



Support to the anti-corruption strategy of Azerbaijan (AZPAC)

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Final Report

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Support to the Anti-corruption Strategy of Azerbaijan (AZPAC)

A project supported by USAID and implemented by Council of Europe in cooperation with the Commission on Combating Corruption of Azerbaijan

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1 Background Information

AZPAC - “Support to the Anti-corruption Strategy of Azerbaijan” – started on 30 September 2007. The present report provides a comprehensive overview over the project activities that took place during the project implementation period starting from 30 September 2007 to 30 September 2009 and as agreed through the Cooperative Agreement between the Council of Europe and the United States Agency for International Development.

1.1 Beneficiary Country and Institution(s)

The beneficiary country is Azerbaijan.

The main beneficiary of the project on the Azerbaijani side is:

- the State Commission on Combating Corruption (CCC).

Other project partners include:

- the Ministry of Justice (Output 2)
- the Ministry of Tax (Outputs 3 and 4)
- the National Bank (Output 3) and
- the Civil Service Commission (Output 4)

Indirect beneficiaries and counterparts also include:

- the General Prosecutor’s Office; and
- the Ministry of Interior

1.2 Contracting Authority

The United States Agency for International Development (USAID).

1.3 Implementing Organisation

The Council of Europe has been responsible for the implementation of the project and the use of the project funds under the Cooperative Agreement No 112-A-00-00001-00 with the United States Agency for International Development (USAID). Within the General Secretariat of the Council of Europe in Strasbourg, the Economic Crime Division (Department of Information Society and Action against Crime, Directorate General of Human Rights and Legal Affairs) has been responsible for overall management and supervision of the project.

A Local Project Team composed of a Local Project Officer (LPO) and a Long-Term Advisor (LTA) based in the premises of the Prosecutors Training Centre in Baku (where the project office was), were supporting the implementation of the project.

1.4 Project Objective

The overall objective of AZPAC is to contribute to democracy and the rule of law through the prevention and control of corruption in Azerbaijan in accordance with European and other international standards, and GRECO and MONEYVAL recommendations.

1.5 Funding and Support to the Project

The USAID financial support to this project as contracted amounted up to 800.000 USD.

The Council of Europe financial support has been comprised as following:

- Human resources: managerial and overall supervision of the project in addition to staff foreseen in the project budget; and
- Funding from the General Budget of the Council of Europe for activities foreseen to cover law enforcement and criminal law related reforms as indicated in the Workplan BO/CoE.

The government of Azerbaijan put at the disposal of the Council of Europe free-of-charge a Project Office including a project team office, conference room, and training room. In addition, the Government of Azerbaijan has committed to financially fund the activity related to Surveys as foreseen in the Workplan.

2 The Project

2.1 Project Objective

AZPAC aims at strengthening national capacities in support of the implementation of Azerbaijan's Anti-corruption Strategy and Action Plan, in compliance with European and international standards. In order to achieve this objective, the project worked in four complementary directions:

- Enhancing the capacities of the anti-corruption body (State Commission on Combating Corruption) to monitor and implement the Anti-corruption Strategy and Action Plan and bring the strategic anti-corruption legal framework in line and compliance with European standards;
- Improving and elaborating domestic legislation with relevance to international standards in the fight against corruption and efficient implementation of the relevant legislative framework;
- Improving and strengthening domestic capacities in the field of fighting money laundering and financing of terrorism; and
- Introducing micro-system studies as tools to enhance the capacities for the prevention of corruption.

2.2 Expected Results and Methodology

The results of the project were expected to be the following:

1. A new anti-corruption strategy and action plan elaborated with an emphasis on monitoring and implementation and medium-term preventive reforms so that they reflect and include policy actions to implement all GRECO recommendations made in the report of the Second Round of Evaluation;
2. Relevant draft legislation and regulations elaborated and submitted to Parliament;
3. Institutional capacities, with respect to reporting and cooperation at the national and international level improved within the Anti-money laundering (AML) system, in light of European and international standards and MONEYVAL recommendations.
4. Specific corruption-prevention measures improved;

These objectives were to be achieved through close co-operation with all relevant stakeholders, the identification of international and national experts, through organisation of tailored activities such as round-tables, workshops and study visits for practitioners; preparation and finalisation of feasibility studies and surveys; conducting of micro-system studies; institutionalising efficient management of ethics provisions and conflict of interests in public service; and harmonising legal texts in accordance with the Council of Europe's Conventions on Corruption and the United Nations' Convention against Corruption (UNCAC).

The completion of the objectives requires more than implementation of Workplan activities. It also requires the fulfilment of the assumptions stated in the Workplan, and - more broadly - concrete follow-up by the relevant Azerbaijan authorities using the outputs of the project - for example, using the comments of experts to draft or re-draft legislation, or to implement recommendations emanating from the Micro-systems studies reports. In this sense, the AZPAC Project Team provided the authorities with the means to pursue and implement reform measures, however, the Project Team, cannot ensure their implementation.

2.3 Summary of Project Outputs

Overall objective	To contribute to democracy and the rule of law through the prevention and control of corruption in Azerbaijan in accordance with European and other international standards , and GRECO and MONEYVAL recommendations
Project objective	To enhance the implementation of GRECO and MONEYVAL recommendations and compliance with European and international anti-corruption standards

Output 1	Strategic anti-corruption framework improved in line with GRECO recommendations and good practices
Activity 1.1	Introduction of the new Anti-corruption Strategy and its Action Plan
Activity 1.2	Support the State Commission on Combating Corruption (CCC) during GRECO evaluation and compliance reporting
Activity 1.3	Assist the relevant government authorities and institutions on implementing the relevant measures against corruption within the new Anti-corruption Action Plan
Activity 1.4	Develop a template system of guidelines on reporting and monitoring tools for the Commission/Cabinet of Ministers vis-à-vis all relevant institutions
Activity 1.5	Support by advice and share of practice with the AC Commission on drafting and conducting Surveys on AC perception and attitudes. (Law enforcement and general attitude of public surveys).
Activity 1.6	Provision of equipment to the CCC and its legislative Working Group.
Output 2	Draft laws/amendments to improve domestic legislation elaborated in cooperation with relevant partner institutions and benchmarking against international standards in fighting against corruption and efficient implementation of the relevant legislative framework
Activity 2.1	Training on Treaty Law implementation at the domestic level with reference to all relevant anti-corruption conventions and instruments
Activity 2.2	Advice and/or RTD in support the elaboration of draft laws
Activity 2.3	Review of national legislation on its compliance with the provisions of the CoE Civil Law and Criminal Law Conventions on Corruption and UNCAC
Activity 2.4	Elaboration of a 'compliance matrix' for the domestic legislation and institutional set-up in line with the relevant international legal instruments
Activity 2.5	Elaboration of legislative guidelines and recommendations issued by the 3rd Round GRECO Evaluation Report
Output 3	Establishment of a network and system to prevent the use of the financial system for money laundering and terrorism financing purposes and enable the authorities of Azerbaijan to cooperate nationally and internationally in fighting money laundering and terrorism financing in accordance with European and international standards
Activity 3.1	In-country multidisciplinary training course(s) for financial intelligence officers, and other relevant cooperating agencies' adjudication of cases of economic crime and in particular of corruption and money laundering

