

# Partnership for Good Governance



## FINAL THEMATIC NARRATIVE REPORT THEME III - COMBATING THREATS TO THE RULE OF LAW “FIGHT AGAINST CORRUPTION AND FOSTERING GOOD GOVERNANCE; FIGHT AGAINST MONEY-LAUNDERING”

### PROJECT DATA

<b>Projects:</b>	<ul style="list-style-type: none"><li>▪ Regional Project “Fight against corruption and fostering good governance; Fight against money laundering” (2015-2018)</li><li>▪ Azerbaijan Project “Strengthening Capacities to Fight and Prevent Corruption” (2015-2017); “Strengthening Anti-Money Laundering” (2018)</li><li>▪ Belarus Project “Good governance and fight against corruption” (2016-2017)</li><li>▪ Georgia Project “Combating money laundering and terrorism financing” (2015-2018)</li><li>▪ Ukraine Project “Fight against Corruption” (2015-2018)</li></ul>
<b>Target country(ies):</b>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<b>Funding:</b>	European Union 90%; Council of Europe 10%
<b>Duration:</b>	1 January 2015 – 31 December 2018
<b>Beneficiaries</b>	Governmental bodies at all levels, notably specialised structures within the ministries of justice, interior, and finance; Ministry units responsible for public administration and civil service; Specialised agencies/bureaux/commissions involved in prevention and fight against corruption and economic crime; Financial intelligence units (FIUs); Judiciary and prosecutorial services; and Civil Society.

### 1. Background

The Partnership for Good Governance (PGG) as a whole was composed of five programmatic areas agreed between the European Commission and the Council of Europe. It stemmed from the Statement of Intent signed on 1 April 2014 by the Secretary General of the Council of Europe and the EU Commissioner for Enlargement and Neighbour Policy and had been developed pursuant to the Council of Europe and EU Policy priorities in the context of the Eastern Partnership (EaP), while relying on the Council of Europe expertise in standard-setting, monitoring and cooperation. Thematic area “Fight against Corruption and Fostering Good Governance; Fight against money-laundering” is one of the pillars covered by the PGG. It was focused on supporting current reforms in the field of corruption and money-laundering and further strengthening capacities in the region with regard to good governance and measures to fight corruption.

## 2. Introduction

In the area of addressing threats to the rule of law, the PGG relied on Council of Europe expertise in two areas covering respectively fight against corruption and money-laundering/terrorist financing. These included four bilateral projects in Azerbaijan, Belarus, Georgia, Ukraine and one regional project.

A decisive part of PGG actions focused on improving legislation, building capacities of national authorities and establishing sustainable structures to prevent and combat corruption and money-laundering/terrorist financing, thus contributing to European Union 20 Deliverables for 2020 for Eastern Partnership and to the implementation of the recommendations from monitoring bodies – GRECO and MONEYVAL.

## 3. Fight against corruption, money-laundering while fostering good governance

### 3.1 Improving anti-corruption legislative and institutional frameworks

The PGG contributed to anti-corruption legislative reforms aiming to bring legislation closer to Council of Europe and international standards and good practices. Bilateral and regional interventions improved anti-corruption legislative and institutional frameworks in EaP countries through the provision of model legislation, expert opinions and advice on asset declarations; conflicts of interest; whistle-blower protection; integrity testing; liability of legal persons; lobbying regulation; and political party financing.

Significant reforms have been implemented through the adoption of new legislation in at least five EaP countries (Armenia, Azerbaijan, Georgia, the Republic of Moldova and Ukraine) contributing to achieving targets set up in the 20 Deliverables 2020 for EaP countries (Priority II.9). Following are some of the results in the legislative reforms:

