Corruption as a driver of Money Laundering in Pakistan

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The thesis attempted to address the issue of how money laundering in Pakistan is influenced by corruption. Hence the main research question formulated was how does corruption drive money laundering in Pakistan? Connection between corruption and the markets where illicit funds can be exploited and laundered was investigated through a study of the literature and an assessment of recent news. As money laundering and corruption is not easy to trace for a student, so secondary data analysis approach was taken to research on money laundering and corruption in general and specifically from Pakistan's angle. To answer the main research question, two sub-questions were formulated after finishing the literature review. Money laundering in Pakistan has been discovered to be heavily dependent on the real estate market and the hawala/hundi systems. Hence, two sub-questions formulated were related to real-estate market, how corrupt practices in real-estate drive money laundering? Since there is a dearth of documentation in the real estate market, illegal and legitimate funds can mix, finishing the money-laundering process through under-invoicing. Real-estate market is uses under-invoicing to support money generated from corruption, tax-evasion, vague property valuation, and documentation gap. It is easy to obscure the ownership because of poor documentation, which can easily be used to launder money. The mechanism which helps real-estate market was yet to be found, and here second sub-question was formulated, which is how hawala/hundi is used as a mechanism to promote money laundering in real-estate market? Hawala/hundi system does not use conventional banking methods; it simply moves money. The hawala/hundi mechanism is ideally suited for money laundering because it avoids traditional banking channels, is purely a cash-based occurrence, and is popular among foreigners looking to benefit from a quick, inexpensive, and favourable exchange rate. The hawala/hundi money-laundering system is like a dream come true for businesses that deal in currency. The use of hawala/hundi methods is encouraged by corrupt real estate market practices, making it harder to track down the mixing of illicit and legitimate funds. To effectively control money laundering the thesis managerially contributes by offering solutions to the Pakistani government, which the Pakistani government must adopt to control money laundering and corruption. Developed countries have controlled money laundering and corruption by applying anti-money laundering laws effectively with the help of 40 recommendations proposed by financial action task force. Developed countries have also implemented updated laws and protocols by using digital systems and by removing human involvement from the processes. Increased transparency, capacity building, international cooperation, strict regulatory frameworks, and a strong legal system has also been implemented by developed countries to control money laundering, corruption and related crimes. Pakistan needs to follow the footsteps of developed countries to successfully control corruption and money laundering. Initiatives like Roshan Digital Account, and these efforts ought to be encouraged and road to digitalisation must be followed.

Key words: Corruption as a driver of money laundering in Pakistan, Money Laundering practices in Pakistan, Corruption in Pakistan

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1 Introduction

1.1 Background of the study

According to Roni (2005) it is important to explain the background of the subject before evaluating it in detail. The assessment can be affected by the evaluation of different backgrounds. Hence, it is important to for a reader to understand the phenomenon before reading the effects of it. (Strbac et al. 2018)

In Pakistan for last 70 years, the politicians have talked about poor people and how their situations could get better, but never reached to a root-cause of why poverty is still growing in Pakistan? In 2016, Panama papers came out and had names of then Prime minister Nawaz Sharif and his family owning off-shore accounts and properties using off-shore accounts. (Obermaeir & Obermayer 2017) As a result, it piqued my curiosity to probe the link between corruption and money laundering.

1.1.1 Corruption

Corruption is in general referred to as abusing one's position in public office to raise personal wealth for one's own gain. A public official is prohibited from defrauding the public or embezzling the public at large. Surely, they are not allowed to commit other types of malfeasance on their own, including bribery, extortion, and attempted extortion. (Adsera et al. 2003, 447)

However, there is a level of complexity associated with analysing bribery and its effects on private sector development as opposed to analysing bribery by private individuals or public officials. When bribery is broken down into its constituent parts, private parties could buy from politicians and bureaucrats. Aside from that, corruption has also affected other kinds of institutions, which are based on market principles, over the course of the modern period, such as those based on political institutions. (Gray & Kaufmann 1998)

Further, government officials who accept gifts from representatives or agents of a company that is seeking to influence a bid for a contract can also be caught in the act if they do so with the aim of influencing the bid. Corruption may be attributed to a number of causes, depending on the society in which it occurs, and the circumstances under which

it takes place. In developing countries, due to their meager incomes, people cannot afford to live extravagant lifestyles or indulge in corrupt practices like bribery. (Salifu 2008)

There has been some recognition by the World Bank (1997) that the reduction of corruption is closely linked to economic development and the health of economic institutions quite some time ago. It has been observed that the anti-corruption movement has been taking place in multiple jurisdictions, despite the fact that some may believe that these efforts are motivated by political considerations. (Miller 2005)

1.1.2 Money Laundering

Money Laundering is a serious problem now-a-day. It is taking much part of energy, finance, IT systems, and human capital. Globally, money laundering is estimated to amount to US$500bn to US$1trn each year (McDonell 1997). E-commerce is still at an early stage, but cyber-laundering is estimated to be worth $50 billion at this point. (Phillippsohn 2001) Countries which are not equipped with good IT systems; laws to fight against money laundering; well-educated and practiced professionals to fight effectively against money laundering, are the most affected by this money laundering crime. It does not only affect the finance sector, but also has long term economic repercussions. (Unger, & Busuioc 2007)

Money laundering is defined as the processing of proceeds from criminals to conceal their illegal origin. (FATF 1996) Money laundering criminals usually have a racket of serious criminals who commit heinous crimes to not only enjoy the looted money, but also, they find legal ways to evade imprisonment. (Levi & Reuter 2006, 289)

As most of the money accumulated through these crimes is in cash, rather than putting money under bed, or packing it in plastic bags and then putting in a hole in the ground or plastering it into the wall, criminals want to find a legitimate way to use the money for their leisure or business activities. Money Laundering does not only strengthen the criminals' financial resources, but also gives them the opportunity to claim that money as their legitimate money. (Levi 2002, 181)

Smugglers of diamonds and other looted goods have been convicted off the crimes committed, but when it comes to illegal money there are different manners and means an individual can use to launder money. Accounts have been used to deposit cash with

cheques, and that cash could be withdrawn worldwide with debit cards wire transfers or even simple methods that can facilitate money laundering. (Morris-Cotterill 2001, 16)

1.2 Gap

Several studies like (Costa 2022, 01-22; Violeta & Borlea 2020 ; Stuart 2022, 8 ; Chaikin & Sharman 2009 ; Mugarura 2015) have been conducted in order to explore the relationship between financial corruption and money laundering and how the two are related. Aside from this, it describes how offshore companies and hidden ownership are used by criminals to launder embezzled funds that they intend to use for their own personal use after they have been laundered. In addition to that, it also reveals how officials in the Government have been involved in the corruption and money laundering of public funds. The whole idea of money laundering is based on the fact that illegal money is the driving force behind it. Those illegal funds may have been created through criminal activities, tax evasion, bribes, and a variety of other illegal activities. However, despite these findings, the studies do not demonstrate whether or not money laundering can be controlled by curbing corruption in the country. Furthermore, there are many underdeveloped or developing nations that do not enjoy the same benefits as developed countries as far as the right to information is concerned. Furthermore, no consideration is given to how governments or hidden governments control authorities and their involvement in the laundering of money itself in this study. Another example would be the growing wealth gap in developing countries between the rich and the poor, which could be viewed as another factor. It is possible that there may be a connection between this and money laundering, in which case it is another gap that needs to be filled. Just the way disparity of wealth in a country is alarming, it is time we see the disparity of wealth on macro-economic level as a threat to the peace of world as well. Countries like Pakistan are going through disparity of wealth at a very dangerous rate. Pakistan needs debts to sustain its economy and it crawls back to IMF for support. IMF supports by providing loans which are bare minimum to provide a ventilator for dying economy. (AA Jan 2021)

Hence, Pakistan is still fighting against money laundering and the money laundered to the developed countries which support offshore accounts, it is going through enormous current account. (English News CN 2022) It is a vicious cycle where Pakistan is always

in need of money to support its economy and IMF provides just enough loan to survive with strings attached where the burden of those loans shifts on to a layman.

1.3   Research Question and Sub-questions

The aim of this study is to answer the main question, which is How does corruption drive money laundering in Pakistan? To answer the main question, the research focus would be on news articles, and literature written on money laundering in Pakistan. Pakistan has been in news when it comes to money laundering. Panama papers had made people aware of the offshore accounts, and offshore locations owned by the public office holders, businessmen, and many others (Obermaeir & Obermayer 2017). This brings to the sub-questions which are as follows:

1. *How corrupt practices in real-estate market drives money laundering practices in Pakistan?*

2. *How is Hawala/hundi used as a mechanism to promote money laundering practices in real-estate market?*

2   Literature Review

As I am focusing on money laundering in the light of corruption, the literature review below was chosen by using words corruption, money laundering, money laundering and corruption, money laundering in different areas, what is money laundering, what is corruption, what are the ways of doing money laundering, and what are the ways of doing corruption.

Following sub-chapters would discuss money laundering and corruption in different areas. To find answers to research question and sub-questions mentioned in chapter 1, it is important to investigate money laundering and corruption from different aspects. By diving deep into these subjects, we would get more understanding of the issues and would be able to answer research questions with more insight. To find insightful things I would be going through literature, and news reviews.

2.1   Money Laundering and its idiosyncrasies

Money laundering is not only done in one manner. There are complex methods and simple methods of money laundering. Money launderers mostly use the methods which are the least researched, and they successfully apply those methods to launder money (He 2010, 8F). So, two markets—real estate and the jewellery industry—would be evaluated in chapter 2.1 through the lens of money laundering, and two methods—hawala/hundi and cryptocurrency—would be investigated. A negative impact of money laundering would be discussed in a sub-chapter too.

Money laundering does not only make financial criminals richer, but it also makes countries and their economic growth slower. It is in our interest to know the importance of this topic to understand the relation of corruption and money laundering.

It has been discussed often that introduction of financial intelligence and information exchange unit should be forced between different entities and different countries to stop money laundering or to stop it to some extent because not only one country or individual country can fight this curse (Thony 1996, 279). There is a recommended framework for governments to follow to combat money laundering, see the figure 1 below:
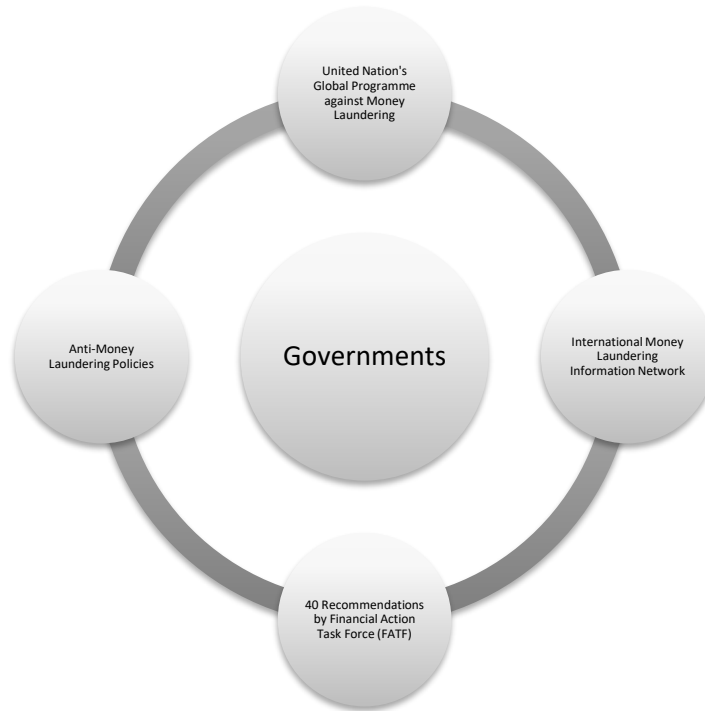
Figure 1: Framework for governments to combat money laundering.

