **Artificial Intelligence-Powered Risk Assessment:** Artificial intelligence may revolutionize the risk assessment. Banking institutions and regulatory agencies can detect intricate patterns of unlawful financial conduct by employing cutting-edge AI algorithms that rapidly analyze vast data. Real-time analysis can aid in detecting and preventing money laundering and financing terrorism by reducing the number of manual tasks required.



- 12. Digital Identity Verification:** A secure and standardized digital identity verification system is required to prevent financial crime. A comprehensive digital identification ecosystem enables the verification of financial transaction participants. By integrating this system with Pakistan's financial institutions, the nation may be able to substantially reduce the amount of identity deception perpetrated by criminals to conduct illicit financial transactions.
- 13. Collaboration with Fintech Startups:** Compliance solutions for AML and CTF could be developed in collaboration with fintech firms renowned for their swift innovation. Financial technology companies have created agile computer systems that improve transaction monitoring, reporting, and client due diligence. With their knowledge and creativity, these new enterprises have the potential to contribute to the modernization of Pakistan's financial sector regulatory framework.
- 14. Big Data Analytics for Cross-Border Transactions:** When numerous countries and currencies are involved, it is challenging to detect illicit financial activity. Extensive data analysis provides a comprehensive solution. Through analyzing transaction histories, geographic patterns, and emerging trends, Pakistan can identify suspicious cross-border ties and movements of funds. This form of analysis has the potential to uncover previously unidentified hazards and improve response times.
- 15. Cybersecurity for Financial Institutions:** Cyberattacks on institutions can help facilitate money laundering and other forms of financial crime. In order to protect financial data, it is necessary to enhance cybersecurity. Pakistan can protect its financial infrastructure from cyberattacks by employing cutting-edge cybersecurity technologies.
- 16. Encourage Ethical Hacking:** Ethical hacking is a relatively novel technique that can identify weaknesses in financial institutions. Financial institutions can identify and repair potential security flaws with the assistance of ethical hackers. If sufficient transparency is encouraged, Pakistan's potential for increased vigilance and improved cybersecurity in its financial sector may be enhanced (Asghar & Manzoor, 2022).
- 17. Public-Private Sector Partnership Platforms:** The development of organized public-private collaboration platforms can provide innovative solutions to the problem of financial crime. These platforms allow regulators, financial institutions, and technology companies to engage in frequent and structured communication. Utilizing the talents and resources of stakeholders, they make it simpler for them to exchange information, undertake collaborative risk assessments, and work together to prevent financial crime.
- 18. Rewards for Reporting:** To combat financial crimes, Pakistan may incentivize informants and the general public. Those who provide credible evidence to help stop terrorism financing or money laundering may be eligible for rewards. These programs encourage the exchange of advantageous knowledge between individuals, thereby enhancing the nation's financial security.
- 19. Block-chain for Charitable Donations:** Implementing block-chain technology in platforms for charitable giving can substantially enhance accountability and transparency. Block-chain technology facilitates the immutable documentation of donations and spending, ensuring that funds are used as intended. Donors are able to track the status of their contributions, and the government has enhanced its oversight of charitable organizations. This has decreased the likelihood that charities will be used to conceal money or finance illegal activities.
- 20. Virtual Reality Training:** Immersive virtual reality training for AML and CTF compliance enhances the effectiveness of education. Virtual reality simulations allow regulatory authorities to train in a risk-



free environment for real-world scenarios. This innovative technique improves training, thereby better-preparing regulators to combat evolving criminal strategies in the financial sector.

- 21. Decentralized Finance (DeFi) Regulation:** Due to the prevalence of decentralized finance (DeFi) systems and cryptocurrencies, Pakistan must develop suitable legal frameworks. Since DeFi platforms have great independence, it is crucial to have defined laws to prevent financial fraud. Pakistan can mitigate risks and ensure emerging technologies comply with AML and CTF regulations by preserving its competitive advantage.
- 22. Social Media Monitoring:** Keeping a watch on social media for illicit financial activities is a novel approach to information gathering. Through social media, criminals involved in financial transactions frequently collaborate and disseminate false information. Advanced algorithms can monitor social media for phrases, patterns, and relationships associated with money laundering and the financing of terrorism, thereby guiding regulatory actions.
- 23. Open Source Intelligence (OSINT):** By investing in open source intelligence (OSINT), Pakistan would be able to collect information from internet sources containing public information. OSINT can help identify and locate potentially fraudulent financial actors. Using open-source intelligence enables authorities to conduct more effective investigations and stay one step ahead of financial criminals.
- 24. Smart Contracts for Regulatory Compliance:** Implementing intelligent contracts on block-chains makes automating the regulatory compliance process possible. Using smart contracts, compliance with AML and CTF regulations in financial transactions can be automated. This reduces administrative work while simultaneously improving compliance efficiency and accuracy.

Conclusion

This study examined the regulatory framework, challenges, criticisms, empirical findings, policy implications, new ideas, and NACTA's action plan. Our findings clarify the challenges and potential benefits involved in the fight against financial offenses.

The successful implementation of Pakistan's legislation intended to combat the funding of terrorist organizations and the laundering of illicit funds is directly proportional to achieving these two objectives. To provide a comprehensive framework, the nation has passed laws, established regulatory agencies, and collaborated with other nations.

As it strives to establish a practical regulatory framework, Pakistan faces a significant number of challenges and criticisms, according to the findings of our research. The application of AML and CTF regulations has been a persistent issue. Institutions that do not comply but are not punished have revealed systemic vulnerabilities. A large informal sector that encourages illicit activity makes it difficult to monitor money transfers and adds to the situation's complexity. Maintaining the openness of charitable organizations while allowing them to carry out their missions can be difficult. Due to the complexity of multi-agency regulation, simplification is necessary to prevent overlaps and maintain cooperation.

Our empirical research has cast qualitative light on the processes of money laundering and terrorism financing in Pakistan. It illuminated both the successes and the difficulties. The increasing number of Suspicious Transaction Reports (STRs) associated with charities and donations demonstrates a heightened awareness of potential financial risks. The severe penalties and protracted prison terms imposed by regulators demonstrate their commitment to punishing lawbreakers. Increased financial transparency has enhanced the audit results of charitable organizations. Nonetheless, there are still issues with consistent enforcement, the informal sector, and collaborative regulation.



This study has substantial implications for Pakistan's regulatory system and policymaking. It accentuates the significance of closing enforcement gaps and encouraging innovative solutions to complex problems, such as the openness of the nonprofit sector and the informal economy. National and international cooperation is required to prevent financial crime effectively. To strengthen the nation's defenses against emergent threats, it is necessary to be adaptable and to develop forward-looking plans.

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