Activity 3.2	In country multi-disciplinary training course(s) on the use of special investigative means (SIMs) for all relevant agencies (including national bank officers, members of the new upcoming FMS, auditors and tax officials) in light of European standards and ECHR case-law when combating economic crime, reporting on corruption, suspicious financial transactions and inter-agency cooperation.
Activity 3.3	Training for Judges related to economic crime (corruption and money laundering)
Activity 3.4	Support to establishment of FMS through delivery of relevant material (standards and best practices) in Azerbaijan language
Activity 3.5	Support to organisational set-up of the new FMS by providing guidelines and tools on the organigramme, job descriptions, Manual of Operations, Rules of Procedure, and elaboration of a training strategy for all FMS officers
Activity 3.6	Study visit(s) for new FMS staff responsible for international cooperation to 2 other FIUs of European countries to promote the initiation of operational Memorandum of Understanding.
Output 4	Enhancement of capacities for the prevention of corruption through micro-system studies and through institutionalizing efficient management of ethics' provisions and conflict of interest in public service
Activity 4.1	Conduction of 3 repeat micro-system studies in order to identify corruption-prone areas, and recommend measures for systemic improvement aimed at preventing corruption and increasing application of efficient rules on ethics and streamlining procedures
Activity 4.2	Introduce Integrity Test to contribute to strengthening of capacities for the prevention of corruption within the Ministry of Taxes
Activity 4.3	Contribute to the continuing legal Education for Judiciary on prevention of corruption within the Judiciary through introduction/training on the concept of Integrity Tests in the judiciary as one of the best practices
Activity 4.4	Support the elaboration and implementation of a national strategy (and action plan) with respect to training on ethics and conflict of interests for the civil service commission
Activity 4.5	Provision of pilot trainings and methodology with relevance to Ethics, Appraisal and Performance Assessment
Activity 4.6	Elaboration of guidelines for reporting corruption and protection of whistleblowers within the civil service administration

2.4 Nature of Inputs during the reported period

The following types of activities are foreseen to achieve the project's objective:

Expert advice - provided by the Long-Term Advisor within his competence/experience or, as necessary, by Short-Term Advisors selected

according to their specific field of competence, through direct communication with individual officials or groups of officials on the issues specified in the Workplan.

Written expert opinions - will be provided in writing, as necessary, to comment on the pieces of legislation or their drafts or other documents, by independent experts from the Council of Europe Member States, via the CoE Secretariat.

Roundtables and seminars - allowing stakeholders/professional groups and individuals to look at ways in which their own policies can be reformed. They will also be used to contribute specialist knowledge to a broader debate on a given issue.

Workshops - allow a particular task to be undertaken involving multiple co-operating parties. Experts put their knowledge at the disposal of practitioners and officials. Workshops can also be used to provide specific advanced training.

Training courses – allow participants to acquire new knowledge and/or professional skills through interaction with a qualified trainer.

Research and translations - make important texts and information accessible in local languages and can be used as a tool in training activities and seminars.

Study visits to CoE Member States - provide first-hand experience to complement the theory and help individuals to examine possible changes to their own procedures and approaches, and also initiate the basis for launching cooperation and networking with those States.

2.5 Country Situation

In recent years, the government of Azerbaijan has undertaken a number of important steps in the fight against corruption. The country ratified the Council of Europe's Criminal and Civil Law Conventions against Corruption in 2004, and joined the Council's Group of States against Corruption (GRECO) in June 2004; the United Nations Convention against Corruption (UNCAC) was ratified in 2005. In 2004, the State Programme on Combating Corruption was adopted, outlining in general terms the legislative and institutional reforms to be undertaken in the period 2004-2006. A new Anti-corruption Strategy for the period from 2007 to 2011 was adopted by Presidential Decree on 27 July 2007. Prior to its adoption, the Council of Europe supported the drafting of this important document by providing a comprehensive assessment report and by organising a Round Table Discussion on its content.

Despite these steps, corruption remains a serious concern for the people of Azerbaijan. Transparency International's Annual Corruption Perceptions Index (CPI) indicates a modest yet consistent up-wards trend for the period 2003 to 2007 (in 2003, Azerbaijan's score was at 1.8, in 2004 at 1.9, in 2005 at 2.2, in 2006 at 2.4 and in 2007 at 2.1), while the 2008 CPI shows a downturn, the respective figure

is only 1.9¹. However, Freedom House Reports, assessing Azerbaijan and 30 other 'Nations in Transit' against a range of governance benchmarks, put the country's index on corruption at an unchanged rate. In 2005 Azerbaijan ratings for electoral process, independent media, and judicial framework and independence reached their lowest levels, respectively—at 6.25, 6.00, and 5.75, the score for the year 2006 was 5.93, in 2007 the score went back to 6.00 and the newly introduced date of the "Country in Transit Report, 2008" shows that the democracy score remains at the same level².

The 2006 GRECO evaluation report welcomed the adoption of the National Anti-corruption Strategy and the progress made as regards its legislative component, but also found several shortcomings. GRECO therefore issued 27 recommendations to the authorities of Azerbaijan, aimed at improving the legal and institutional anti-corruption framework. The progress made by Azerbaijan in implementing those recommendations was assessed in October 2008³. GRECO has concluded that Azerbaijan implemented satisfactorily or dealt with in a satisfactory manner just over one third of the recommendations. GRECO also stated that *'significant progress was achieved as regards such areas as the means and working methods of the anti-corruption bodies, the regulatory framework concerning public officials' rights and duties which are relevant for the prevention of corruption, including the adoption of ethical rules for civil servants in May 2007. Furthermore, there is a series of recommendations for which the implementation is under way. GRECO very much hopes that Azerbaijan will be able to finalise, as soon as possible, the projects and/or draft regulations announced as regards, in particular, the introduction of third party and value confiscation, the setting up of an agency with overall responsibility for the implementation of the law on access to information, the legal framework relating to conflict of interests and situations where public officials move to the private sector. On certain matters, measures have been taken but remain insufficient, for instance cooperation between the various agencies responsible for the investigation and prosecution of corruption offences and research into the characteristics of corruption in Azerbaijan. Finally, GRECO regrets that certain areas have received no or insufficient attention so far. It urges the authorities to persist in their efforts with a view to strengthening the anti-money laundering system and making it effective in practice. The same applies to the system of financial declarations for public officials. Finally, there remains a clear need for the authorities to adopt measures to improve the system of professional disqualifications and to make sure that sanctions in this area are effective in practice.'*

¹ [1] Transparency International's Corruption Perceptions Index (CPI) assesses perceptions of corruption on a scale from 0 to 10, where 10 marks the highest possible score; a score below 3.0 indicates that corruption is endemic. For the various CPI's and a background on the methodology used, see http://www.transparency.org/policy_research/surveys_indices/cpi.

² The rating scale is 1 – 7 where 7 is the lowest score. The full report providing the background to the scores can be found at <http://www.freedomhouse.org/template.cfm?page=47&nit=445&year=2008>

³ [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round2/GrecoRC1&2\(2008\)4_Azerbaijan_EN.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round2/GrecoRC1&2(2008)4_Azerbaijan_EN.pdf)

2.6 Legislation

The Law on Combating Corruption was adopted in January 2004. The Law provides a definition of corruption and establishes corruption-related offences for public officials and defines the liability for such offences. It establishes the obligation for officials to declare their assets and incomes, and makes provisions allowing for the confiscation of the proceeds of corruption. A Presidential Decree on Implementation of the Law on Combating Corruption from March 2004, provided the statute of the State Commission on Combating Corruption and amendments that would harmonize existing legislation with the Law on Combating Corruption.