Governments need to work together to combat money laundering problems, and there is a way they can do it. Countries can participate in the program called UN Global Programme against Money Laundering. 1995 marked the beginning of the UN Global Programme against Money Laundering (GPML). Through Global Programme against Money Laundering (GPML), the financing of terrorism has been addressed since 2001. Over 50 countries and jurisdictions received technical assistance and training from Global Programme against Money Laundering (GPML) in 2003. As part of the International Money Laundering Information Network (IMoLIN), Global Programme against Money Laundering (GPML) maintains the Anti-Money Laundering International Database (AMLID). An outstanding example of technical assistance in AML/CTF is the Global Programme against Money Laundering (GPML) Mentor Programme. As compared to other technical assistance programs, the Mentor Program offers several advantages, including the ability to provide sustained opportunities for skills learning and knowledge transfer, the fact that mentoring is an ongoing, flexible process of assessing needs. Having mentors on hand, member states could access on-call resources to provide advice in real-world cases that may arise because of mentoring. By leveraging their connections, mentors can identify specific areas where assistance can be provided based on a timeframe; mentors can act as a bridge between institutions seeking mutual legal

help and receiving it, as well as engaging in other forms of international cooperation through their networks. Additionally, the Global Programme against Corruption promotes the prevention of corruption as part of its mission. (Abdullah Y 2005)

Financial Action Task Force (FATF) is one of the leading international organizations that sets standards for the prevention and detection of money laundering. Over 170 countries have committed to comply with the Financial Action Task Force's 40 recommendations regarding the prevention of money laundering over the past thirty years, even though these recommendations are not legally binding, as a result of the implementation of anti-money laundering laws and systems (FATF). In 1990, a treaty known as Financial Action Task Force (FATF) 40 recommendations was developed in order to combat the laundering of proceeds from drug trafficking. Beginning in 1996, this treaty was extended to include the laundering of proceeds from serious criminal activity, not just illicit drug trafficking activities. (Gilmore 1999)

To help those countries which lacks power to fight against money laundering and financial crimes, an international group operating under the aegis of the group for Economic Cooperation and Development (OECD) is the Financial Action Task Force (FATF), Financial Action Task Force (FATF) has put forward its 40 recommendations which are uniform for all the countries and can identify if country's anti money laundering (AML) policies are effective or not. However, it is a shame that each country has their own rules and laws to fight against money laundering. Those rules are not unified, and their differences can be used by the financial criminals who knows the loopholes, it is the reason we have not yet succeeded in taking control over those financial crimes. (Morris-Cotterill 2001)

Anti-money laundering initiatives are an important and effective part of any anti-crime strategy. Money laundering is a complex and dynamic problem that affects people all around the world. Money laundering's worldwide nature necessitates global norms and improved international collaboration to limit criminals' capacity to launder their proceeds and engage in illegal activity (McDowell, J., & Novis, G. 2001). There are several methods commonly referred to in the literature as methods of money laundering, including offshore companies, casinos, the purchase of luxury goods, derivatives, the

exchange of stolen goods, and the use of false invoices. These are some of the methods commonly referred to as money laundering in the literature. (Alldridge 2008, 441)

2.1.1 Money laundering cycle

The financial sector and non-financial businesses are at the forefront of money laundering because they are facing the greatest problem of bribery, which is the main cause of money laundering. Several actors in the private sector can play a role in affecting each of the three steps of the money laundering cycle (see figure: 2).
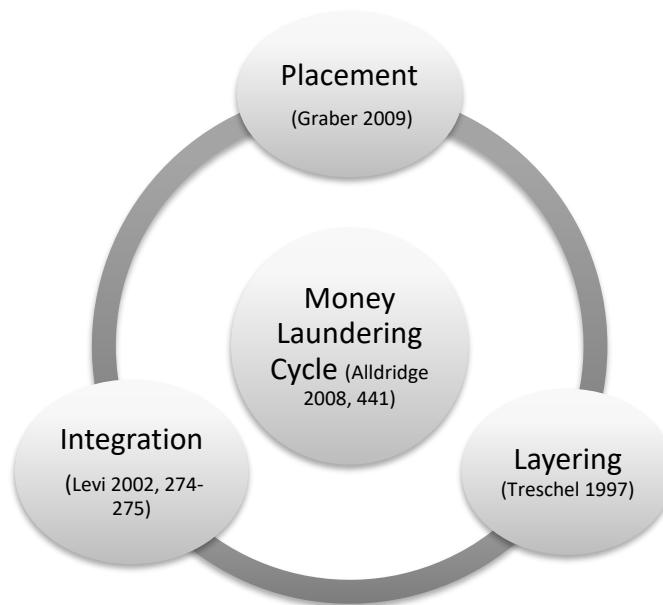
Figure 2: Money Laundering Cycle

The first step is *placement*. Financial institutions receive illicit cash, such as revenues from drug deals or bribes that are paid to them by third parties, and deposit it into their accounts. (Graber 2009)

The second step is *layering*. The creation of multiple layers of complex financial transactions can help to separate illicit monies from their origins by conveying funds through multiple jurisdictions and investing them in several different investment vehicles. (Treschel 1997)

The third step is *integration*. The ultimate step in the criminal life cycle is the acquisition of illicit funds or the secret control of them, during which illicit funds are disguised as legitimate funds in order to accomplish the criminal goal. (Levi 2002, 274-275)

2.1.2 Money Laundering in Real-estate

For over a century, launderers have used real estate as one of the easiest and most common methods. From 1995 onward, the global real estate market has experienced leaps and bounds. (Baker & Rosnick 2005)

Whenever there is a movement of capital flows across international borders, these movements are a matter of grave concern, especially if they involve banks or real estate. For a number of reasons, criminal proceeds often end up in real estate as a result of a variety of factors. In many cases, home and rural properties owned by offenders are used to grow marijuana and assemble synthetic drugs. (Chan-Lau & Swinburne 2007) See figure 3 to understand the process of money laundering through real-estate.

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┌─────────────────┐     ┌─────────────────┐     ┌─────────────────────┐
│                 │     │                 │     │ Illegitimate money  │
│ Real-estate     │ --> │ Agent work as a │ --> │ is given to other   │
│ Sector          │     │ frontman        │     │ real-estate agent   │
└─────────────────┘     └─────────────────┘     └─────────────────────┘
        │
        v
┌─────────────────┐     ┌─────────────────┐
│ Blend of legal &│     │ The property is │
│ illegal money is│ --> │ sold in market  │
│ used for property│    │ with flase      │
│ purchase        │     │ invoicing       │
└─────────────────┘     └─────────────────┘
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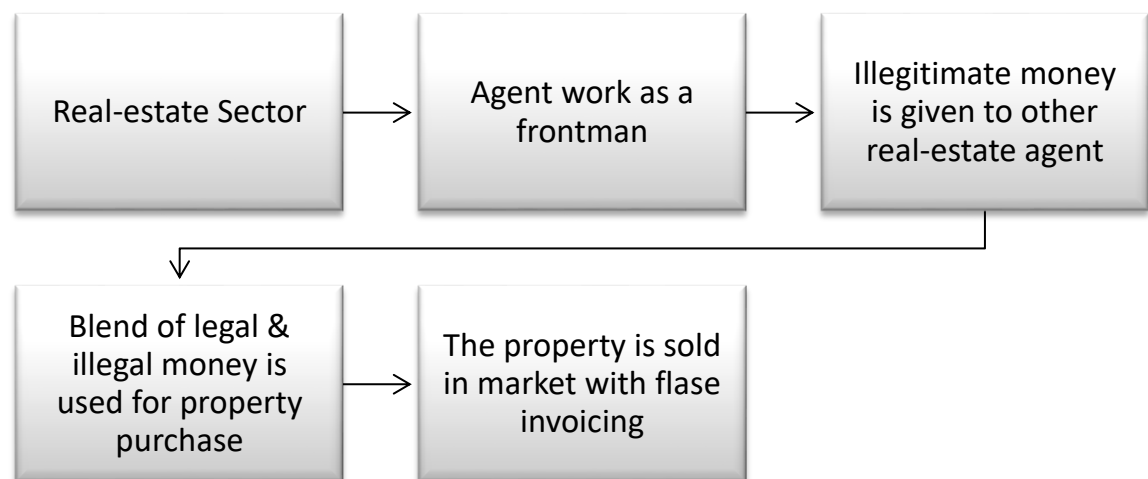
Figure 3: Money Laundering through real estate

There are a number of ways in which *real estate* can be used to launder money, from the simplest to the most sophisticated. On one extreme of the spectrum, it is feasible for the accused to merely buy a piece of land and register it in their name. The goals of the laundering procedure can also be accomplished using more advanced methods, which can be used in a variety of ways. (Schneider 2004) Some real-estate techniques which cover the tracks of money laundering are mentioned below.

In the course of real estate transactions, there are a number of mechanisms that can contribute to the difficulty of identifying the illegal source of funds in a transaction.

Among these are *real estate agents*, nominees, fake mortgages, and accounts associated with legal trusts. Several legitimate transactions can be used to funnel criminal proceeds into the real estate market as a means of funnelling criminal proceeds into the market, this process helps *mixing legal and illegal money* which later is used to buy real-estate. A down payment, a mortgage, and construction and renovation costs are all included as part of the expenses for a house purchase. As well as creating the appearance of a legitimate revenue stream by acquiring rental properties, criminal entrepreneurs may also use these properties as a means of depositing proceeds of crime into banks in the form of rental income in order to disguise the fact that they are involved in criminal activities. (Schnieder 2004)

Real estate money laundering can lead to price distortion if there are enough buyers ready to spend more than the average price. This decline in the number of properties available to local buyers will lead to a longer-term housing problem in the economy in question. Furthermore, price comparison databases could be used to monitor property markets for potential money laundering activity based on this factor. In this approach, only large discrepancies in pricing would be captured, not those money laundering activities that would negatively affect the market by purchasing multiple properties at the normal price. (Naheem 2017)

Criminals and money launderers can use the services of remodelling and construction firms in addition to buying homes and property. Through subcontractors, who are frequently compensated in cash or require sizable sums of money, large cash moves can be made, which is another method of hiding funds. Money launderers have also used this method to hide their *beneficial ownership* in real estate purchases in order to prevent direct money transfers to be traced. (AUSTRAC 2013)

2.1.3 Money Laundering in the Jewellery Business

The jewellery industry requires that you have a certain level of knowledge about the materials and the techniques employed in order to be successful. It can be said that people who are involved in money laundering can either train themselves or hire experts in order to do this. In conclusion, we can conclude that money launderers are able to take advantage of the jewelry industry without having to invest much time and energy in this endeavor. There is no doubt that most money launderers have the opportunity to take advantage of this sector as long as they know how to locate the best jewellery experts and

those who create unique pieces of jewellery, since this sector allows you to find the best jewellery experts and those who create unique jewellery pieces easily. When purchasing jewellery, it is crucial to ensure the price of the item is accurate. There are several risks associated with money laundering in the jewellery industry. Those who launder money may be at risk of losing their assets if they fail to recognize counterfeit products or apply incorrect pricing policies to them. In order to launder money, money launderers prefer to purchase jewellery that contains incriminated assets by paying cash rather than opening a jewellery store. Incriminating money can be placed in this manner by money launderers in the easiest way possible. In terms of purchasing used jewellery, the majority of buyers prefer to buy second-hand jewellery because it typically entails a discount as compared to new jewellery. In light of the high value and liquidity of jewellery, money launderers are able to sell individual pieces of jewellery whenever they need cash since jewellery is easily sold. Jewellery has a much higher liquidity level than many alternative assets, including real estate and cryptocurrencies. (Teichmann 2020)

2.1.4 Money Laundering through Hawala/Hundi

The Financial Action Task Force (FATF) refers to hawala/hundi remittance systems as alternatives to formal remittance systems, as they allow for domestic and international fund transfers without formal financial institutions. Hawala and hundi are the name of same remittance system, but the system is called Hawala popularly in India and Hundi popularly in Pakistan. Hawala/hundi is most commonly used by migrant workers who send remittances back home to support their families. As it is inexpensive, fast, and reliable, migrant workers use it to send money to their loved ones overseas. (Chene 2008) See figure 4 for more information.
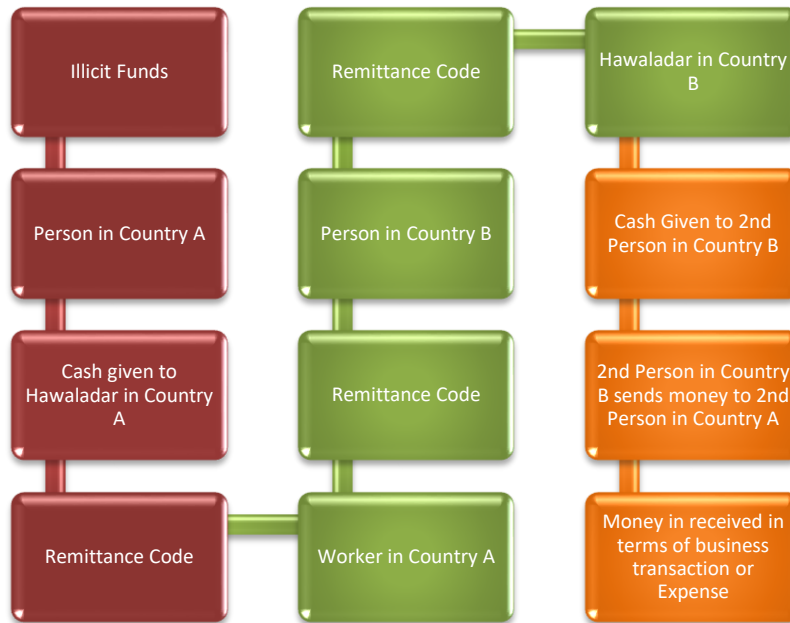
Figure 4: Hawala/Hundi Process

The article "The hawala alternative remittance system and its role in money laundering" written by Jost & Sandhu (2000), explains the phases of money laundering which are *placement*, *layering* and *integration* in terms of hawala system with an example.