- ✓ **Azerbaijan** introduced criminal procedure provisions for the enforcement of the liability of legal persons in 2016 and added whistleblower protection norms to its anti-corruption legislation. In 2017 the Azerbaijani authorities adopted the law on rules of conduct for the Members of Parliament, taking into account some of Council of Europe recommendations provided through the PGG project. As a follow up to the above and for the purpose of further strengthening the legislation an amended version of law was adopted in December 2018. The updated version of the law similarly takes into account the recommendations delivered by the 2nd legal opinion delivered by the Project in 2018. One of the important aspects is that a recommendation to address conflict of interest was taken on board.
- ✓ **Armenia** adopted a package of legislative amendments regulating declaration of assets and interests, as well as legislation on whistleblowing in June 2017. The authorities have begun using the PGG produced Anti-Corruption Curriculum and Handbook in the training of civil servants', following the public administration and legislative reforms;
- ✓ **Georgia** improved its conflict of interest and asset declaration system through amending legislation regulating corruption and conflict of interest in public service in late 2015

[\(GrecoEval/4Rep\(2016\)3\)](#) following guidance received through a regional workshop and legislative toolkit on this matter.

- ✓ In the **Republic of Moldova** legislative amendments took place aiming to strengthen the framework for disclosure of financial and private interests, and that of the National Integrity Commission in 2015. The authorities addressed integrity testing concerns raised by its Constitutional Court through legislative amendments in 2016 in line with Council of Europe recommendations.
- ✓ **Ukraine's** regulatory framework concerning asset declarations, political party funding, and procedural tools to investigate and prosecute high corruption was strengthened and brought closer to applicable international standards following recommendations provided within the PGG. This was evidenced in the GRECO reports, the Second Compliance Report of the Third Round Evaluation on Ukraine ([Greco RC-III\(2015\)22E](#)) and the Fourth Evaluation Round Report ([GrecoEval4Rep \(2016\)9](#)).
- ✓ **Regionally**, a legislative toolkit and guidance on regulating lobbying, enabled the legal drafters in all EaP countries to enhance their capacities in implementing Council of Europe recommendation on regulation of lobbying activities in the context of public decision making, as well as complying with GRECO recommendations during the on-going 4th Evaluation Round.

### 3.2 Strengthening capacities to prevent and combat corruption

Fighting corruption effectively requires a combination of preventive and enforcement measures. To this end, the joint European Union and Council of Europe actions built the capacities of national authorities to prevent corruption, on the one hand, and to investigate corruption cases, on the other. The intervention bolstered the technical and policy capacities within the public sector and administration, in particular in four EaP countries (Armenia, Azerbaijan, Georgia and Ukraine). This was achieved through a wide-range of advisory, mentoring, training and peer-to-peer exchange activities, contributing to corruption prevention as follows:

- ✓ In Azerbaijan, the Council of Europe strengthened the capacities of the Commission on Combating Corruption and the State Examination Centre to deliver ethics trainings to civil servants. The project developed comprehensive training programme and furthermore through a Training of Trainers supported the establishment of a pool of certified anti-corruption and public sector ethics trainers. These trainers have delivered training to civil servants across the country. The positive assessment of the pilot training delivered by trainers attests to the sustainability of the training programme for the Azerbaijani authorities, specifically for the anti-corruption bodies. As follow-up to training activities, the Commission on Combating Corruption developed a comprehensive training and awareness raising Action Plan for 2018, providing for a more structured approach towards the capacity development of state officials. Four academic institutions integrated in their curricula, in full or partially, the teaching methodology and materials on anti-corruption and ethics developed within the project.

- ✓ The anti-corruption policy process in Azerbaijan was supported through obtaining public input and expert advice for the development of its new anti-corruption action plan for 2016-2018<sup>1</sup> which, once adopted, was reinforced with an electronic platform, guidelines and indicators to facilitate public sector reporting on implementation of anti-corruption measures. The action plan has been implemented at a high rate with 89% of planned activities already carried out by December 2018, partially with PGG's contribution particularly to actions on rules of ethical conduct, associated trainings, anti-corruption education and performance monitoring. In total 61 agencies actively use the indicators and the electronic platform, which facilitate the drafting and delivery of reports on anti-corruption actions to the Commission on Combating Corruption.
- ✓ In Georgia the project advised on the conceptualisation of public relations activities regarding the country's anti-corruption efforts while in Armenia an anti-corruption curriculum and manual was developed for civil servants and law enforcement bodies, supporting their capacity-development.
- ✓ In Ukraine, the project recommendations and workshop discussions helped the National Agency for Corruption Prevention (NACP) to implement its key prevention jurisdictional tasks related to Corruption Risk Assessment Methodology and Methodological Recommendations on Drafting Anti-Corruption Programmes in Public Sector. Moreover, the performance monitoring toolkit supported the Agency's efforts in measuring its contribution to fight against corruption. Additionally, the Council of Europe assisted the National School of Judges of Ukraine, an institution in charge of judicial training, in devising and implementing sustainable training programmes for judges covering three areas aiming to improve judicial skills in adjudicating corruption offences and to provide specialised knowledge in anti-money laundering.