Laws such as the Law on Approval of Procedures for Submission of Financial Information by Public Officials; the Law on the Right to Obtain Information; the Law on Administrative Proceedings; the Judicial Legal Council Act; and amendments to the 1997 Courts and Judges Act entered into force in 2005.

A number of partial changes were made to the Criminal Code and Criminal Procedure Code, introducing the following new provisions/offences: the offence of money laundering; confiscation of proceeds of crime; trading in influence; privileges and benefits, and bribery through intermediaries.

Following a request made in September 2005, Council of Europe experts were asked to produce an opinion on the Criminal Code, assessing its compatibility with the European Convention on Human Rights and the European Court for Human Rights' (ECHR) case law, as well as with existing standards in the criminal field. In December 2005, the Secretary General of the Council of Europe forwarded the experts' comments to the authorities of Azerbaijan for consideration.

In June 2006, a Working Group was set up, chaired by the President of the Supreme Court and composed of representatives of the Ministry of Justice, Ministry of Interior, Prosecutor's Office, Supreme Court, lawyers and academics of the Baku State University. This Working Group examined the experts' comments on the Criminal Code, made recommendations aiming at improving the Code and proposed concrete amendments to it. As a result, in March 2007, the translated versions of the amendments were sent to the Council of Europe and were discussed at a follow-up expert meeting. The Amendments were finalised by the above-mentioned Working Group in December 2008 and subsequently were sent to the Government agencies for comments. These Amendments are expected to come up for discussion in Parliament during its 2009 autumn session (currently on-going).

The following pieces of legislation, reviewed by the Council of Europe as draft laws, were expected to be presented during the parliamentary discussions in fall 2007: the Draft Law on Conflict of Interest; the Draft Law on Criminal Liability of Legal Persons for Corruption Offences; and the Draft Law on Rules of Ethical Conduct of Civil Servants. While the last one was adopted in May 2007, the Draft Law on Conflict of Interests is still circulating among the Government agencies.

As the criminal liability of legal persons will be incorporated into the new Criminal Code, a separate Law on Criminal Liability of Legal Persons drafted by the Commission on Combating Corruption will not be further discussed by the Parliamentarians.

A number of other laws advanced to the next stage in the legislative process: the Code on Competition (pending the 3rd reading in Parliament's 2009 autumn session), and the Administrative Procedures Code and the Law on Education, (both passed in 3rd and final reading in Parliament in its 2009 spring session). However, only the Law on Education has entered into force while the Presidential Decree for Administrative Procedure Code has not been signed yet.

On 30 December 2008 the President of the Republic of Azerbaijan issued a decree on Changes and Amendments to the Law on Adoption of the Charter of the Commission on Combating Corruption of the Republic of Azerbaijan. In addition to several technical amendments, an amendment was made to Article 10 according to which, "*Certain decisions within the authority of the Commission might be taken by the Chairman without gathering all the members of the Commission via consideration of their opinions*". Amendment made to Article 15 enabled the Commission to appoint the head of the Secretariat of the Commission and authorised the Chairman of the Commission to recruit and dismiss other employees of the Commission.

The Draft Law On the Prevention of the Legalisation of Criminally Obtained Funds or Other Property and the Financing of Terrorism (AML/CFT) commented by the US Department of Justice and the Council of Europe experts in December 2006 and then in March/April 2007, finally passed its 3rd reading in the Parliament in February 2009.

Prior to that, at its 28th Plenary meeting in December 2008, the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) issued a Public Statement in respect of Azerbaijan under Step VI of its Compliance Enhancing Procedures because of its continued failure to establish a system to prevent laundering of proceeds of crime and financing of terrorism. The Statement⁴ noted that at that time, a draft law had passed a second reading in October 2008. The draft law did not comply in a comprehensive manner with key international standards. MONEYVAL called upon Azerbaijan to further revise that draft law before completing the legislative process and to urgently implement satisfactory and comprehensive AML/CFT legislation. MONEYVAL called on its Member States and other countries to advise their financial institutions to pay special attention by applying enhanced due diligence to transactions with persons and financial institutions from or in Azerbaijan in order to address ML/TF risks. Following the issuing of the December 2008 Public Statement, the President of MONEYVAL wrote to the Azerbaijani authorities attaching a list of ongoing concerns.

⁴ http://www.coe.int/t/dghl/monitoring/moneyval/About/MONEYVALstatement-AZ_en.pdf

Following the passage of the AML/CFT Law (18 February 2009), the President of the Republic published a Decree on the application of this Law on 23 April 2009. The Decree establishes a Financial Monitoring Service (FMS) under the National Bank. The Decree requires the National Bank to prepare and submit a draft Statute of the FMS for approval by the President of the Republic within one month. The Decree also assigned to the Cabinet of Ministers the tasks of submitting to the President of the Republic within 2 months proposals for bringing other legislative acts into conformity with the AML/CFT Law, preparing legislative acts dealing with sanctions for violations of the AML/CFT Law, and for determining the reporting forms to the FMS.

While the AML/CFT Law is understood to be in force from the date of its publication, reporting forms are not yet in place. However, the FMS Statute is approved and the FMS Director and Deputy Director have now been appointed and the recruitment of 39 staff members of the entire organisational set up has been initiated. It is expected that the FMS will be operational "paper based" before the end of 2009.

While Azerbaijan is expected to undergo another review within the MONEVAL's compliance and enhancement procedures in mid December 2009, it is hoped that the latest developments may play a factor in their current levelling, yet challenges remain ahead. One of the ways to demonstrate progress, is to produce and implement a realistic and detailed action plan for the FMS's next couple of years. This may require additional technical assistance, and focus on task management and institutional policy designs within the FMS, but also review of the existing legal basis.

Another external factor seems to be the FATF public statement and the existing reviews. FATF is expected to bring along another comprehensive review on Azerbaijan by February 2010, and reflect it on its stand .

To conclude, there is an encouraging start-up of institutional and legal reform in Azerbaijan. The introduction of the AML/CFT law and the establishment of the FMS (especially considering that the FMS will be given sufficient financial and human resources) are a positive and welcome development. However, further improvements are expected, in order to determine an adequate progress in terms of the on-going monitoring body reviews.

3 Activities implemented and progress towards project objectives during the reporting period

3.1 Overview of Activities

The following activities were carried out during the reporting period of the project:

Output	Description of activity	Status	Date and Place	Comments

Output 1				
Preparatory activities – Inception phase	In-country Mission to Introduce and Discuss the Project	completed	19 - 22 November 2007, Baku	The Project Manager and the Head of the Corruption and Fraud unit met each relevant project partner and agreed the draft Project's Workplan with the CCC and USAID.
	Set-up of the Project team	completed	December 2007 – February 2008, Baku	The Local Project Officer was selected in November 2007, while the Long-Term Advisor was recruited in January 2008.
	Start-up Conference and Adoption of the Project's Workplan	completed	10 December 2007	The Start-up conference was successfully organized, the Project's Workplan was adopted and the MoU was signed.
Activity 1.1/A	1 st Awareness raising Seminar to introduce Anti-corruption Strategy and Action Plan	completed	21 February 2008, Baku	The event was attended by around 80 officials, NGO representatives and journalists. The discussion was of a very high quality.
Activity 1.1/B	2 nd Awareness raising Seminar to introduce Anti-corruption Strategy and Action Plan	completed	17 March, 2008 Sheki	The event was attended by around 50 officials, NGO representatives and journalists. This was the first time any anti-corruption event bringing together officials and NGO representatives ever took place in Sheki. The event enabled the identification of several officials (e.g. tax) who may be potential participants in the micro-systems element of the AZPAC project.
Activity 1.1/C	3 rd Awareness raising Seminar to introduce Anti-corruption Strategy and Action	completed	18 March, 2008 Ganja	The event was attended by around 50 officials, NGO representatives and journalists. This