Placement (In red colour) can be accomplished through hawala. A cash payment of US$ 5,000 was given by Abdul to Yasmeen in this example. She will deposit periodic bank deposits consisting of cash and checks since she also operates a business (and handles remittances for others). To the bank officials, these deposits will be justified as proceeds of a legitimate business. Despite her preference for not filing reports, she will not object either, since it would bring suspicion at the bank. Cash received from her business may also be used to meet business expenses, which reduces her need to deposit the funds in her bank account.

When it comes to Hawala transfers, the paper trail is sparse or confusing if it exists at all. It is a much more complex trail than a simple wire transfer even when invoice manipulation is used, since legal goods are mixed with illegal money, prices are confused and there are possibly complex international shipping networks involved. Although it is possible to make hawala transfers even more difficult to follow, there is no reason why they cannot be *layered* (In green). In this case, several hawala brokers might be used in several countries, and the transfers could be spread out over a period of time.

A legitimate or legitimate-looking business can easily be invested with hawala money, since it is closely related to business activities following *integration* (In orange) phase of money laundering stages (The best legitimate market for that cause would be real-estate market mentioned in chapter 2.1.2. Practices mentioned in chapter 2.1.2 including: illegitimate money taken to a real-estate agent who then would blend illegitimate money with legitimate money to buy real-estate and launder the money easily). It would have been straightforward for Yasmeen to arrange the transfer of funds from the United States to Pakistan, and then back to the United States, allegedly in connection with an investment in a Pakistani business.

2.1.5 Money Laundering in Cryptocurrencies

A cryptocurrency is a digital currency that uses advanced encryption techniques, known as cryptography. Imagining a publicly accessible log file provides an intuitive understanding of the mechanisms. When someone transfers funds, the transfer is broadcast to the entire system and accepted by all participants. This log file keeps track of each account's balance at a given time. (Peck 2012)

In related disciplines such as computer science, cryptocurrencies are eagerly discussed for their potential role in money laundering (Meiklejohn et al. 2013). Currently, virtual currencies are among the most commonly mentioned instruments used in money laundering. In addition to being used as bonus points or loyalty rewards within a specific company or virtual community, virtual currencies are now able to be converted into traditional currencies and transferred internationally. (Dilley et al. 2013)

Individuals who are honest can benefit greatly from cryptocurrencies. Among their benefits are low transaction costs, privacy in online transactions, and the ability to substitute bank accounts in countries with insufficient financial systems. Criminal structures have taken advantage of cryptocurrencies' decentralization and perceived anonymity to conduct illegal activities, including money laundering, using them as financial instruments. (Brenig & Muller 2015) To understand the process further, see figure 5 below:

Figure 5: Money Laundering process using cryptocurrency mechanism.

Cybercrime and the abuse of information and communication technology have become significant problems for law enforcement. One of the largest cases in history of online money laundering is the Liberty Reserve case when it comes to online money laundering. In a case brought by the U.S. Department of Justice, six managers of Liberty Reserve (a company located in Costa Rica that manages electronic transactions) have been charged with six crimes. The company was accused of running an *unregistered business and laundering money* as a result of providing money transfer services and assisting in illegal income transactions over $6 billion. In the framework of this system, millions of people were able to carry out *55 million transactions*, many of them illegal, with the *help of its framework*, including approximately 200000 people in the United States. (McCusker 2007)

It is important to note that Liberty Dollars (LD) represent their own virtual currency, but the funds are *converted into fiat currency* (USD) before and after each transaction. It was reported that Liberty Reserve was designated as the financial agency after well-coordinated actions were taken by the USA Ministry of Finance, which raised concerns regarding compliance with Chapter 311 of the US Anti-Terrorism Act (Patriot Act), thereby denying Liberty Reserve access to the financial system of the United States. (Dyntu & Dykyi 2018, 79)

2.1.6 Money Laundering and Terror Financing

When it comes to terrorism, terrorist groups are primarily interested in collaborating with criminal organizations that are involved with criminal production, smuggling, and sales, whereas organized crime prefers to cooperate with terrorist organizations which enjoy substantial political influence. (Bovenkerk & Chakra 2004)

A terrorist financier can be defined as someone who provides or collects funds unlawfully, has an intent (or knows that an intent) to use those funds to commit terrorist acts, and knows that the funds are going to be used for that purpose. It is important to realize that the majority of terrorist acts are intrinsically criminal in nature. (Dandurand & Chin 2004)

It is important to note that transaction laundering (TL) is a similar process to the manipulation of digital invoices. However, in spite of the foregoing reasons, it could be considered to be an 'offshoot trend'. It is through the use of a merchant account that transaction laundering (TL) allows illicit transactions and services to be invoiced under the name of legitimate goods and services (drugs and firearms) (Chattopadhyay 2018). A business that is operating illicitly can use a front business to turn a profit, or it can offer its merchant account to be used for illegal activities. (Trulioo & PYMNTS.com 2020)

Compared to other developments, the risks connected with transaction laundering (TL) are less obvious. Instead of utilizing legal platforms or mobile applications, transaction laundering (TL) contracts with an illegal enterprise to handle transactions. As a result, a critical point of detection, namely internal fraud divisions, is gone. The other advantage of transaction laundering (TL) is that it condenses the underlying crime (such as illicit drug trafficking) and the laundering of its profits into a single event. As soon as illicit funds are produced, the procedure of laundering them starts. Since practically every online purchasing website has the potential to be compromised, the stakeholders and risk traits of transaction laundering (TL) are, in conclusion, somewhat nebulous. (Akartuna et al. 2019)

2.1.7 Recommendation to curb Money Laundering

According to the article "Anti-money laundering rules and its effectiveness" by Kemal (2014). Money laundering was assessed under the umbrella of methodology, by

using variables where money laundering was taken as dependent variable and other variables were considered as independent variables. Below you can see the list of variables.

There is a direct relationship between the soundness of banks, insider trading, GDP, and the effectiveness of law-making bodies in preventing money laundering. Despite globalization, money laundering spreads throughout the world, affecting financial institutions and their systems, hindering their integrity, efficiency, and effectiveness. This must be combatted through anti-money laundering regulations. (Rodriguez & Stein 2005) See figure 6 for the anti-money laundering recommendations.
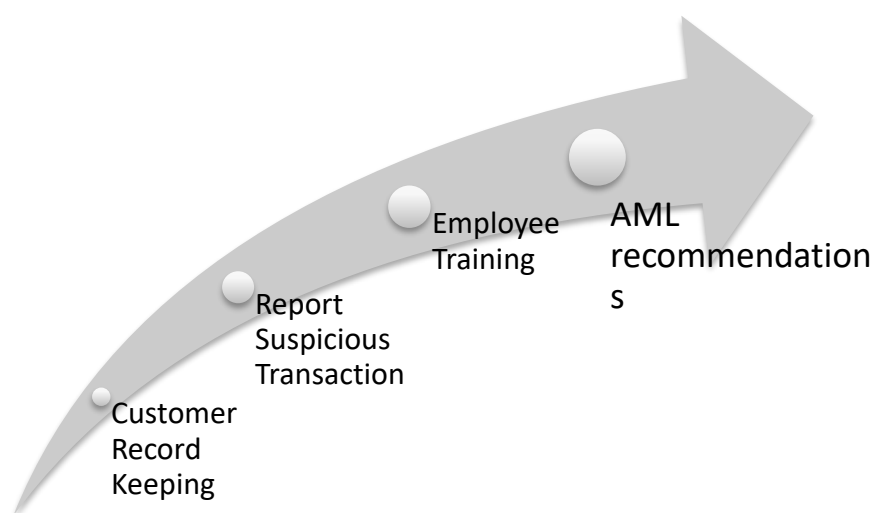
Figure 6: Anti-money laundering recommendation

Most Financial Action Task Force (FATF) recommendations are related to *customer record keeping*. The choice of criteria and duration of the record keeping is a crucial aspect of competition against money laundering. Information about consumers should be revealed when required, and the significance of keeping information secrecy cannot be overstated. (Shehu 2010, 143)

According to Financial Intelligence act (2001), to combat money laundering, financial institutions are required to *report suspicious transactions*. Four steps are involved, including screening accounts, asking customers questions, finding previous records, and evaluating the three-step information to determine if a transaction is suspicious.

The purpose of *employee training* is to change attitudes, skills, knowledge, and behaviours of employees for the better. It is essential to have highly motivated, properly educated staff members who can quickly spot, monitor, and report suspicious activities in order to combat the money laundering crime. An institution may conduct training programs or send employees to a university or training school for training. Accurate and timely training improves employees' performance. (Alldridge 2008)

Above mentioned recommendations are suggested in this research to curb money laundering. It may not be possible to control 100% money laundering, but after applying above mentioned record keeping, reporting suspicious transactions, and the training of employee can help control major chunk of money laundering.

2.2   Corruption and its categories

A major challenge when it comes to studying corruption is defining it. Even though it may sound like a semantic issue, corruption's definition is what determines the models and measurements of corruption in the first place. While most people are in agreement that corruption constitutes a violation of the rules of the game when a person uses government power for their own gain despite the difficulty of defining it. Certain illegal acts, such as fraud, money laundering, drug trafficking, and black-market operations, cannot be considered corruption in themselves due to the lack of use of public power, which makes them not into it in the first place. (Jain 2001)

The development of an economy is adversely affected when politicians and high-ranking officials embezzle public funds and appropriate public assets for their own purposes, thereby adversely affecting the economic development of that country. In some countries, such as those with kleptocrats in government, grand corruption is a problem associated with these activities and this problem is affecting the people as well. Their costs do not require extensive discussion due to the fact that their effects are clear and direct. (Shleifer & Vishny 1993)

If country institutes import tariffs or license requirements that apply to all firms within a given sector, then there could be a situation in which all firms would be affected by those measures. A company might be able to avoid tariffs or receive licenses for its products or services by bribing a custom official in some cases (Bardhan 1997). Alternatively, the interests of a group of companies may be advocated collectively by

lobbying the government for a reduction in tariffs or a free licensing program. There is a significant difference between lobbying and bribery in that lobbying affects the entire industry as well as the entry of future companies into that industry. In most cases, the return on bribery is firm specific. However, bribery can lead to externalities that are experienced by consumers and other firms. (Svensson 2005, 21)

A country's degree of corruption will be determined by the legal, economic, cultural, and political settings in which it is based. Clearly, there are both beneficial and harmful aspects to the rules that can have a detrimental effect on the ability of a company to prevent corruption. If a person pays bribes in order to avoid legal repercussions for harmful conduct, or if the rules are not appropriately monitored, such as when a person steals from a store, they may engage in corrupt practices. In a similar way, corruption may also occur because policies or institutions are designed to collect bribes from those who try to circumvent them, in other words, induce corruption. (Djankov et al. 2003)

The analogy of corruption being like a tax, or a fee is often used to describe it. It is important to note that bribes, like taxes, create an artificial gap between the actual marginal product of capital and the one that has been specifically appropriated by the private sector. In addition to the obvious fact that bribes do not generate revenue for the government, bribes differ from taxes in a number of other ways. Because bribes are necessarily associated with uncertainty and secrecy, transaction costs associated with them are higher than those associated with taxes. (Shleifer & Vishny 1993)