Significant efforts were made in supporting public sector institutions in evidence-based policy shaping through corruption risk assessments. By undertaking corruption risk assessments in the health sector (Armenia, Belarus, Georgia, the Republic of Moldova and Ukraine) and the public procurement sector (Armenia, Georgia, the Republic of Moldova and Ukraine) through the regional project, the participating countries identified vulnerabilities or lack of existing control mechanisms which could bring about potential corruption risks. Both assessments provided the competent authorities with recommendations to inform future policy, regulatory, and organisational reforms, and to advise on immediate measures needed to address potential risks of corruption in the two sectors. Pursuant to the recommendations, in 2018, the Georgian authorities took an important step forward in preventing corruption in the health care sector by completing the development and refining the user interface for a web-based system that enables a citizen to determine exactly what benefits are available for a particular symptom or conditions, and where the patient should go to obtain the benefit.

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<sup>1</sup> The National Action Plan on Promotion of Open Government (2016-2018) was prepared with Council of Europe assistance.

Actions in Belarus fostered knowledge of public sector institutions and the General Prosecutor's Office (17 prosecutors), on how to develop standardised and sector specific preventive corruption risk assessments. The activities fostered the prosecutors' understanding of the concept and the methodologies of preventive corruption risk assessments and sectorial specificities. A risk assessment guide was provided to support public sector institutions in conducting risk assessments helping them to implement policies to address the corruption risks. The General Prosecutor's Office distributed the risk assessment guide to all regional offices for follow-up. At this stage, it is not possible to ascertain specific levels of achievement due to insufficient information. As pointed out by GRECO in its summary report on Belarus, a new anti-crime and anti-corruption programme is being prepared but it remains unclear whether preventive policies are adequately taken into account and addressed, as it was recommended in [GrecoRC1-2\(2017\)2](#).

Regarding enforcement of measures to fight corruption, law enforcement and criminal justice sector officials improved specialisation in economic crime investigations, protection of whistle-blowers, mutual legal assistance and corporate prosecutions through training activities and operational guidelines. Over 470 representatives from national prosecuting, regulatory, and law enforcement authorities from six EaP countries benefited from project training activities, both through regional and bilateral projects. IN Ukraine the project addressed the topic of asset recovery, by engaging in training activities aiming to increase the subject matter knowledge of newly recruited staff of Ukraine's Asset Recovery and Management Agency (ARMA), established in late 2016. Work on supporting the development of internal operational protocols and management tools was not possible due to European Union concerns over overlap of efforts provided within the PGG and the Technical Assistance and Information Exchange instrument of the European Commission (TAIEX), which limited the bi-lateral actions in this area.

As a result of the training delivered to prosecutors and investigators, the specialised anti-corruption bodies have made significant achievements in their investigatory and asset-recovery activities. Highlights of progress include increase in the number of corruption cases submitted to courts and assets seized by the Anti-Corruption Directorate of the General Prosecutor's Office in Azerbaijan; and a year-on-year increase in high level corruption investigations opened by the National Anti-Corruption Bureau of Ukraine (NABU), providing a good prospect for achieving a target of the European Union 20 Deliverables 2020 for EaP countries towards fully operational anti-corruption bodies. In Georgia, due to the PGG Project "Combating money laundering and terrorist financing" technical assistance in the form of trainings and guidance, the authorities have made significant progress in addressing outstanding recommendation related to corporate liability from the OECD's anti-corruption monitoring instrument.<sup>2</sup>