	Plan			was the first time any anti-corruption event bringing together officials and NGO representatives ever took place in Ganja. The discussion was frank and lively.
Activity 1.1/D	4 th Awareness raising Seminar to introduce Anti-corruption Strategy and Action Plan	completed	10 April 2008, Yevlakh	The event was attended by around 46 officials, NGO representatives and journalists. The discussion was of a very high quality and there was intense media interest.
Activity 1.1/E	5 th Awareness raising Seminar to introduce Anti-corruption Strategy and Action Plan	completed	14 May 2008, Lankaran	The event was attended by around 51 officials, NGO representatives and journalists. The discussion was the most lively of all the awareness raising events.
Activity 1.3	Event on implementation status and challenges held with Commission and state institutions	completed	18 June 2008, Baku	The event was attended by 31 officials. A template for reporting on implementation of state body anti-corruption action plans was adopted for use by state bodies
Activity 1.3	Assistance to government authorities and institutions on implementing Action Plan measures	completed	September 2008, Baku	Model presentation for ethics training of local government officials provided to Civil Service Commission.
Activity 1.3	Event on formulation/updating state body action plans	completed	12 December 2008, Baku	Attended by representatives of government institutions. Template for agency action plans presented by AZPAC and endorsed by CCC
Activity 1.6	Provision of assessment of equipment needs of	completed	October – February 2009	List of equipment needs finalised; purchasing of the equipment done in

	CCC and its legislative Working Group (prior to provision)			accordance with USAID and CoE procurement rules.
Output 2				
Activity 2.1	Event on integrity of the legislative process in Parliament of Azerbaijan	completed	11 February 2009, Baku	Event held with Parliament, Commission on Combating Corruption and Development Alternatives Inc.
Activity 2.2/A	Advice and support for the elaboration of a draft law on conflict of interest	completed	November 2008	Opinion of international expert on draft conflict of interest law completed.
Activity 2.2/C	Advice and support for the regulation of lobbying in Azerbaijan	completed	January 2009	Opinions of national and international experts on how lobbying should be regulated in Azerbaijan completed.
Activity 2.2/B	Advice and support for the possible elaboration of legislation on/introduction of plea-bargaining	completed	June 2009	Opinions of national and international experts on plea-bargaining completed.
Activity 2.3	Review of compliance of national legislation with provisions of Council of Europe and UN anti-corruption conventions	completed	December 2008	Opinions of national and international experts completed.
Activity 2.4	Elaboration of Compliance Matrix of compliance of domestic legislation with requirements of international anti-corruption instruments	completed	April 2009	International expert submitted matrix, completed after comments from national expert.

Output 3				
Activity 3.1	Awareness-raising event on draft anti-money laundering (AML) legislation and its implementation	completed	22 July 2008, Baku	Event held with the US Department of Justice, 45 participants from all relevant authorities, NGOs and media. Highlighted problems in draft anti-money laundering law passed in first reading in June 2008. Azeri authorities appeared willing to take into account criticisms and ensure quick completion of passage of the law in the Autumn parliamentary session.
Activity 3.1	Training on implementation of AML/CFT law for future Financial Monitoring Organ officials and banks	completed	16 June 2009	Training held in Central Bank, attended by 70 participants
Activity 3.1	Training on implementation of AML/CFT law for future Financial Monitoring Organ officials and non-bank financial institutions	completed	17 June 2009	Training held in Central Bank, attended by 50 participants
Activity 3.1	Training on implementation of AML/CFT law for future Financial Monitoring Organ officials and non-financial institutions	completed	18 June 2009	Training held in Central Bank, attended by 30 participants
Activity 3.1	Multidisciplinary trainings for the new Financial Monitoring Service and relevant law enforcement bodies on implementation of the new law to prevent money	completed	6-10 July 2009	Trainings held with participation of law enforcement agents – 25 participants per each training

	laundering and terrorism financing			
Activity 3.2	Training on the use of special investigative means (SIMs) for relevant law enforcement officials in light of European standards and ECHR case-law when combating economic crime, reporting on corruption, suspicious financial transactions and inter-agency cooperation	completed	7 September 2009	Training provided for prosecutors, Ministry of National Security and Ministry of Interior officials by Martin Bridger, Detective Chief Superintendent, London Metropolitan Police
Activity 3.3	One day training for judges and other law enforcement officials on case study proceedings with relevance to corruption and money laundering related offences	completed	25 February 2009, Baku	Training conducted with US Department of Justice, Council of Europe provided one expert who provided training on case proceedings.
Activity 3.4	Provision of technical opinion on creation of Azerbaijan system for exchange and analysis of information in AML/CFT area	completed	25 September 2009	Opinion provided by Oleksiy Feshchenko, Basel Institute of Governance
Activity 3.5	Provision of best practices literature to FMS	completed	September 2009	Guidelines on exchange of information and manual on internal organization provided to FMS
Activity 3.6	Study visits for new FMS staff responsible for international cooperation to 2 other FMS's of European countries to promote the initiation of	completed	14-18 September 2009, Prague (Czech Republic) and Podgorica (Montenegro)	Visits conducted at the financial intelligence units of the Czech Republic (14-15 September) and Montenegro (17-18 September)

	operational Memoranda of Understanding			
Output 4				
Activity 4.1	Conducting 3 micro-system studies	completed	August 2009	Reports on health, education and tax systems completed, submitted to ministries and CCC for comments, and comments incorporated/addressed.
Activity 4.3	Training on the concept of Integrity tests in the judiciary for Legal Judicial Council and prosecutors	completed	8 September 2009	Training provided to officials of the Judicial Legal Council and prosecutors by Martin Bridger, Detective Chief Superintendent, London Metropolitan Police
Activity 4.4/A	Workshop to support the elaboration and implementation of Anti-corruption Strategy with respect to training of ethics and conflict of interest for the Civil Service Commission	completed	31 January 2008, Baku	The event was a success with high participation from Civil Service Commission and senior ministry officials. Agreement on basic approach to implementing and providing training on ethics and conflict of interest rules.
Activity 4.4/B	Technical Paper on proposed National Strategy and Action Plan for Training of Civil Servants on Ethics and Conflict of Interest	completed	20 February 2008	The paper was submitted to the Civil Service Commission, which agreed with it.
Activity 4.5/A	Technical Paper on the Draft Regulations for Evaluating the Performance of Civil Servants	completed	March 2008, Baku	The paper was submitted to the Civil Service Commission.
Activity 4.5/B	Provision of pilot training on implementation of Law on Rules of Ethical Conduct	completed	11 April 2008	Training provided by Long-Term Advisor and attended by 37 officials. Training was well received and provided a

				good introduction to the issues.
Activity 4.5/C	Provision of pilot training on implementation of Law on Rules of Ethical Conduct	completed	15-16 April 2008	Training provided by CoE expert, Ms Linda Austere (Providus NGO, Latvia). Attended by 50 officials.
Activity 4.5/D	Provision of pilot training on implementation of Law on Rules of Ethical Conduct and on Performance Assessment	completed	7-8 May 2008	Training provided by CoE expert, Mr Hans-Joachim Rieger (DBB Akademie). Training was attended by 42 officials and participants evaluated it very highly.
Activity 4.5/E	Provision of pilot training on Performance Evaluation for civil servants	completed	15-16 September 2008, Baku	Training provided by Hans-Joachim Rieger (DBB Akademie) and attended by 36 officials from Civil Service Commission and ministry human resources departments. Training was very well received. Trainer submitted supplementary written opinion on modification and implementation of CSC draft performance evaluation regulation.
Activity 4.6	Training for civil servants on reporting corruption and protection of whistle blowers within the civil service administration	completed	12 March 2009, Baku	Training provided by LTA. Attended by 30 participants, from Civil Service Commission and 29 other ministries and other state bodies.