There is also an important point to note that campaign contributions and influence-buying by other means can also be compared to bribery, though they are not perfect substitutes for bribery in terms of their effectiveness (Harstad & Svensson 2004). Figure 7 explains different characteristics of corruption and will be elaborated in following sub-chapters explaining corruption of money, power, exploitation using force, and taking advantages using relations.
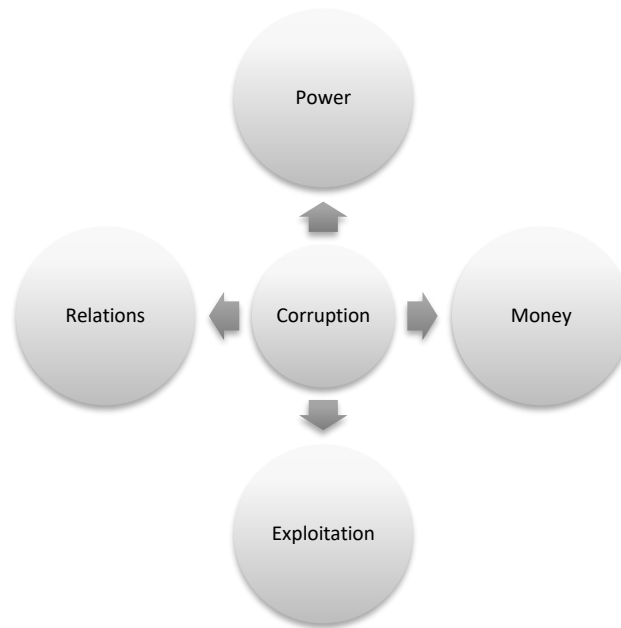
Figure 7: Different Faces of Corruption

2.2.1 Corruption in terms of bribery

Corruption can be divided into two categories according to its level of institutionalization: corruption at the top and corruption at the bottom. Corruption at the highest levels requires the involvement of presidents, ministers, legislators, governors, and other high-ranking officials, while corruption at the lowest levels involves civil servants. Public officials at the top and the bottom are often distinguished by their differing political roles and responsibilities, as well as their different patterns of behavior. As a result, the definition of "political corruption" is to refer to corruption that occurs during the formulation of policies as opposed to "bureaucratic corruption" or "administrative corruption" which takes place during the implementation of policies which occurs at a lower level. (Bardhan 2006)

There may be instances where government officials are able to extract bribes from their clients if they have monopolies over their particular areas of operation. However, rules and regulations regarding how goods are distributed (or purchased) also play an important role. If an agent has more discretion, then there is more opportunity for him or her to interpret government rules and regulations in a way that benefits business in exchange for illegal payments. Having rigid rules and regulations that specify every detail of a particular question would seem to be an excellent antidote to excess discretion, but

this assumes the rules are actually followed. Furthermore, when rules are hard or unrealistic, they often lead to noncompliance, and in fact give officials a great deal of discretion. (Tanzi 1994)

Several types of state resources, including welfare benefits, natural resources, and public contracts, can serve as a means for distinguishing between individuals with different corrupt incentives. Considering who controls these resources is important for focusing attention on the appropriate individuals. We should identify variation in corruption related to different state resources in order to better understand how the incentives to commit corruption differ across individuals. It is imperative to identify the individuals who control the resources that are used to benefit from corruption, such as bribes paid in order to provide basic services. (Bussell 2015)

Bribery is also similar to lobbying in that it is carried out by making contributions to campaigns or buying influence for campaigns. In spite of the fact that they complement each other, they cannot be substituted for one another perfectly. (Harstad & Svensson 2011) In many cases, corruption is viewed as a tax or fee. It is clear that bribes and taxes are different in many ways, in addition to the obvious differences between the two. The transaction costs that are associated with paying bribes are higher than those associated with paying taxes since bribes are a result of uncertainty and secrecy. (Shleifer & Vishny 1993)

2.2.2 Corruption of Police

Police department is an important part of judicial system and a big support for the municipal system. Hence, if the police department is corrupt, it can have consequences rooted in the society. Police is a department on which judiciary rely to implement its decision. It is important to discuss the corruption of Police, because it has ripple effect on the state of law in a country. (Larsen & Blair 2009, 1)

Some types and dimensions of corruption in police department are; Corruption of authority – where the position is used for material gains, Kickbacks – where forged companies are used to invoice the charges, Shakedowns – where money is demanded from the arrestees to remove or amend charges, Opportunistic theft – where cuts are demanded from financial crimes, Protection of illegal activities – where money or other material gains are gotten in exchange of providing "safety" in running illegal activities,

The fix – where negligence is shown in the proceedings of case in exchange for money, etc, Internal payoffs – this explains the sale of promotions, vacation, etc. in exchange for money or personal gains, Flaking or Padding – planting drugs, weapons, etc, to press charges against an innocent person. (Punch 2000, 303)

Corruption among police officers in developing countries is a reality for anyone who comes in contact with them, voluntarily or not. In developed countries, police corruption is largely hidden in the shadowy world of vice enforcement. (Johnson & Zimring 2005) There is no doubt that the type of corruption experienced by the police affects public opinion of the police and specifically public perception of their legitimacy. (Tyler et al. 2007)

Even though corruption is as costly in Western countries as elsewhere, it is invisible to the public. The majority of victims are those who are knowingly involved in illegal activities. It can therefore be seen as a righteous cost for illegal behavior, even a fringe activity. Those who knowingly exploit the opportunity do not tarnish all police officers because of this type of corruption. However, bribery is the norm in developing countries when doing business with the police. There is no distinction between criminals and police officers; it affects everyone. Adaptive solutions are needed to combat corruption. There is no guarantee that generic solutions will work anywhere, even when corruption in the police can be reduced to a generic few form. (Bayley & Perito 2011. 5)

2.2.3 Corruption of Power

Since "getting things done requires power", power is omnipresent in solving a country's problems. (Pfeffer 1992) According to their capacity to affect crucial resources and processes, government actors vary at different levels. Without using Police, the power structure is incomplete, and it is used as a shield to protect vested interests at in important level mentioned in 3 levels of power structure. (Mintzberg 1979) Based on the above statements, three different power structures can be seen below in figure 8:

The Bottom Level

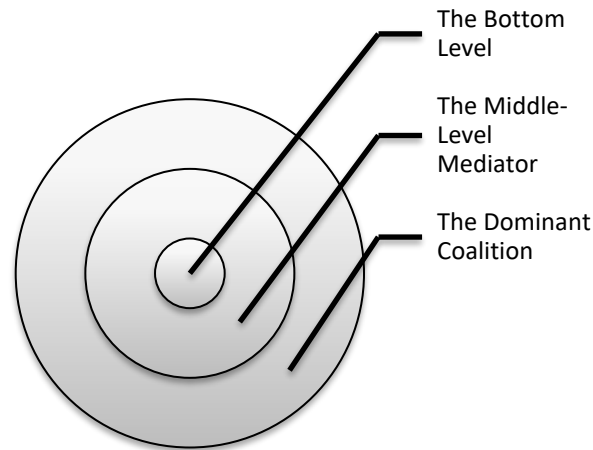The Middle-Level Mediator

The Dominant Coalition

Figure 8: Three Different Power Structures

Agents of social control are the powerful members of *the dominant coalition* (Thompson 1967, 128), who can influence the behaviour of other members and determine operative organizational goals that differ from formal or manifest goals. This select group controls key corporate resources, allocates resources, decides on rules and strategies, and upholds laws. (Pfeffer & Salancik 2003, 48). Despite the fact that the dominant coalition is mainly made up of members of the top management team, there can also be "significant outsiders" or middle-level figures who have control over important resources, and there are instances when the people at the top do not actually make up the true power elite within an organization. (Istvan & David 2016)

The dominant coalition is protected from external influences by a *middle-level mediator zone*. It is common for lower-level problems and conflicts to be referred to the middle mediator zone instead of being forwarded straight to the dominant coalition (Steers 1977). They also play a crucial role in the power system of the organization in addition to their professional responsibilities. The dominant coalition's orders or directions are transformed into something that can be implemented (Steers 1977, 32). By translating the language of power into formal procedures and executable actions, they communicate the compromises of the elite. Resulting from power struggles among the elite, the middle level converts the results into performance reviews, salaries, bonuses, and employee stock options. (Javor and Jancsics 2016)

Mediation zones are characterized by their own interests and power, allowing them to manoeuvre and make formal and informal deals. (Pearlin 1962)

People at *the bottom level* of an organization are relatively easy to measure and control. The players in this situation are unable to control strategic objectives and do not have any power to sway crucial choices. The members are, however, still able to influence local technologies, information, and processes, even at this level (Nichols & Armstrong 1976). A person at the bottom may be able to control some organizational processes informally through coalitions formed with others at the above level (Mechanic 1962). Moreover, this gives them the power to reach informal compromises with managers and make informal deals (Gouldner 1954). When control opportunities over some slack exist at this level, corruption becomes a potential resource.

When top management sets unrealistic goals that cannot be achieved legally, and then ignores illegal means by which employees achieve those goals, middle-level employees can become corrupt (Robinson et al. 2008). Taking the fall and protecting their bosses when corrupt cliques are detected is a way that middle-level participants can buffer corrupt cliques. Most middle-level actors are convicted and punished harsher than top power holders. (Baker & Faulkner 1993)

2.2.4 Corruption of Politics

To minimize the influence of private contributors on politicians, open funding of political parties has been a preferred method in many countries. As an alternative to private money, public money can be regulated and controlled, at least in principle. An electoral system that is legitimate and fair must have this component of public funding (Rhodes 1997). It is nonetheless possible that reforms may produce unintended or unforeseen consequences, depending on the political culture in which they are implemented. (Alexander 2019)

To survive, compete, and perform their democratic duties, parties require funding in both campaign seasons and between campaigns. In many ways, money determines the very foundations of democracy. Political parties can mobilize support and influence with this transferable and convertible resource. In the absence of financial resources, leadership and supporters of political parties cannot have representation, which would enable them to protect their interests democratically. As a result, political corruption can be triggered by the need to finance politics under uncertain conditions. It is therefore

imperative that the issue of political finance be given special attention in order to achieve sustainable democracy. (Tshitekere 2002, 63)

The legitimacy of the state may be undermined by political corruption. The legitimacy of politicians and the state is questioned when they perceive that their personal interests are being pursued excessively by their leaders. Democratisation offers new incentives for corruption in emerging and transitional democracies. Therefore, institutional decay can be caused by political corruption. (Bjorshol 2006)

It is not only corruption that affects the structure of electoral preferences, but it also changes the way political parties are identified. Instead of voting for identification or opinion, cliental exchanges of votes dominate – votes for favours. In fact, corrupt political practices produce a value system that emphasizes extrinsic or instrumental benefits while distancing "ideological" relationships that benefit individuals intrinsically or expressively. Parties cannot mobilize ideological resources and distribute incentives in the event of such corrupt practices. Therefore, political corruption undermines the effective capacity of parties to integrate, select and mediate citizens' interests by encouraging the diffusion of preferences oriented to individual mobilization. (Della Porta 2004, 44)

2.2.5 Corruption of Procurement

Given that bribery is typically done for business purposes, corruption might boost the market influence of the finest bribers. Procurement officers (corrupt customers) often patronize companies that bribe. Profits of these companies rise, therefore, allowing corrupt customers to make even greater profits. By growing profits and winning more business, as well as by lowering prices to eliminate rivalry in some markets, a company can further increase its market dominance. These are all examples of "honest" business practices. Everybody's costs will eventually increase as a result of a few or more companies getting more market power. Additionally, due to the reduced negotiating power caused by the emergency's haste, rapid buying is particularly vulnerable to inflated costs and prices. Monopoly vendors' continued existence during and after a conflict can be disastrous for an economy. (Le Billon 2003)

According to Shultz & Soreide (2008), There are many ways that corruption can be carried out depending on the circumstances and the good or service that is being

corrupted. Tents, roofing, and other materials are examples of materials in which sudden demand for these materials may create opportunities for collusion between suppliers. Bribes are then demanded to ensure that supply will be met. It is possible to inflate cement volume by mixing it with sand and other materials. Bribes can be exchanged for poor quality tents, tarpaulines, and quilts (with inadequate fill). There are rewards available for accepting low-quality, expired, or counterfeit drugs, or for accepting incomplete shipments of medicine.