Responding to the significant challenges to investigation and prosecution of illicit enrichment and confiscation of illicit proceeds across the EaP region, PGG Regional project enhanced knowledge of policy-makers, and practitioners with prosecutorial and financial intelligence functions about tools

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<sup>2</sup> OECD Istanbul Anti-Corruption Action Plan, [Progress Update of the Fourth Round Monitoring for Georgia](#), Recommendation 18: Liability of Legal Persons.

to address the illicit enrichment, including criminal prosecution and eventual criminal confiscation of assets, civil proceedings to freeze and forfeit illicit gains, and non-court mechanisms to target enrichment. Additionally, the representatives of anti-corruption bodies increased understanding about the common integrity issues and the objectives of the internal control system in order to develop practical instruments within their institutions. Furthermore, the review of Anti-Corruption Bodies' effectiveness in 2018 has generated a number of recommendations for the institutions, in addition to setting up a baseline for future programming. While change in capacities is documented, the progress towards implementation of specific recommendations and proposed solutions needs to continue to be monitored over-time to ascertain the impact of actions.

### **3.3 Developing regional capacity to combat corruption**

The regional dimension represented an important tool for regional capacity development and cross-border co-operation involving all six EaP countries. While regional activities mobilised the Council of Europe expertise on a larger scale, pilot activities enabled assistance in countries not benefiting from country-specific interventions on combatting corruption. Through the regional dimension, law enforcement and criminal justice sector officials increased their specialization in cooperating across-borders on corruption and economic crime investigations. Simulated international investigation exercises and case clinics, coupled with presentations and panel discussions on informal and formal means of international co-operation and related challenges contributed to enhanced capacities for cross-border co-operation. In Azerbaijan, law enforcement was provided with training on practical issues regarding requests for Mutual Legal Assistance, specifically related to Asset Recovery cases. The regional activities prompted the setting up of an informal network of administrative, criminal justice, and law enforcement representatives able to cooperate in accordance with common standards.

## **4. Strengthening measures to combat money laundering/terrorist financing**

The PGG project in Georgia and project in Azerbaijan in 2018 specifically focused on combating AML/CFT, while additional country specific actions on AML/CFT were also taken through the regional and other country projects.

With a view to reinforcing the efficiency of the fight against money laundering and terrorist financing, the PGG bi-lateral and regional projects facilitated the alignment of the relevant legal acts in Georgia, Azerbaijan and the Republic of Moldova with the FATF Recommendations, the EU 4<sup>th</sup> AML Directive, the Council of Europe standards, relevant United Nations Security Council (UNSC) Resolutions and good practices in the field:

- ✓ In **Georgia**, subsequent to provision of legal opinion on Georgia's Draft Law on 'Facilitating the prevention of money laundering and terrorist financing', the authorities have strengthened the draft law's alignment with international standards by integrating proposed recommendations and addressing the gaps and shortcomings identified in the legal opinion. This is expected to enhance the legislative framework in view of the MONEYVAL 5th round assessment planned for 2019.

- ✓ The Council of Europe also analysed the country's existing legislation concerning regulation of the non-profit sector and leasing, casinos, and gambling institutions. Recommendations were considered during the development of legislative amendments by the Georgian Revenue Service. Authorities were also provided with an outline of standards and good practices on regulating dealers in precious metals and stones (DPMS), a sector currently not regulated, and recommended solutions for Georgia.
- ✓ Progress was made in drafting **Georgia's** first Anti-Money Laundering and Countering Financing of Terrorism National Risk Assessment (NRA) with support from the PGG Project "Combatting money laundering and terrorist financing in Georgia", however further actions remain to be taken to finalise it. Quantitative and qualitative data collected on sectorial and national AML/CFT risks was reviewed and fed into the NRA report outline provided by the Project. The progress in these areas has been somewhat slow due to certain political developments, notably frequent changes of senior officials and lack of specialised competence at key institution, which affected the institutional co-ordination and protracted the finalisation of the report.
- ✓ In **Azerbaijan**, the AML/CFT Law was amended in October 2018 pursuant to recommendations provided in the legal review on the application of "Fit and Proper" standards. Most notably, the "fit and proper" requirements were extended to those who are "associates" to criminals, in relation to entities which are subject to financial monitoring. By addressing this deficiency, Azerbaijan has effectively improved its level of compliance with relevant FATF recommendation as evidenced in 2018 MONEYVAL follow-up report.
- ✓ In **Moldova**, the PGG Regional project provided recommendations to national authorities on the draft Law on Prevention and Combatting of Money Laundering and Terrorist Financing, to address MONEYVAL recommendations and international standards (FATF standards and the 4th European Union AML Directive provisions); the law was adopted in 2017.
- ✓ In **Belarus**, AML/CFT bodies were trained in national mechanisms to assess and manage Money Laundering and Terrorism Financing risks.