3.1.1 In-country Mission to Introduce and Discuss the Project

On 19 to 22 November 2007, the Project Management Unit (PMU) conducted a four-day mission to Baku aimed at:

- discussing the project outputs and activities with the relevant counterparts;
- drafting of the project Workplan;
- selecting the Local Project Officer;
- visiting of project office premises.

The meetings with the stakeholders about the project outputs and activities enabled the PMU to gather their views on possible project activities, taking into account specific needs of each institution concerned. The inputs provided by the main counterpart - the State Commission on Combating Corruption - but also by the Anti-corruption Department of the Prosecutor-General's Office, the Civil Service Commission, the Ministry of Taxes, the National Bank and the Ministry of Justice representatives, were solicited, taken into account and incorporated in the Project Workplan that was subsequently completed by the PMU and the representative of the main counterpart (*Workplan in Annex I*).

In addition, the mission was an opportunity to meet with the donor of the project (USAID) and to discuss the Start-up Conference, issues regarding narrative and financial reporting, as well as the branding of the project in accordance with the Cooperative Agreement signed between the CoE and USAID.

3.1.2 Set-up of the Project Team

The project team, based both in Strasbourg and Baku, were composed of 4 members.

In Strasbourg, a Project Manager was nominated within the Anti-corruption and Fraud Unit in order to start the implementation and delivery of the project's objectives. The Project Manager, Mr Lado Lalicic, was in charge of dealing with every day management of project activities under the supervision of the Head of Unit, Ms Ardita Abdiu.

In Baku, the setting-up of the Project Implementation Unit (PIU) was completed in December 2007. Mr Azer Mammadov was selected for the position of AZPAC Local Project Officer (LPO). The Economic Crime Division underwent a selection procedure for the position of Long-Term Advisor and offered a contract to Mr Carlos Guerrero. However, Mr Guerrero negatively responded to the proposal and eventually did not accept the offered position. Therefore, upon receiving the approval by the project donor (USAID) and the main counterpart (the State Commission on Combating Corruption) the Project Team appointed Mr Quentin Reed as Long-Term Advisor for the period of February 2008 – September 2009.

The PIU was located in the premises of the Prosecutor's Training Center. In accordance with the project document and signed MoU, the office space for the project was offered by the authorities of Azerbaijan. The office space offered at the Prosecutors' Training Centre completely satisfied the needs of the CoE local team; it also provided the infrastructure to implement certain project activities (conference room and other facilities in the building).

3.1.3 Organization of the Start-up Conference and Adoption of Workplan

Following the consultations and preparatory meetings with the counterparts and the donor, the project's launching conference was organised on 10 December 2007 at the Hyatt Regency Hotel in Baku. The AZPAC Project Start-up Conference brought together high-level representatives of the executive, judicial and legislative authorities of the Republic of Azerbaijan, representatives of the civil society and media, international organisations and embassies in order to present the Project's objectives, outputs and its Workplan. The presence of high-level authorities from the Presidential Cabinet and the main project counterpart – the Azerbaijan State Commission on Combating Corruption - demonstrated the strong commitment and political will of the authorities to give their support to the implementation of the activities as foreseen in the project Workplan.

The conference was opened by Mr Ramiz Mehdiyev, Head of the Administration of the Republic of Azerbaijan and Chair of the State Commission on Combating Corruption. Mr Mehdiyev emphasised the strong commitment of the Azerbaijani authorities to combat corruption in line with CoE standards. Also, a short overview of Azerbaijan - CoE cooperation was presented. Furthermore, Mr Mehdiyev expressed his expectation that AZPAC should be a strong tool to support the implementation and monitoring of the newly adopted 2007 – 2011 National Strategy on Increasing Transparency and Against Corruption. Mr Scott Taylor, USAID Azerbaijan Country Coordinator, and Mr Giovanni Palmieri, Head of Technical Co-operation Department of the Council of Europe, also addressed the participants at the opening.

A Memorandum of Understanding on the commitment for the implementation of the AZPAC Project was signed between the Head of the Presidential Administration of the Republic of Azerbaijan and Chair of the State Commission on Combating Corruption, Mr Ramiz Mehdiyev, and the Director of the Technical Cooperation Department of the CoE, Mr Giovanni Palmieri, in the presence of USAID Country Coordinator Mr Scott Taylor.

The conference was concluded with the adoption of the project Workplan which was further presented and elaborated by the representative of the main beneficiary institution.

3.2 Implementation of Workplan Activities

Output 1: Strategic anti-corruption framework improved in line with GRECO recommendations and good practices

Activity 1.1 – Awareness raising seminars to introduce the new Anti-corruption Strategy and its Action Plan (Baku 21 February 2008, Sheki 17 March 2008, Ganja 18 March 2008, Lankaran 14 May 2008)

The AZPAC project included the holding of five events, one in Baku and four in regional cities, to raise awareness of the Government's Anti-corruption Strategy and Action Plan and the project. The events also included presentations by NGO

representatives on the role of civil society in implementing the National Strategy and fighting corruption in general. The first event was held in Baku on 21 February 2008 and was attended by approximately 80 government officials, NGO representatives and media. The second event was held on 17 March 2008 in the regional town of Sheki, followed by the event in Ganja on 18 March; both of these events were attended by around 50 people. The last event was held in Lankaran on 14 May 2008 and was attended by around 51 officials, NGO representatives and journalists; the discussions that took place during this event were the liveliest of all the awareness raising events.

The main outputs of the events were the following:

- They facilitated discussion between the participants of corruption and anti-corruption policy in Azerbaijan. In Baku in particular, there were a number of interventions from NGO representatives describing the corruption situation in Azerbaijan in very frank terms. In Sheki and Ganja local participants stated that this was the first time ever that local government officials and civil society representatives had sat together to discuss the corruption and anti-corruption policy.
- There was significant media presence at all the events, and the Long-Term Advisor was interviewed by: ANS TV in Sheki; a local news agency in Ganja; AzTV, ANS, Space and Lider in Yevlakh; and a local TV station in Lankaran.
- At the events in Sheki and Ganja several local officials were identified as useful contacts or participants in micro-system studies planned as part of AZPAC – for example from the local tax, real estate registration and education authorities.

Activity 1.3 – Assistance to the relevant government authorities and institutions on implementation of relevant measures in the Anti-corruption Action Plan

The objectives of Activity 1.3 were to identify measures or issues related to the Anti-corruption Action Plan on which assistance could be provided to state bodies. The activity in practice became closely tied up with Activity 1.4 – the development of a template system of guidelines on tools for reporting and monitoring implementation of Action Plan measures – as it became clear that a primary gap in implementation, lay in the absence of proper templates not only for reporting by state bodies on implementation of the Action Plan, but also for the formulation of state body action plans themselves.