The desperately required medicinal goods may be purposefully delayed by customs officials in order to demand bribes. Additionally, businesses can pay bribes to obtain knowledge about contract terms for services like energy and communication. It is also possible for drivers and suppliers to conspire to falsify receipts and other paperwork in transportation management, fuel to be siphoned from stocks and vehicle tanks, and government and procurement officers to collaborate to collect 'taxes' after an emergency on cars and imported goods that are legally duty-free. (Shultz & Soreide 2008) To understand the framework of public procurement, see figure 9 which explains 4 main points and how those help corruption in procurement.

Collusion between suppliers and public officials
• Public officials allow suppliers to overcharge or public servants agree to select a supplier in exchange for a bribe

Use of public office for private gain
• Some public officials use their position for personal gain by leaking critical procurement information by giving certain suppliers an unfair advantage

Inadequate public procurement controls
• When there are no inadequate controls in place, making it easier for suppliers to collude with public officials

Nepotism and bias in the award of contracts
• Public official awards contracts to friends or family members instead of other qualified individuals, creating an unfair playing field for competitors
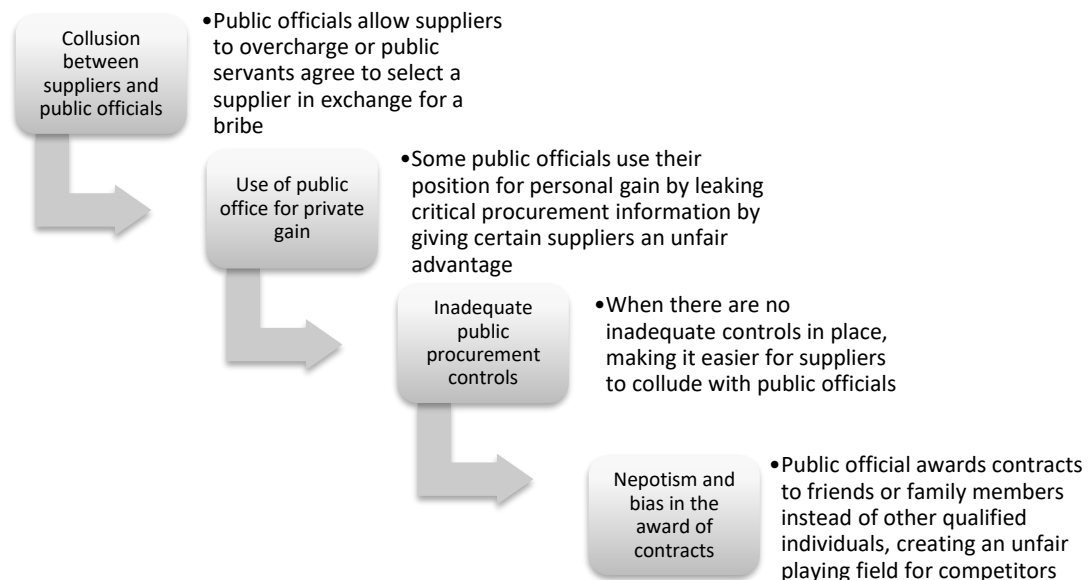
Figure 9: The four horsemen of public procurement

The corruption of public procurement is frequently carried out through *collaboration between government representatives and vendors.* By divulging crucial procurement information or insider tips, public employees unfairly favor some vendors. Because of this, only a select few vendors are eligible to get public contracts, leaving the others out. Corruption in public procurement can sometimes take the form of using public office for personal benefit. It basically implies that *elected officials will use their influence* to provide contracts to people they know, like, or have financial ties to. Public officials can fill their own wallets at the taxpayer's cost. Public procurement rules that are insufficient or inefficient are one of the key reasons corruptions in public procurement may thrive. Government employees are more prone to do corrupt acts when they are not held responsible for their conduct. Also, without insufficient oversight, it is simpler for vendors to *conspire with public servants* and get government contracts via shady tactics. (Michael 2022)

Corruption may even occur before procedures begin. Officials may overstate or omit details of the supposedly required goods and services during the needs assessment phase in order to advance their own interests. In other cases, they might funnel supplies to certain locations rather than to others that are more in need. (Ewins et al. 2006)

Another factor in fraudulent governmental procurement is *nepotism and prejudice.* This implies that public authorities could favor some suppliers over others, frequently those who are friends or relatives. So, even if they are not the most qualified or lowest bids, these providers have a higher chance of winning governmental contracts. (Michael 2022)

2.3   Corruption and money laundering nexus

It has become usual for corrupt political leaders to conceal their unlawful money in offshore accounts in order to obscure cross-border linkages and financial transactions. In this way, criminals are able to transfer illicitly acquired resources outside of the sight and reach of law enforcement by using these relational and financial spaces that involve international networks, offshore businesses, corporate vehicles, agents, intermediaries, service providers, or financial institutions. (Cooley & Sharman 2017) See figure 10 to understand the nexus of corruption and money-laundering in-depth:
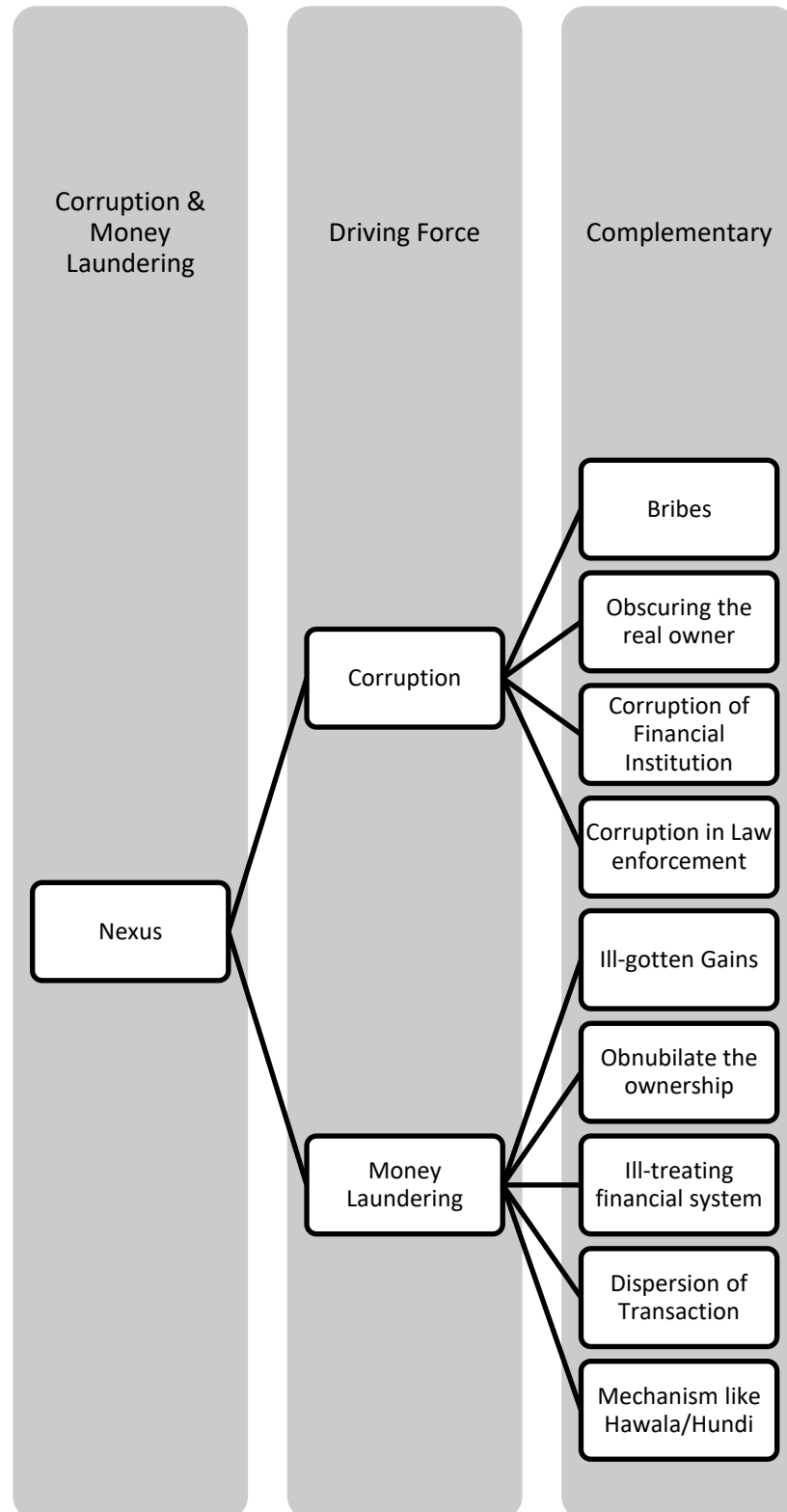
Figure 10: Framework: Nexus of Corruption & Money Laundering

A great deal of discussion has been dedicated to how politicians can enrich themselves by taking advantage of those who are poor or illiterate in order to enrich

themselves (Olagoke 2004). Corruption is also an effect of money laundering, and consequently contributes to it as well, especially when it requires a corrupt individual to *obscure the ownership*. *Corruption in law enforcement agencies*, as well as corrupt officials in financial institutions (*Corruption in Financial Institutions*), such as banks, play a crucial role in the process of laundering criminal proceeds through the *placement* of these proceeds into the system through the process of laundering. If financial institutions are not supportive against the money laundering and are not up-to date, then in countries like Pakistan, people would start to use other ways to transfer money outside the country without leaving any trace (Chapter 2.1.4 explains the exact kind of mechanism which is called Hawala/Hundi and it does not leave any trace of money behind, because the whole transaction is done based on trust. This does not only bring the foreign currency outside the country, but also helps money laundering processes). (Goredema 2004)

There is a close relationship between corrupt practices and money laundering in that they do not only occur together, but also foster one another in a reciprocal manner that encourages and reinforces the other's occurrence (Mugarura 2016). The corruption of the system has made possible a wide range of criminal activities, including drug trafficking, prostitution, small arms trafficking, as well as illegal currency trafficking. Unlike in the past, the responsibility for preventing corruption within a country's borders is no longer solely that of the country itself. (UN 2004)

If we would like to know how money laundering occurs, there are a number of ways to find out that. One of them is by *concealing or obscuring who is the true owner or controller of illicit assets and illegal money* from the tax authorities, law enforcement agencies, or private entities who have a legitimate interest in discovering the real owner and criminal of money laundering crimes. (Chaikin 1992)

Many times, money laundering happens in multiple states, and sometimes it happens even in different parts of the world at the same time. Therefore, many ways are involved in the laundering of money. There are several judicial institutions that can help facilitate international cooperation, including extradition, rogatory commissions, the enforcement of foreign definitive decisions, and the distancing from and confiscation of objects resulting from crimes committed in other countries. In addition, there are new ways for national authorities to collaborate. Institutions from different states must be able

to cooperate effectively on this issue if they are to reach a common understanding. (Lutescu & Bucur 2008, 155)

Money-laundering activities can be affected by corruption in three different ways.

Firstly, in the event of corruption, dirty money needs to be laundered in order to trigger the trigger effect. Corruption proceeds can be laundered in a variety of ways depending on the nature of the corruption act. (Barone et al. 2018)

Secondly, other fraudulent ways of embezzling funds from the government's treasury, such as through bribes, kickbacks, extortion, self-dealing, and embezzlement, can also be used to embezzle taxpayer money through other fraudulent means. (FATF 2011)

Thirdly, financial institutions are not the only ones affected by the corruption problem. There is an increasing number of professionals who can assist in the creation and organization of money laundering schemes in order to layer or integrate financial transactions, create complex corporate entities in offshore havens, conceal or destroy records, such as lawyers, accountants, trust and company service providers, and others who have specialized knowledge of money laundering. Several of these financial services involve the establishment of private or anonymous entities that are owned or managed by private entities. *In order for corporate transactions to remain as anonymous as possible, it is necessary for the transactions to be as many in numbers as possible.* (Chaikin 1992)

Hence, it is worth knowing about money laundering and corruption, as it does not only affect the economy, but it also affects the personal life of people living in that country.

