State-Sponsored Terrorism and Pakistan:Will the financial action task force, established by the G7, take notice?

■ *Dr. T. K. Jayaraman*

On May 9, the IMF Board of Executive Directors made two key decisions, dismissing India's objections:

(i) the release of the second tranche of $1 billion to Pakistan under the $7 billion Extended Fund Facility (EFF), a 37-month bailout program approved in September 2024 to support Pakistan's economic stability and growth, and

(ii) approval of a fresh loan of $1.4 billion under the Resilience and Sustainability Facility (RSF), with immediate disbursement, bringing the total to $2.4 billion, all at one go.

India protested the agenda item on the day it was tabled—coinciding with the ongoing four-day "Operation Sindoor," a ceasefire for which was only announced the following day. India argued that Pakistan might divert IMF funds to support cross-border terrorist activities and urged the IMF not to approve the disbursement. However, no other Executive Director raised objections, and the Board proceeded with the approval.

Since IMF procedures do not allow for a formal "no" vote, India's objection was recorded as an "abstention." This type of abstention is not without precedent. In 1981, the U.S. abstained from voting on a $5.8 billion IMF loan to India, arguing that the funds, which were offered on concessional terms, would be used for development rather than to pay for oil imports. The loan was nonetheless approved on November 10, 1981.

During another economic crisis in 1991–93, India turned again to the IMF. It received $2.2 billion under two Standby Arrangements and another $1.4 billion under the Compensatory Financing Facility, totalling $3.6 billion. These loans came with strict conditions, including devaluation of the rupee, austerity measures, and public expenditure controls—hallmarks of the Washington Consensus. These reforms, unpopular in many countries, were deeply resented in Latin America, where the IMF was infamously dubbed the "International Misery Fund."

Nevertheless, the crisis prompted India to liberalize its economy under two Prime Ministers, Narasimha Rao and and later under Dr. Manmohan Singh at the helm. India met all its IMF obligations and fully repaid the debt, including interest, by December 31, 2000. Since then, India has not borrowed from the IMF.

Pakistan: A reluctant reformer but a frequent borrower

In contrast, Pakistan frequently approaches the IMF. IMF never says "No". It only lays down stricter conditionalities and fondly hopes delinquent countries would be able to fulfil them. Pakistan ranks number five among the top ten countries which are indebted to IMF **(Table 1)**. The current bailout loan, which was approved in 2024 is Pakistan's 25th bailout assistance. Despite the on-going economic distress, Pakistan continues to prioritize military expenditure, with a 2024 defense budget of $10 billion—about 3% of GDP. Total external debt, including bilateral and multilateral loans, exceeds $130 billion. With foreign exchange reserves of only $15 billion (barely covering three months of imports), Pakistan has still increased its defense budget by 18% this year. The Stockholm International Peace Research Institute (SIPRI) notes the military's dominant role in shaping Pakistan's public spending priorities.

TABLE –1: IMF Outstanding credit to members : April 30- May 19,2025 (in SDRs billion)

IMF Member Countries	Total credit Outstanding (April 30,2025)	Total Disburse-ment	Total Repay-ment	Total credit Outstanding (May 19,2025)	Rank
Argentina	40.26	0	0	40.26	1
Ukraine	10.80	0	0	10.80	2
Egypt	8.63	0	0.42	8.21	3
Ecuador	6.43	0	0.06	6.38	4
Pakistan	6.10	0.76	0	6.86	5
Kenya	3.02	0	0	3.02	6
Angola	2.84	0	0	2.84	7
Cote d'Ivoire	2.63	0	0	2.63	8
GHANA	2.46	0	0.01	2.45	9
Bangladesh	1.98	0	0	1.98	10

Source: IMF May 2025, May 19 | Note : One SDR= US$ 1.86

At a seminar organized by the Pakistan Institute of International Affairs (PIIA) in Karachi on July 15, 2023, eminent economist Dr. Kaiser Bengali, a Boston University product, and member of several committees delivered a stark assessment:

"Any finance minister of Pakistan has only one very simple task: to get more loans to repay past loans. That is the only function ….. There will be long statements about revenue generation, development, industrialization, education, health, etc., but these are all fairy tales because there is no money for anything. And nothing will happen." (Dawn, July 16, 2023)

Dr. Kaiser Bengali resigned from all government advisory committees on August 31, 2024.