On 18 June 2008 an event was held with the Commission on Combating Corruption (CCC) on ‘Implementation Status/Needs and Challenges’. The purpose of the event was to obtain information from state institutions both on the challenges they have encountered in implementing measures in the Anti-corruption Action Plan, and on their needs for assistance with such

implementation. The event was attended by 3 representatives of the Commission and 26 representatives from various state bodies.

The event constituted important progress in improving the framework for reporting on implementation of anti-corruption policy by state bodies. As detailed under Activity 1.4 below, in March 2008 the Long-Term Advisor submitted a proposed set of “Proposed guidelines and templates for reporting and monitoring of implementation of the National Anti-corruption Strategy of the Republic of Azerbaijan” to the Secretariat of the Commission on Combating Corruption. The proposed guidelines and templates provide templates for agency action plans, a template for reporting by agencies on their implementation of action plan measures, and a template for reporting by the Commission on Combating Corruption on implementation of the national Action Plan.

At the 18 June event, the Commission representatives distributed an approved template based on the Council of Europe’s proposal. State bodies, had to use the template to report on the implementation of Action Plan measures under their areas of responsibilities, beginning with the reports that were due to be submitted to the Commission at the end of June 2008.

Following the holding of a seminar on 18 June 2008 with the Commission on ‘Implementation Status/Needs and Challenges’, the AZPAC Project team and the Commission on Combating Corruption (CCC) representative agreed that the Civil Service Commission (CSC) should be asked what further assistance they would find useful. On this basis, the CSC requested a model presentation that they could use to train local government officials on the implementation of the Law on Rules of Ethical Conduct. The AZPAC Long-Term Advisor provided the presentation on 30 September 2008.

On 12 December 2008, AZPAC and the Commission on Combating Corruption held a second event at which the AZPAC LTA presented and explained a proposed template for the anti-corruption plans of state bodies and explained how such action plans should be formulated, in particular, regarding the level of detail required. The CCC endorsed the template at the meeting, meaning it should have been used for the updated action plans the state bodies were obliged to submit by mid-December 2008. The AZPAC team has not been provided with new ministries’ action plans.

These activities have contributed and will contribute directly to the fulfilment of GRECO Recommendation ii. – *“to develop a mechanism to assess whether the measures included in the State Programme on Combating Corruption [now the National Strategy on Increasing Transparency and Combating Corruption 2007-2011] are being implemented in practice within the given deadlines...”*. To date, state body action plans were insufficiently detailed, which in principle made their implementation difficult to assess in practice. In addition, they also lack any standardised template for reporting on the implementation of their anti-corruption obligations.

For this activity to have an impact in practice, it is vital that state bodies use the proposed template for the formulation of their action plans, and the template for reporting on implementation. In addition, it should be noted, that with the exception of the Civil Service Commission, no other assistance was requested by any state body (or mediated by the CCC) to implement any specific measures within the Anti-corruption Action Plan.

Activity 1.4 – Development of a Template System of Guidelines on tools for reporting and monitoring implementation of Action Plan measures (Baku, 14 March 2008)

On 14 March 2008 the Long-Term Advisor to the AZPAC project submitted to the Secretariat of the Commission on Combating Corruption a set of “Proposed guidelines and templates for reporting and monitoring of implementation of the National Anti-corruption Strategy of the Republic of Azerbaijan”. The rationale for the guidelines was that while the government had a clear Anti-corruption Strategy and Action Plan, it lacked the following:

- The framework does not establish clearly the precise format according to which agencies must report on the implementation of their tasks;
- There is no binding format according to which agencies must formulate their own anti-corruption action plans;
- The Commission is not equipped with a template for reporting on how agencies have implemented their tasks under the Action Plan.

The proposed guidelines attempt to fill these gaps by providing templates for agency action plans, a template for reporting by agencies on the implementation of action plan measures, and a template for reporting by the Commission on Combating Corruption on implementation of the national Action Plan. As described above, these templates were accepted by the CCC and presented at two events organised within the AZPAC project, and should have been in use since July 2008 (in the case of the reporting template) and December 2008 (in the case of the state body action plan template).

As noted under Activity 1.3, these templates contribute directly to the implementation of GRECO Recommendation ii.

Activity 1.5: Support to the Commission on drafting and conducting surveys on anti-corruption perception and attitudes

Activity 1.5 of the AZPAC project envisaged a “seminar on the provision and explanation of Terms of Reference to the Commission on Combating Corruption (CCC) on the types and modalities of surveys that are planned to be carried out on an annual basis”. Since the AZPAC Workplan was approved, the CCC commissioned one baseline survey, conducted by the Constitution Research Foundation NGO, a member of the Network of Anti-corruption NGOs. The main objective of the seminar (roundtable discussion) held on 16-17 July 2008, was to present the survey along with other important surveys that had been conducted in Azerbaijan (notably surveys of citizens and businesses conducted by

Transparency International Azerbaijan), share experience, and provide advice and recommendations on how future surveys commissioned by the CCC should be conducted.

The event was attended by the AZPAC Baku team, representatives of the CCC, NGOs including those which have conducted surveys in Azerbaijan, and a representative of USAID. In order to gain and share experience, the event was also attended by members of the project team from the Council of Europe Project “Support to the Anti-corruption Strategy of Georgia” (GEPAC), whose Workplan includes the development of a survey in Georgia; the second day of the seminar involved a shorter meeting focusing on the development of a questionnaire for GEPAC, and was open to Azerbaijani representatives in order to share experience.

On the basis of the seminar the AZPAC Long-Term Advisor, who previously worked for the Council of Europe on the development of a best practice questionnaire for baseline surveys to be conducted in Ukraine, submitted summary comments on the survey already commissioned by the CCC and recommendations for future surveys. The main recommendations focused on the need to define the objectives of surveys clearly and to apply best practices in questionnaire design.

The advice and recommendations provided, should, if used properly, contribute directly to the implementation of GRECO Recommendation i. – *“to carry out a comprehensive study, in order to gain a clearer insight into the extent of corruption in Azerbaijan, its causes, its features and the sectors most affected by it”*. However, the exact content and results of the baseline survey already conducted have not been made public or provided to AZPAC despite repeated requests, and notwithstanding a statement that the survey was made public in March 2008 in the GRECO Joint First and Second Round Compliance Report completed in October 2008. A proper assessment of the impact of this activity is therefore impossible.

To the extent that the CCC takes into account the outputs of this activity, it constitutes a direct contribution to fulfilment of GRECO Recommendation i – *“to carry out a comprehensive study, in order to gain a clearer insight into the extent of corruption in Azerbaijan... and the sectors most affected by it.”*

Activity 1.6 – Provision of equipment to the CCC and its legislative Working Group

The office equipment for the Commission on Combating Corruption and its Legislative Working Group has been provided. The provision of the equipment is aimed at improving the strategic anti-corruption framework through providing these institutions with needed capacity.

Output 2: Draft laws/amendments to improve domestic legislation elaborated in cooperation with relevant partner institutions and benchmarking against

international standards in the fight against corruption and efficient implementation of the relevant legislative framework

Activity 2.1 - Conference on improving the transparency and efficiency in the legislative process

Activity 2.1 is entitled “Training on Treaty Law implementation at the domestic level with reference to all relevant anti-corruption conventions and instruments”. In view of the fact that activities 2.3 and 2.4 were expected to provide a detailed analysis of the level of compliance of Azerbaijan with its legislative obligations under international anti-corruption conventions, the AZPAC team concluded that Activity 2.1 would be most valuably designed to examine - and yield recommendations to maximise - the integrity and efficiency of the legislative process itself.