3 Methodology

3.1 Research Design

The research design may be thought of as a blueprint or plan that is developed precisely to respond to the research questions and to control variation (Kerlinger 1996). Depending on the goal of the study, research designs fall into one of four categories: *descriptive, correlational, quasi-experimental, or experimental* (Dulock 1993). This research will adapt correlational research design as it researches the relationship between corruption and money laundering.

Ghauri & Grinhaug (2010) state that qualitative research is suitable for examining a new phenomenon or discovering experiences or behaviors, such as the focus of this study. It is the aim of qualitative research to discover how individuals or groups interpret a social or human issue (Creswell, 2009). Data is often collected in the participant's environment, research questions and procedures are derived from arising questions, and the researcher interprets the meanings contained in the research material (Creswell 2009, 4). The data is analyzed inductively, starting from details and moving upwards. However, this research is taking the qualitative analysis using secondary data approach, see figure 11 below to understand the research framework used in thesis research:
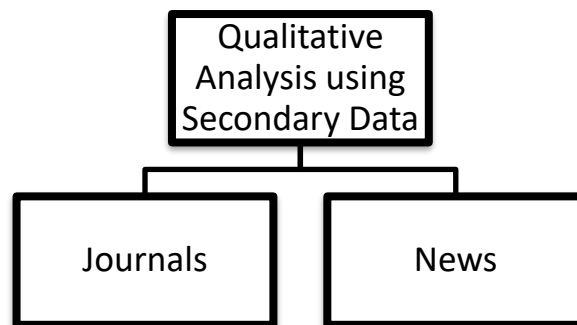
Figure 11: Research Framework

The primary advantage of working with secondary data is time saving, because the data has already been acquired, the researcher does not have to spend resources to this phase of study. The benefit of using secondary data is that the data collection process is typically guided by experience and professionalism that smaller research efforts may not have. Another significant benefit of using secondary data is the variety of data accessible. (Boslaugh 2007) Because investigating money laundering and corruption is not a safe

assignment for a student, it was able to use a secondary data analysis technique in which publications, journals, and news items were extensively investigated.

3.2 Data Collection

To ensure the credibility of content analysis, it is imperative to select the most appropriate data collection method (Graneheim & Lundman 2004). The research approach chosen for this thesis paper is to take on secondary data and specifically to take purposive sampling approach. These approaches including checking the quality of this thesis paper based on trustworthiness will be explained in further sub-chapters.

Generally, qualitative researchers choose their data selection based on the methodology and topic of their research, not because their findings must be generalizable. Qualitative sampling includes convenience sampling, *purposive sampling*, theoretical sampling, selective sampling, within-case sampling, and snowball sampling. Nevertheless, the sample should be representative of or knowledgeable about the research topic and be comprised of appropriate participants. (Higginbottom 2004) Content analysis studies most commonly use purposive sampling. When the researcher wishes to gather informants with the best knowledge about the research topic, purposeful sampling is appropriate. Purposive sampling requires that decisions be made about who or what will be sampled, how the sample will be administered, and how many people or sites will be sampled. (Kyngas et al. 2011, Creswell 2013)

In a qualitative research study, it is common to use a sample size that is small and specifically selected for the purpose of the study with the intention of undertaking in-depth research. (Miles & Huberman 1994) *Purposive sampling* is an efficient way of selecting participants who are likely to give helpful and useful data. It is a method of recognizing and selecting individuals that will make the most of limited research resources. (Palinkas et al., 2015) A purposive sampling strategy, which deviates from any random selection, ensures that only the most pertinent cases are included in the final sample of a research study. Such a method is adopted with the assumption that specific individuals, who may have unique and valuable insights on the topics and questions being examined, must be included in the sample to achieve the study's goals. (Campbell et al., 2020)

Theoretical sampling, which was initially derived from Grounded Theory, can also be used with other procedures (Mason, 2002). The process may include determining if new groups have cases that represent a comparison or contrast to other groups, and/or restructuring the sample based on the analysis to create a new set of criteria, thus replacing the initial sampling strategy. (Draucker et al., 2007)

After understanding purposive and theoretical sampling, as the research includes journals and news reports analysis, it is important to take purposive sampling approach and going in-depth with theoretical sampling. Money laundering literature can be useful in finding information, but in countries like Pakistan where information is either very limited or is not available the most important information to research could be found in newspapers. Taking purposive sampling approach would help in comparing information from literature as well as from newspapers. Looking for articles and publications that covered the connection between corruption and money laundering was crucial when discussing purposive sampling in this study.

3.3   Data Analysis

In order to analyse the relationship between corruption and money laundering as well as both on an individual level and fully comprehend the phenomena, more than one hundred articles were examined using a purposive sample technique. However, the criteria to include was kept clear. This research includes articles written on following subjects: corruption in general; different aspects of corruption; corrupt practices in Pakistan; hierarchy of corruption; money laundering in general; loopholes in markets; money laundering using cash-based markets; different mechanisms to launder money; mechanism to launder money through cash-based market; money laundering in Pakistan. Data was searched using the criteria mentioned above to ensure the focus of the research on corruption, money laundering, relation between corruption and money laundering to seek answer to the research question mentioned in chapter 1.1.4. It is why the research did not take articles explaining corruption and money laundering in any specific region or country other than Pakistan.

3.4   Evaluation of the Study

The first step in ensuring *trustworthiness* of content analysis is to determine how best to collect the data needed to answer the research questions. Most content analysis

studies collect unstructured data for the analysis (Sandelowski 1995b). For inductive content analysis to be effective, the collected data should be as unstructured as possible. The data collected may be open or semi-structured depending on the study's aim (Dey 1993). The highest degree of outcome and research reliability including trustworthiness would be attained by adhering to a set of standards. The idea behind selecting this criterion is to use a different point of view, since this criterion focuses more on quantitative studies, implying that it would approach qualitative research from a new perspective and deliver more accurate trustworthiness. (Shenton 2004)

It is therefore important to realize that the reliability of content analysis results is directly correlated with the availability of comprehensive, appropriate, and well-saturated data, which means that the collection of data, the analysis of data, and the report of results are all interdependent. The collection of data, the analysis of content, the discussion of trustworthiness, and the reporting of results are crucial for enhancing the trustworthiness of content analysis. By reviewing a detailed description of the sampling method and participant descriptions, it is possible to confirm that the data collection was conducted in a trustworthy manner. A study of published articles utilizing content analysis can be used as a way to analyze important qualitative research results, which are often reported in monographs. In addition, the information may provide the content analysis writers with the necessary information they need to present their studies more effectively. (Elo et al. 2014)

As this research was done taking secondary data approach using journals, articles and news-paper's articles, to ensure trustworthiness, following criteria was set to check the accuracy and reliability: google scholar was used mainly to find the journals; publishers like journals of money laundering control, journal of economic survey, journal of financial crimes, etc. with no bias and long-term history were taken; multiple sources were used to compare the information found in a journal or newspaper with other sources; search of newspaper was done considering the well-rounded view of the issues to leave out the biasness and potential slant, and newspapers in English language were taken for the research; considered majority of journals, articles, and newspapers written in recent years to reduce the threat to the information being debunked.

A non-researcher, however, makes it impossible to guarantee complete trustworthiness. All of the research's steps were taken in accordance with the aforementioned criteria. The intricacy of the study process may have allowed for some inaccuracies to slip through, and the possibility of mistakes persisted.

4 Findings

The purpose of research and research questions mentioned in chapter 1.1.4; is to find the relationship between money laundering and corruption in Pakistan. The reason to ask sub-questions mentioned in chapter 1.1.4; is to explain that relationship between corruption and money-laundering specifically in a market which has more involvement of cash than any other market, and the mechanism hawala/hundi used to launder money through real-estate market.

Here, the chapter includes the relevant findings related to hawala/hundi mechanism, and real-estate market and its relatedness to corruption and illicit funds. The aim to write this chapter is to put forward the key findings in a way that those are readable and understandable to a person with no prior knowledge. (Ryan 2006, 102)
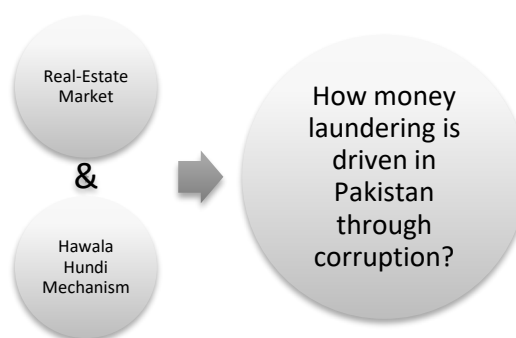
Figure 12: How money laundering is practiced using hawala/hundi mechanism in real-estate market?

The research on "*How does corruption drive money laundering in Pakistan?*" had led me to find answers in journals, newspapers, and on other platforms. I decided to understand money laundering and corruption separately. When doing research on money laundering, I looked at different aspects of money laundering, for example, money laundering cycle; methods of money laundering; money laundering in real estate market; money laundering using hawala/hundi mechanism; money laundering using cryptocurrency mechanism; negative impact of money laundering and terror financing; and last but not the least, money laundering in jewellery business market which are mention in chapter 2.1.

I also decided to look at corruption from different aspects and went on to research on corruption in term of bribery; corruption of police; corruption of power; corruption of politics; and corruption of procurement which are mentioned in chapter 2.2

4.1 Money laundering in Real-estate Market

After doing that research, the main focus was to find the answer to the research question, and I needed to find two main aspects where the use of cash money was massed. I decided to answer the main research question by focusing on two sub-questions which are based on two different aspects of money laundering. *How corrupt practices in real estate market drives money laundering in Pakistan?* is one of those aspects, and buying property with cash payment is still encouraged by many real estate societies in Pakistan. (Sultan & Mohamed 2022)

Using cash payment type to buy property in Pakistan is so popular that government of Pakistan introduced tax amnesty scheme according to Arab news PK article written by Ahmed. K on July 31st, 2020. Ahmed. K also mentioned that according to Bloomberg report, Pakistan's black money market is about 56% of the total economy size of Pakistan. This clearly creates fears in authorities of "opening doors for corruption". The amnesty according to Arab News PK article does not leave the authorities with any right to question investors, builders and people included in real estate market about their source of income. The strategy revolves around allowing people to invest their unlawful wealth, or black money, in the construction business without having to reveal the source of their income.

On top of that, under invoicing is also a common practice to support illicit money invested in real estate market. According to the article written by Tahir. M in (Iqbal institute of policy studies) IIPS on November 27, 2021, which shed light on the topic of under invoicing in real estate, there are four important factors which play role in under invoicing, those are *documentation gap*; *vague property valuation*; *corruption*; and *tax evasion strategy*. See the figure 14 to understand the factors in detail:

Figure 13: Reasons of under-invoicing

Traders record the curtailed worth of belongings and estate on invoices analogous to their market rate as part of the *tax evasion method*. The prevalence of under-invoicing practices in the real estate market is closely correlated with higher tax rates or an ineffective tax system. The investors are compelled by higher taxes to use the under-invoicing approach, which allows for the investment of funds in a secretive manner and finally results in a discrepancy between the amount of taxes actually received and paid. This is when money laundering comes into play, and traders would utilize it to wash money so they could spend it. Unfortunately, this amount of under-invoicing hurts the real estate sector by impeding development and revenue collection. (Wahid et al. 2021)

Corruption is distinct but an important driver to under invoicing in the real estate industry. Due to the fact that corrupt money cannot be publicly disclosed and needs a cover to invest in real estate, ill-gotten money is first invested using the method described in chapter 2.1.2; refer to figure 3 to understand the method visually; and then the ill-gotten money is laundered by combining the illicit funds with legal funds. Due to this type of corruption and the associated black market, Pakistan was grey listed by the Financial Action Task Force (FATF) in 2018. Very recently, the Financial Action Task Force (FATF) requested that Pakistan make an entry of all of its real estate handlers with Designated Non-Financial Business and Professions (DNFBPs) to restrict corruption and potential money laundering procedures. (FATF 2018)

Under-invoicing of real estate properties is further exacerbated by a *vague property valuation* procedure. In Pakistan, three property rates are utilized to obtain a valuation.