Rising awareness of state-sponsored terrorism

The global community is increasingly aware that Pakistan's economic crisis is exacerbated by state-sponsored cross-border terrorism. The April 22 Phalgam shooting, in which 26 Indian tourists were killed, is a grim reminder. Yet, powerful nations like the US, UK, and China—despite their awareness—often turn a blind eye, influenced by their geopolitical interests, including arms trade and military alliances.

In this context, the Financial Action Task Force (FATF) plays a critical, albeit limited, role. Established in 1989 by the G7 nations (Canada, France, Germany, Italy, Japan, the UK, and the US), FATF is an independent intergovernmental body that sets global standards for combating money laundering and terrorist financing. Though it has no legal power to block IMF or World Bank, and Asian Development loans, it holds moral and procedural sway, often delaying or discouraging financial support for non-compliant countries.

FATF functions much like an upper legislative chamber, akin to the UK's House of Lords or the US Senate. While it cannot veto decisions made by financial institutions, it can return problematic matters for reconsideration, urging caution.

FATF's Watchlists

FATF maintains two key watchlists: one is called , the High-Risk Jurisdictions (formerly the "Blacklist"), which includes three countries They are the ones which have not satisfactorily carried out the suggested reforms :

Countries that fail to act on FATF recommendations. **(Table 2)**

The another watch list is called Jurisdictions under Increased Monitoring (formerly the "Grey List"): Countries that commit

TABLE -2 : High Risk Juridictions Subject to call For Action | (Formerly known as Black List)

No.	Country
1	Democratic People's Republic of Korea
2	Iran
3	Myanmar

to reforms but remain under scrutiny until compliance is verified **(Table 3)**. Each year, FATF meets three times in Plenary Sessions with full membership in attendance as well as in Committees for watching reforms implementation. Based on performance and progress, the List gets revised. Countries which have satisfactorily performed reform implementation get removed and a fresh revised list is announced.

TABLE -3 : Low Risk Jurisdictions under Increased Monitoring | (Formerly known as Grey List)

No.	Country	No.	Country
1	Algeria	14	Monaco
2	Angola	15	Mozambique
3	Bulgaria	16	Nambia
4	Burkina Faso	17	Nepal
5	Cameroon	18	Nigeria
6	Cote d' Ivoire	19	South Africa
7	Croatia	20	Suda
8	Democratic Republic of Congo	21	Syria
9	Haiti	22	Tanazania
10	Kenya	23	Venezula
11	Lao Peoples Republic	24	Vietnam
12	Lebanon	25	Yemen
13	Mali		

Note: Pakistan, which was in the Grey List from 2015 was removed from the List in Oct 2022

Source: FATF, May 2025

Despite updated terminology, the original names—Blacklist and Grey List—remain widely used

Pakistan's grey list history: A hat-trick

Since 2008, Pakistan has been placed on the FATF Grey List three times:

In: February 2008 | Out: June 2010

In: February 2015 | Out: June 2018

In: October 2019 | Out: October 2022

Each time, though Pakistan has been promising to implement reforms, yet the terror-financing ecosystem remains largely intact. Groups like Lashkar-e-Taiba (LeT), Jaish-e-Mohammed (JeM), Hizbul Mujahideen (HM), Al-Qaeda, Tehrik-e-Taliban Pakistan (TTP), and Islamic State Khorasan Province (ISKP) are continuing to operate with relative impunity, aided by weak governance and lax financial oversight. The National Security Agency of India has abundant, convincing evidence, including the April 22 Pahalgam shootings which were carried out by terrorists from Pakistanis.

India has submitted a detailed dossier to FATF, urging Pakistan's re-inclusion in the Grey List. The matter is expected to be taken up for consideration at the upcoming FATF plenary session in Paris, on June 19-21.

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