On 12 February 2009, a conference was held together with the CCC and the Milli Majlis (Parliament), in the premises of the Parliament. It brought together high level representatives of the legislative authorities (MPs) of the Republic of Azerbaijan, representatives of the civil society and media, different ministries, international organisations and Embassies, to discuss the legislative process in Azerbaijan and how it might be improved in order to facilitate the efficient passage of high-quality legislation and maximise its resistance to corruption. The conference was addressed by Mr Ziyafat Asgarov, 1st Deputy Speaker of the Milli Majlis of the Republic of Azerbaijan and Member of the Commission on Combating Corruption, Ms Margaret Killerby, Director of Co-operation of the Council of Europe, and Ms Anne Derse, United States Ambassador to the Republic of Azerbaijan.

Their remarks were followed by several presentations on the current situation and possible improvements – in particular presentations by the AZPAC Long-Term Advisor on how to design a legislative process that is resistant to corruption, by the representative of the CCC on the integrity of the legislative process in Azerbaijan, and by a representative of the Parliamentary Project of Development Alternatives Inc (DAI) on the legislative process in the Milli Majlis. The conclusions were subsequently adopted and further elaborated in the form of a technical paper on regulation of lobbying in Azerbaijan, submitted by the AZPAC Long-Term Advisor in June 2009 (see Activity 2.2).

Activity 2.2 - Advice and support for the elaboration of draft laws

In order to implement Activity 2.2, three issues were selected on which to commission opinions on draft legislation or possible draft legislation: plea-bargaining, regulation of lobbying, and conflict of interest.

Plea-bargaining

After a request by the CCC for opinions on the possibility of introducing plea-bargaining in Azerbaijan, it was agreed at the AZPAC Steering Committee Meeting on 18 April 2008 that this activity would be carried out in consultation

and cooperation with the US Department of Justice, which had already intended to provide assistance on plea-bargaining. Opinions on the possibility of introducing plea-bargaining in Azerbaijan were commissioned from a national expert (submitted in September 2008) and an international expert (submitted in January 2009). The second opinion was commissioned and financed by the Department of Justice. A seminar/workshop was expected to take place in September 2009, organized by the CCC and Department of Justice, to discuss if and how to pursue the introduction of plea-bargaining in Azerbaijan, based on the opinions submitted.

While the introduction of plea-bargaining is not required by international standards, its introduction is regarded as a possible means of facilitating prosecution of corruption.

Conflict of interest

In November 2008, the Long-term Advisor submitted an opinion (Technical Paper) on the draft Law on the Prevention of Conflicts of Interest in the Activities of the Public Officials prepared by the CCC's Working Group for submission to the Milli Majlis/Parliament of the Republic of Azerbaijan. The LTA had already submitted an opinion on an earlier (but nearly identical) draft in January 2007. It was not clear at the time of writing this report to which extent the CCC and the Government would incorporate the expert's recommendations in the draft law.

To the extent that the opinion contributes to the passage of a conflict of interest law, it will have directly contributed to the fulfilment of GRECO recommendation xviii – *“to enact and implement standards on conflicts of interest for all civil servants and officials..”*.

Lobbying

On the request of the CCC, the AZPAC project also commissioned opinions from a local and international expert on whether and how lobbying should be regulated in Azerbaijan. The opinion of the local expert was submitted in October 2008, and the opinion of the international expert (Long-term Advisor) in June 2009. Activity 2.1 (the event held in the Milli Majlis in February 2009) was an important input into the LTA's opinion. These opinions provide well-founded advice on how lobbying should be regulated in Azerbaijan, thereby providing a sound basis for the drafting of appropriate legislation as recommended – in particular on reform of the legislative process and passage of conflict of interest legislation and/or further ethical codes.

Activity 2.3: Review of compliance of national legislation with the provisions of the CoE Criminal and Civil Law Conventions and the United Nations Convention Against Corruption

Activity 2.3 involved the commissioning of assessments from national and international experts on the extent to which Azerbaijan fulfils the legislative requirements of the Council of Europe Criminal and Civil Law conventions on

Corruption and the United Nations Convention Against Corruption. For this purpose, the AZPAC Long-Term Advisor identified the provisions of these conventions that require specific legislation, after which, national experts were commissioned. Following the submission of reports by national experts, international experts conducted missions in Baku in November 2008, and submitted opinions (Technical Papers) using the the conclusions prepared by the national experts.

The reports – one on obligations in the area of corruption prevention, and one on the criminal and civil law requirements of the conventions - provided very important findings and identified a large number of gaps with regard to the compliance of the legislation of Azerbaijan. The reports are therefore an important step towards assisting the authorities to identify which actions are necessary to be undertaken for Azerbaijan to fulfil its obligations as a signatory to the Council of Europe and UN Conventions.

The results of Activity 2.3 were also in turn a major input into Activity 2.4, the elaboration of a “compliance matrix” showing the compliance of both domestic legislation and the institutional set-up with relevant international legal instruments.

Activity 2.4: Elaboration of the Compliance Matrix on compliance of domestic legislation with requirements of international anti-corruption instruments

On the basis of assessments of the compliance of the legislation of Azerbaijan with the requirements of the CoE Criminal and Civil Law Conventions on Corruption and the United Nations Convention Against Corruption, Activity 2.4 involved the elaboration of a matrix presenting the findings on compliance in an accessible and readable format that is amenable to revisions as compliance is improved in areas where there are gaps. The matrix is therefore an important step towards assisting the authorities to identify which actions are necessary to be undertaken for Azerbaijan to fulfil its obligations as a signatory to the Council of Europe and UN Conventions.

Output 3: Establishment of a network and system to prevent the use of the financial system for money laundering and terrorism financing purposes and enable the authorities of Azerbaijan to cooperate nationally and internationally in fighting money laundering and terrorism financing in accordance with European and international standards

Output 3 of the AZPAC project was directed at the “Establishment of a network and system to prevent the use of the financial system for money laundering and terrorism financing purposes and enable the authorities of Azerbaijan to cooperate nationally and internationally in fighting money laundering and terrorism financing in accordance with European and international standards”. Implementation of this part of the project was delayed significantly due to the late adoption of an anti-money laundering law – the law was passed in February 2009. Despite delays, partial implementation of Output 3 commenced in July

2008, and after the passage of the law, the AZPAC team completed activities foreseen by the Workplan.

The Activities of Output 3 intended to contribute directly to the fulfilment by Azerbaijan of GRECO Recommendation xiv – *‘to ensure that the anti-money laundering system becomes operational as soon as possible, to rapidly provide the FIU with appropriate staff, resources and access to relevant information sources (data bases), to provide training to the FIU’s staff as well as to investigators, prosecutors and judges on the new provisions, and to educate reporting entities regarding their reporting duties under the new legislation.’* They were also a direct contribution to the implementation of Financial Action Task Force (FATF) recommendations, for example contained in the MONEYVAL Third Round Detailed Assessment Report on Azerbaijan⁵.

Activity 3.1: Awareness-raising event on draft anti-money laundering (AML) legislation and its implementation

At the AZPAC Steering Committee meeting on 18 April 2008, it was agreed that an awareness-raising event should be held together with the US Department of Justice to provide the relevant institutions with international experience on what will be needed to implement the legislation.