The Deputy Commissioner rate (DC rate), the Federal Board of Revenue (FBR rate), and the Market rate. There are significant differences between the property appraisals performed for the same property at different prices. (IIPS 2021; Rana 2018)

According to the JLL ranking 2022, Pakistan's real estate business has among of *the least transparent processes*. The absence of governmental oversight, inconsistent valuation practices, corruption, the rule of law, and responsibility are the main causes of these complex and challenging practices. In order to address all the direct and secondary factors contributing to under-invoicing in the real estate industry, Pakistan must put in place a robust regulation framework.

Despite an increase of 118 percent over the past five years, the real estate industry is one of the least systematized and open in the world (Rashid 2018). It is one of the reason why Financial Action Task Force (FATF) had put Pakistan on its grey list in 2018 according to The News e-paper published on June 18, 2018. In response to the Financial Action Task Force's (FATF) requests to reduce terrorism funding and money laundering in the region, the federal government of Pakistan has made a significant move in that direction (Ejaz 2020). Real estate experts which includes handlers, traders, and developers, must abide by the new rules, which require that the names of property vendors and purchasers match those on the UN-designated list of people linked to money laundering, illicit financial transactions and terrorist financing. If the individual is not named there, the deal may proceed. In any other case, the agent will have to notify the appropriate authorities that the person is using an application. (Kanwal 2021) Hence, real-estate market in Pakistan with least transparent processes, under-invoicing, and spineless documentation which helps owners becloud the real ownership in addition to cash-based transactions is one of the most vulnerable markets to practice money laundering.

Brokering firms, builders, and construction firms who have also qualified as Designated Non-Financial Businesses and Professionals must adhere to certain standards in order to prevent illegal deals in markets like real estate. (DNFBPs). Additionally, the builder or developer must ask the customer to practice due research. Builders and developers listed as Designated Non-Financial Businesses and Professionals (DNFBPs) are also required to provide a document indicating who the actual proprietor of the property is. By doing so, the financial system will have a proper record of a money trail. To improve information access in the event of legal proceedings, the new rule also

mandates that builders and developers keep records for a period of five years. Only licensed developers and dealers will be able to conduct business in the market, which is the ultimate goal. (Ansari 2021; IIPS 2021)

4.2 Hawala/Hundi as a mechanism to launder money

The second sub-question which I need to answer to find the answer to the main research question is How is Hawala/Hundi used as a mechanism to promote money laundering practices in real-estate market? Hawala/Hundi is purely related to cash exchange, and it is a process where money is moved without actually moving it (Kagan 2021). A crucial technique for money laundering is hawala/hundi. Hawala/hundi is a widespread method of money exchange in Pakistan.

Hawala/Hundi approach avoids the normal banking route by having Hundi's representative in one country accept cash from the sender and requesting Hundi's representation in another country to pay the money supplied rather than transferring the funds. With Hundi, they are able to avoid paying the necessary taxes on the currency, at the expense of the loss to the financial systems. Due to the lack of oversight over such illegal transactions, a significant amount of money is laundered, posing a huge danger to the economy. (Jan 2022)

There are many Pakistanis who reside outside of their country, and the country's economy has historically used different types of capital controls. On the Pakistani side, only registered banks are allowed to send money through legitimate routes. It is not permitted for exchange service providers to act as a conduit for net inward remittances; rather, they are only permitted to conduct currency exchange. Even However, the official rate of the Pakistani rupee is sometimes susceptible to significant discounts in the black market, which is helpful for a variety of unofficial trades including hawala. Over time, there have been significant swings in perceptions of Pakistan's economic policies and prospects, and the stop-go character of some policy adjustments has occasionally made matters worse. (Qorchi et al. 2003)

On a single day, the majority of Pakistan's registered Forex businesses gather at least $40 million and deposit just $10 million with the State Bank of Pakistan. The remaining $30 million is utilized for hawala/hundi transactions, which are very profitable for the people who run them. During a background conversation with those managing the

hawala/hundi industry, it was discovered that in the event that Forex businesses deposit dollars bought on the open market with SBP, they will get a maximum of two rupees each dollar. When they utilize this money for hawala or hundi, they may make up to 4.5 rupees for every dollar, which is a very lucrative venture. (Malkham 2019)

The interview of Zafar Paracha who is the secretary General of Exchange Companies Association of Pakistan was published on December 31, 2015, in dawn news, and according to him our estimates, up to $15 billion has been exchanged through hundi and hawala in a single year. Because trustworthy data is unavailable, the real amount might be double that estimated. (Iqbal 2015)

According to a report in Reuters, The Royal United Services Institute (RUSI) think tank recommended banks and money transfer companies functioning in a primarily cash-based economy to focus on anti-money laundering procedures in order to prevent dirty money from entering Pakistan in the first place (Jorgic 2019). The same report also mentioned British think-tank's recommendation on tightening the laws which could enable supervision of Pakistani authorities on financial sector included in cash-based businesses. Aforementioned characterises of hawala/hundi including; avoiding normal banking routes, pure cash-based phenomenon, and attraction for overseas people to take advantage of fast, cheap, and better exchange rate, makes the mechanism a perfect candidate to launder money. It is like a dream come true when cash-based companies use the hawala/hundi mechanism to launder money. Corrupt practices in real estate markets attract techniques like hawala/hundi, making illegal monies commixture with legal funds even more difficult to uncover. In addition to the other conditions outlined in Chapter 4.1, a poor banking system and inadequate paperwork make it ideal for money launderers to use the real-estate market and the hawala/hundi mechanism to launder money.

Hawala/hundi has been a popular mechanism to transfer money to Pakistan for overseas Pakistanis, and it costs Pakistani economy a loss of millions of dollars in tax collection. Following the recommendations and to stop the smuggling of foreign currency outside Pakistan, an "urgent crackdown" on hundi and hawala operators was ordered by Prime Minister Imran Khan to be carried out by the Federal Investigation Agency (FIA), according to a statement issued by the agency. (Express tribune 2018)

Imran Khan, the prime minister of Pakistan, had asked for new legislation to deal with money laundering and other criminal offenses that had a severe impact on the cash-

strapped nation's economy. According to the article in the express tribune published on November 30, 2018, the decision was made during a high-level meeting at the Prime Minister's Office on Friday, during which the PM also authorized a package to incentivize remittance through legal channels. At the meeting, it was resolved that the State Bank of Pakistan, as the country's banking industry's governing body, would take action against anyone who aid in the establishing and running of phony bank accounts. (The Hindu business line 2018)

Pakistani diaspora living abroad consists of about 8.5million people. Pakistani government under the leadership of Prime minister Imran Khan brought an initiative to channelise remittances coming to Pakistan through legal ways which is easier and accessible to any Pakistani or international citizen living abroad. Roshan Digital Account is that initiative which would allow non-resident Pakistanis to participate in the country's stock market as well as fixed deposit products offered by banks. It will also allow non-resident Pakistanis to conduct residential and commercial real estate transactions in the future. All this can be done by a mobile phone. (Dilawar 2020)

The Dawn news report published on March 14, 2022, mentioned that remittances finally surpassed the $3 billion mark in a single month, raising the prospect that the nation might hit its $30 billion annual remittance objective using Roshan Digital Account and inflow of US dollars have been increasing since the initiative of Roshan Digital Account has been taken. (Iqbal 2022)

However, the government of Prime minister Imran Khan was toppled (Siddiqui 2022). Later the money coming to Pakistan in terms of remittances started to fall. The State Bank of Pakistan reported that remittances fell for the sixth consecutive month in January, totalling $1.9 billion. (Sherani 2023)

As Pakistani economy is on the brink of bankruptcy, investors and foreign residing Pakistanis are not inflowing US dollars as they use to (Dawn 2023). By avoiding official channels, evading taxes and service fees, and utilizing illicit channels like the Hawala and Hundi networks to move money in and out of the nation for their daily needs like recreation, healthcare, children's tuition, and remittances, overseas Pakistanis, smugglers, and non-taxpayers are also contributing to the growth of the grey markets. The grey market transactions are taking place around 290 Pakistani rupees to one American dollar.

On February 18, 2023, there were approximately 262 Pakistani Rupees in the interbank rate. This indicates that for every dollar spent, Pakistan loses 30 Pakistani rupees (Gupta 2023). Hawala/Hundi business gets a huge boom again taking advantage of fluctuation of Pakistani rupee and Pakistan's economic situation.

4.3 Synthesis

To answer the main question of this thesis, *How does corruption drive money laundering in Pakistan?* I decided to consider one cash-oriented market and a mechanism in Pakistan where the involvement of ill-gotten gains could be used effectively. After considering real-estate as a market and hawala/hundi as a mechanism, it was important to find their connection with money laundering.

After reflecting upon *real-estate market*, it was found in literature and news research that real-estate market still does more of its business in cash payments and under-invoicing is used to support ill-gotten gains and launder those in this market. Under-invoicing's is done mostly because of four main reasons which are, *documentation gap*; *vague property valuation*; *corruption*; and *tax evasion strategy*.

Whereas *Hawala/hundi mechanism* moves money from one place to another, without literally moving it. It avoids normal banking route and uses representatives of hawala business in different countries to handover the cash. The whole business is run on the basis of "trust", but of course on the cost of country's financial system and to evade tax. This market thrives on country's weak financial policies, economic conditions and on fluctuating currency value. People get better exchange rate in hawala/hundi black market if the currency is fluctuating, and it is suitable to launder money outside the country by keeping the ownership secret and by investing the money in cash-based markets like real-estate.

Hence, both real-estate market and hawala/hundi mechanism complement each other and are safe havens for individuals looking to launder ill-gotten gains and need to be put under strong scrutiny by the government officials in addition to strengthening the financial systems and updating anti money laundering laws.

4.4 Limitations

Qualitative analysis using secondary data approach is used while doing the research for this thesis. The researcher may find it helpful to conduct secondary analysis of qualitative data if they want to address open-ended research questions or (re-)examine the views and experiences of a target audience. This type of method has a number of other benefits as well. (Windle 2010). However, there are also some limitations when using qualitative secondary analysis approach, one of the biggest challenging barriers to overcome is the inability to properly adhere to the requirements of the chosen method for data analysis.

According to Reporters Without Borders, Pakistan's press freedom ranks 157th out of 180 countries (Amir 2022). It was hard to uncover a case study of a money laundering offense in which the perpetrators were convicted. As a result, both literature (to gain a better knowledge of both money laundering and corruption) and newspapers (to obtain information registered by journalists on corruption and money laundering in Pakistan) were employed to further explore the thesis issue. The most significant obstacle in conducting research on the thesis topic was the inability to obtain first-hand knowledge. It is obvious that both corruption and money laundering are significant offenses, and doing first-hand study as a student living in Finland would be a life-threatening endeavour for me. As a result, it was determined to depend on secondary data, which would limit the study span and only supply already examined material.

5 Conclusions

To conclude, the main question which this thesis was trying to answer was *How does corruption drive money laundering in Pakistan?* To discover an answer, it was necessary to comprehend the relationship between corruption and marketplaces where ill-gotten funds may be easily exploited and subsequently efficiently laundered. This led to the completion of the literature and news evaluation in Chapter 2, where corruption was examined from five different perspectives and money laundering was examined as having a detrimental effect on financing terrorism. Money laundering was also examined using two different markets where cash is used the most, and two mechanisms of money laundering were also researched.

After studying money laundering in two different marketplaces, it was discovered that both are where cash-based payments are very alluring, and the use of ill-gotten gains is simple. Real estate market and hawala/hundi mechanisms were critical and were taken to further research. In Chapter 4, findings on real-estate market and hawala/hundi mechanism were shared.

After considering the real estate market, it was discovered via readings and news reports that the market still conducts the majority of its transactions in cash, and that under-invoicing is utilized to conceal and sustain illegal gains in this sector. The four primary causes of under-invoicing a lack of paperwork, an ambiguous property assessment, corruption, and a tax-evasion scheme are to blame for the majority of cases.

The hawala/hundi mechanism, on the other hand, merely transports money without really transferring it. It skips traditional banking channels by utilizing agents of hawala businesses in other countries to transfer funds. The entire operation is based on "trust," but of course at the expense of the nation's financial system and in order to escape taxes. The unsound financial policies, poor economic conditions, and volatile exchange rates that characterize the nation are all favourable to this mechanism. Hence, makes this mechanism a favourable option to take when investing in real-estate market to launder money. People preferring to use the hawala/hundi system over legitimate financial systems leaves hawala/hundi dealers with a sizeable sum of currency that is untraceable. Money with no trail indicates that it will be used in processes such as terror funding or will need to be laundered in order to be used lawfully. As a result, a lack of paperwork in

the real estate market allows illicit money to mingle with legal money, completing the money laundering process through under-invoicing.