In the context of low level of investigations, prosecutions and convictions for money laundering and financing of terrorism in the EaP region, the PGG bi-lateral interventions in Georgia and Azerbaijan enhanced capacities of over 400 representatives of criminal justice institutions to investigate, prosecute and adjudicate money laundering and terrorist financing cases. In both countries, thematic training toolkits have been developed and made available in local languages for future continuous training purposes. Official statistics demonstrate progress in money laundering (ML) investigations.

By promoting coherent understanding and effective implementation of standards on transparency of beneficial ownership and AML/CFT supervision of non-financial sectors, the PGG regional project provided a springboard for addressing challenges common across the EaP region in a cost-effective way. By participating in the International Conference on Transparency of Beneficial Ownership, senior policy makers increased their understanding on effective implementation of applicable standards and acquired knowledge on potential solutions in their countries. The event served as a guide in the development of roadmaps for effective registration of beneficial ownership

of legal persons and entities, highlighting current practices and lessons learned within the EaP and South East Europe, as well as in European jurisdictions with more advanced systems.

Likewise, within the PGG regional project government officials with anti-money laundering supervisory responsibilities from the EaP region, benefited from a technical paper outlining risk-based AML/CFT supervisory frameworks and risk matrices in order to improve and enhance existing supervisory systems for non-financial sectors – an area where all Eastern Partnership jurisdictions rate either non-compliant or partially compliant with the applicable FATF recommendation in their respective MONEYVAL mutual evaluation reports.

Additional country-specific actions targeted the risk of financial institutions, legal professionals, accountants, auditors, insurance and gambling sectors being misused for laundering illegal proceeds or for the purpose of financing terrorism. In Georgia, representatives of financial institutions and professions as well as competent supervisory authorities (e.g. Bar Association, National Bank of Georgia, etc.) are better placed to counter money laundering and terrorist financing risks thanks to enhanced awareness about their obligations. The sustainability of these initiatives is ensured through training modules and a pool of 33 national trainers from the legal profession capable of replicating sector specific trainings.

Equally, in Azerbaijan, banks and other obliged institutions have enhanced their capacities to carry out a robust risk assessment of money laundering and terrorism financing risks. A methodology for carrying out a risk assessment in the banking sector was developed. The methodology enables the Azerbaijani authorities and financial institutions to carry out their own risk-assessments independently. In addition, sector-specific guidelines for financial institutions in order to effectively apply risk-based procedures have been developed; this has further enhanced the risk-based approach capacities of supervisory and obliged entities. Positive development was evidenced in Azerbaijan where legislative amendments established the autonomy of the Financial Intelligence Unit (FIU) in 2018, however ensuing institutional restructuring within the institution led to cancellation of project's activities targeting enhanced FIU capacities.

Notwithstanding progress made, low awareness of AML/CFT controls remains to be addressed particularly among non-financial businesses and professions, by increasing their and competent supervisory authorities' abilities to apply risk-appropriate preventive measures.

*“[The regional workshop on risk-based anti-money laundering supervision] aimed to make supervisors more efficient in the prevention and combating of money laundering and terrorism financing...*

*It is necessary to mention that the actuality of the issues addressed was an added value for the specific activity of the Service, including the supervision activity and the trends in the field, being combined with the practical aspects of the experience of the experts from other countries.”*

*Office for Prevention and Fight against Money Laundering, Republic of Moldova | [Link](#)*