5.1 Theoretical Contributions

The thesis contributes theoretically by identifying the mechanisms use to drive money laundering in different marketplaces in Pakistan. Through the hawala/hundi method, money is moved from one place to another without being directly moved. It transfers money without using conventional banks by using representatives of hawala companies working in different countries. It goes without saying that the entire operation is built on "trust," but at the cost of the country's financial system and to evade taxation. This market benefits from the country's bad financial practices, weak economic conditions, and fluctuating exchange rates. If the value of the currency is fluctuating, people can exchange money in the hawala/hundi illegal market at a greater rate, and by hiding the ownership and investing the money in cash-based markets like real estate, it is possible to send money outside of the country. Because the real estate market and the hawala/hundi mechanism complement each other and offer safe havens for those looking to launder illicit gains, government officials should keep a close eye on them in addition to strengthening the financial systems and updating anti-money laundering laws. Figure 14, titled Framework for Pakistani Government, depicts how the Pakistani government can successfully regulate money laundering.
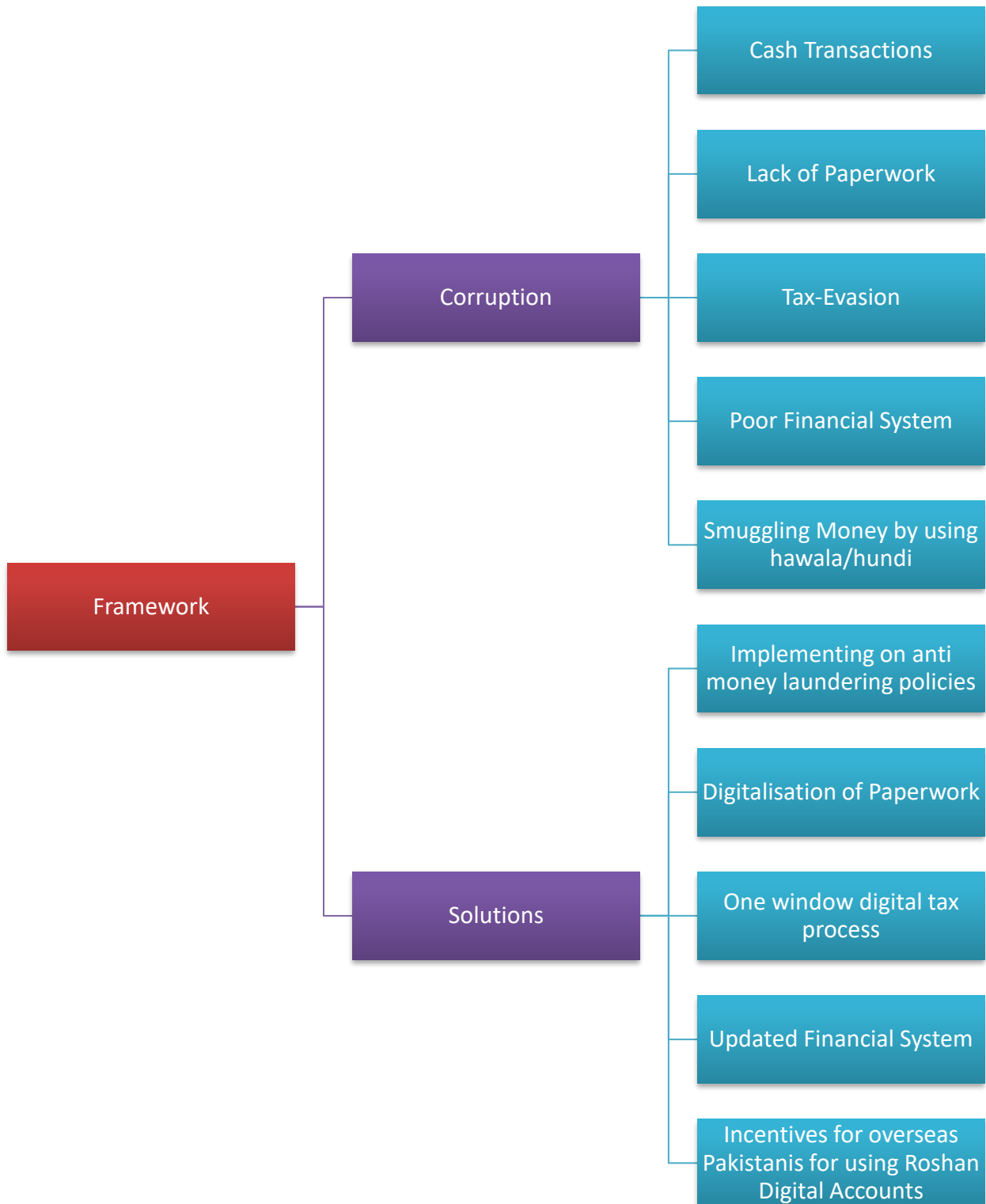
Figure 14: Framework for Pakistani Government

Corruption, which is aided by cash payments because currency is untraceable. Corruption is supported not just by cash payments, but also by a poor documentation system (see Chapter 4.1), which does not require a consumer to demonstrate their profits

before paying in cash. As a result, the lack of adequate paperwork to identify the client leads to tax avoidance by corporate workers at the expense of harming the financial system. Because untaxed, ill-gotten wealth is suddenly abundant, it pushes currency holders to make it useful and spendable. Nevertheless, spending cash on a broad scale is not conceivable until the money is laundered through the mechanisms indicated in Chapter 2.1.

With the aid of countries with better resourced task forces and banking systems, anti-money laundering regulations must be implemented immediately. In addition, compliance with Financial Action Task Force (FATF) 40 recommendations to tighten anti-money laundering laws and restrict cash smuggling out of the nation is urged in Chapter 1.1.2.

By eliminating human engagement from the processes, updated regulations should also incorporate updated procedures. In nations like Pakistan, the majority of the corruption types outlined in Chapter 2.2.1 would be eliminated if human interaction were removed from the procedures. People would find it simple to use government services after the procedure had been digitalized. Also, this would motivate more individuals to uphold the law and actively engage in the procedures.

Making the procedure simple to follow will encourage more individuals to sign up as taxpayers and participate in the national economy. The majority of people and companies avoid paying taxes since the procedure to register as taxpayers requires human interaction and is exceedingly irritating. Some persons may even demand bribes to complete the registration without any problems. So, digitizing and providing taxpayers with a single point of contact would not only increase the number of taxpayers in Pakistan but would also boost the amount of tax revenue coming into the nation.

As a result of some Hawala/hundi operators' higher currency conversion rates, people also avoid using traditional banking channels to transfer money home. However, they frequently employ hawala/hundi operators or other businesses that avoid using legitimate banking channels because such channels would require them to sign paperwork and make physical appearances in order to move money, in addition to not offering them a reasonable exchange rate. A project called Roshan Digital Account, which is discussed in Chapter 4.2, was launched by the Pakistani government in 2020. Not only did it make

it simpler for Pakistanis living abroad to send money home, but it also inspired them by offering some worthwhile investment options. Efforts of this nature should be supported, and more people should become involved in the process.

5.2 Practical Implications

By offering suggestions to lessen misconduct and money laundering, the thesis makes a managerial contribution. The answer calls for the adoption of anti-money laundering laws based on the 40 suggestions of the Financial Action Task Force, digitization of the tax code, legalization of financial transactions, and digitization of the economy. Pakistani government needs to follow steps of countries which belongs to the pool of developed countries and have controlled money laundering and corruption by following steps are *global co-operation, capacity development, increased transparency, rigorous regulatory structure, and robust legal framework*. Legal procedures for investigating and prosecuting such instances have been effectively created in developed countries, where offenders face harsh punishments. Banks and other financial organizations are required to report suspicious behavior and perform client due diligence under anti-money laundering and anti-corruption rules that have been put in place by governments. The public can access details about developed countries' financial activities and holdings, which promotes transparency. Publications must include financial documents, contracts, and other pertinent data pertaining to government purchases and expenditures. Developed countries have also increased the capacity of financial entities and political organizations that deal with issues of money laundering and misconduct to recognize and suppress these crimes. Developed countries have worked with other nations and international groups to fight money laundering and misconduct. They collaborate to exchange best practices, skills, and knowledge in order to develop policies and processes that work well and to increase capability. The above-mentioned steps will enable the Pakistani government to control both money laundering brought on by corruption and the corruption itself.

6 Summary

Money laundering is a scourge for underdeveloped and emerging countries. The process of money laundering includes illegal actions including smuggling, tax evasion, embezzlement, counterfeiting, sponsorship of terrorism, forgery, etc. in addition to being utilized to convert illegal earnings into gains obtained legally. However, money laundering is not limited to a single country. It is a phenomenon that capitalizes on the systems of different nations' lack of collaboration. Being able to have offshore accounts is permitted in several nations, which profit from this occurrence. Several wealthy individuals with offshore accounts in nations that do not adhere to anti-money laundering regulations, particularly the "know your customer" rule, were made public by the Panama Papers. This assists criminals in storing their illicit cash in safe havens.

It was crucial to identify the driving force behind money laundering when doing study on the topic in Pakistan. Hence, the main research question of the thesis is: How does corruption drive money laundering in Pakistan? To answer this question, corrupt practices in real-estate market and hawala/hundi mechanism and how they drive money laundering practices were assessed by using qualitative data using secondary data approach. The study procedure began with the formulation of the research question; however, corruption and money laundering are a broad issue. The research process continued by developing two supporting questions which included how corrupt practices in real-estate market drive money laundering? And how hawala/hundi mechanism is used to process money laundering practices in real-estate market? These questions would aid in determining the solution to the primary research question in order to keep the thesis content focused.

The results of secondary data identified corruption as a prevalent driver of money laundering after evaluating 181 items of qualitative data, including news and literatures on corruption and money laundering. Particularly prone to money-laundering is real estate market and hawala/hundi mechanism, where ill-gotten assets can be invested with little responsibility by taking advantage of cash transactions, insufficient paperwork, minimal accountability, and then the money is laundered taking these advantages.

The thesis contributes theoretically by identifying the mechanisms use to drive money laundering in different marketplaces in Pakistan. Without physically transferring

the money, the hawala/hundi system transfers it from one location to another. By using agents of hawala businesses operating in various countries, it skips the traditional banking path and transfers money that way. The entire operation is based on "trust," but of course at the expense of the nation's financial system and in an effort to avoid taxes. The unsound financial policies, poor economic circumstances, and changing exchange rates that characterize the nation are all favourable to this market. People can swap money at a higher rate in the hawala/hundi black market if the value of the currency is changing, and by concealing the ownership and putting the funds in cash-based markets like real estate, it is possible to transfer money outside of the nation. Therefore, government officials should closely monitor the real estate market and the hawala/hundi mechanism in addition to strengthening the financial systems and updating anti-money laundering laws because they both complement each other and provide safe havens for people looking to launder illicit gains.

Also managerially by giving solutions to reduce corruption and money laundering. The solution includes enacting anti-money laundering regulations based on the Financial Action Task Force's 40 recommendations, digitizing the tax system, conducting financial transactions through lawful channels, and digitizing the economy. The Pakistani government must adopt the strategies used by developed nations to combat money laundering and corruption. These strategies include increased transparency, capacity building, international cooperation, strict regulatory frameworks, and a strong legal system. In developed countries with severe punishments for offenders, the legal processes for looking into and prosecuting such cases have been successfully established. Governments have implemented anti-money laundering and anti-corruption laws that compel banks and other financial institutions to report suspect activity and conduct customer due diligence. Developed countries promote openness by making information about their financial actions and assets available to the public. Publication requirements include publishing financial records, contracts, and other relevant information relating to government acquisitions and spending. Additionally, developed countries have improved the ability of financial institutions and governmental agencies that deal with issues of money laundering and misconduct to identify and halt these crimes. In order to combat money laundering and misconduct, developed countries have collaborated with other countries and foreign organizations. They have shared knowledge, skills, and best practices in order to create effective policies and procedures and to bolster capability. The

Pakistani government will be able to manage both corruption-driven money laundering and the corruption itself by taking the measures listed above.

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