The event was held on 22 July 2008 and received considerable media coverage. The US Ambassador Anne Derse and US Embassy Resident Legal Advisor Peter Strasser, communicated to the Azerbaijan authorities the problems in the current draft law that passed its first reading in the Milli Majlis in June 2008. The project team believe that the event played an important role in communicating the reservations of international experts concerning the draft, and encouraging the later passage of an improved draft – thereby contributing to the implementation of the first part of GRECO Recommendation xiv.

The Council of Europe expert, Mr Daniel Thelesklaf, Executive Director of the Basel Institute on Governance and former Director of the Swiss Financial Intelligence Unit, gave a high-quality presentation on how the AML law needs to be implemented in practice. The information provided to the relevant institutions on implementation was also a useful precursor to the proper implementation of Output 3 activities.

Activity 3.1 a: Training for future FMS officers and entities with obligations under the AML law

After the passage in February 2009 of the Law of the Republic of Azerbaijan on the Prevention of the Legalisation of Criminally Obtained Funds or Other Property and the Financing of Terrorism, the AZPAC team and its counterparts and beneficiaries agreed on a plan for the implementation of the trainings envisaged under Output 3. The first three trainings were provided by Kristel

⁵[http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round3/MONEYVAL\(2008\)27Summ-AZE3_en.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round3/MONEYVAL(2008)27Summ-AZE3_en.pdf)

Poh, head of AML/CFT at the Basel Institute on Governance from 16-18 June 2009. The recipients were Central Bank officials responsible for fighting money laundering (expected to become staff of the FMS after its formal establishment), and, during the following days, banks and other financial institutions and non-financial institutions with obligations to report suspicious transactions. The trainings were also attended by bodies responsible for regulation/supervision of these entities. Approximately 150 persons attended the three trainings.

The training was highly interactive with use of case studies and group breakout sessions, and was positively received by Central Bank officials. The training was a direct contribution to the fulfilment of the last part of GRECO Recommendation xiv.

Activity 3.1 b: Two trainings for the new Financial Monitoring Service and relevant law enforcement bodies on implementation of the new law to prevent money laundering and terrorism financing

From 6-10 July 2009 two trainings were provided jointly by the US Department of Justice and Council of Europe for Central Bank anti-money laundering unit staff, prosecutors, judges, judicial legal council, Ministry of National Security, Customs Committee, Ministry of Taxes and Ministry of Justice. The trainings focused on prosecuting anti-money laundering cases. The US partners provided two trainers (John Madinger, Senior Special Investigator, Criminal Investigation Department of US Internal Revenue Service, and Peter Strasser, Resident Legal Advisor, US Embassy in Azerbaijan) and the Council of Europe one trainer (Pedro Pereira, Basel Institute on Governance). The trainings were attended by a total of 76 participants.

The trainings provided a highly useful background to the prosecution of money laundering cases together with a specific examples on how to prosecute specific kinds of money laundering schemes. The trainings were very positively received by the participants and contributed directly to the implementation of GRECO Recommendation xiv.

Activity 3.2: Training on the use of special investigative means (SIMs) for law enforcement officials in light of European standards and ECHR case-law when combating economic crime, reporting on corruption, suspicious financial transactions and inter-agency cooperation

After postponement from July 2009 due to a travel problem preventing the attendance of the trainer, the training was provided on 8 September 2009 by Martin Bridger, Detective Chief Superintendent, London Metropolitan Police. The training was attended by prosecutors, Ministry of National Security, National Bank and Ministry of Interior officials. The training proved useful for the officials, who raised many questions of local relevance. The training is expected to contribute directly to the implementation of GRECO Recommendation xiv.

Activity 3.4: Provision of technical opinion on the procedures and information systems for receiving and processing notifications of suspicious transactions

Assistance to the new Financial Monitoring Service (FMS) on procedures and information systems for submission and processing of notifications of suspicious transactions was provided by Oleksiy Feshchenko from Basel Institute of Governance. Technical paper/expert opinion and supporting documents were provided in late September 2009. The opinion submitted is a direct contribution to the implementation of GRECO Recommendation xiv.

Activity 3.5: Provision of best practices literature to FMS

During the implementation of Activity 3.4, in September 2009, the FMS was also provided with key best practices literature, specifically Guidelines on Exchange of Information with foreign FIUs and a Manual Concerning Internal Procedures of FIU. These documents were commissioned as part of the Council of Europe's Project against Corruption, Money Laundering and the Financing of Terrorism in Moldova, but are of equal relevance to the new FMS in Azerbaijan. The literature provided is a direct contribution to the implementation of GRECO Recommendation xiv.

Activity 3.6: Study visits for staff of FMS staff and State Securities Commission (14 – 16 September 2009, Prague and 16 - 18 September 2009 Podgorica)

This activity was directly aimed at supporting the establishment of the Azerbaijani Financial Monitoring Service. The delegation (composed of 5 representatives from the National Bank and State Committee for Security) had an opportunity to visit and become familiar with internal structures, practices, rules, IT systems, international cooperation and other important issues concerning the functioning of the Czech Republic and Montenegrin FIUs. Furthermore, models and structures of inter-institutional cooperation were presented and discussed during the meetings, with emphasis on possible problems the newly established unit may face. Also, the in-depth presentations of different case studies in combating money laundering and financing of terrorism were elaborated.

The study visit was highly appreciated by the members of the Azerbaijani delegation and was also considered as one of the major steps forward in establishing the FMS. Following the visit, the vice chairman of the National Bank of Azerbaijan sent a letter of gratitude to the Czech and Montenegrin FIUs as well as Council of Europe.

Output 4: Enhancement of capacities for the prevention of corruption through micro-system studies and through institutionalising efficient management of ethics' provisions and conflict of interest in the public service

Activity 4.1: Conducting 3 micro-system studies

One of the most important elements of the AZPAC project was the carrying out of micro-system studies on selected institutions. Such studies were a direct

contribution to fulfillment of GRECO Recommendation i – “ to carry out a comprehensive study, in order to gain a clearer insight into the extent of corruption in Azerbaijan, its causes, its features and the sectors most affected by it.” The micro-system study on the Ministry of Taxes should also serve as a valuable source of information for tax authorities to implement GRECO Recommendation xxvi – “that tax authorities pay particular attention to the problem of corruption in the exercise of their fiscal duties, and to this end develop guidelines and specific training modules concerning the detection of corruption offences and the enforcement of the relevant legislation.”

In June 2008, the following institutions were selected for conducting micro-system studies: the Ministry of Taxes (already envisaged in the Workplan), the Ministry of Education and Ministry of Health. National experts were selected and hired in September 2008, and the Basel Institute on Governance contracted to provide the services of international experts to work on the studies. A draft methodology was circulated during the summer of 2008 to the ministries and CCC. It was further, refined and updated on the basis of input and background work from the AZPAC team in Baku and feedback from the ministries concerned, and finalised in early October 2008.

After preliminary work by national experts to identify relevant laws, regulations and procedures for analysis as well as persons to be interviewed, a two-week mission was conducted by experts from the Basel Institute in December 2008. A second week-long mission took place in February 2009. During the missions, around 50 meetings were conducted with the relevant authorities, experts, research organisations and NGOs, focus groups of users of public service/taxpayers and individual users/taxpayers.

At the end of March, draft reports on the three sectors were submitted to the AZPAC team. Due to delays in receiving some important information requested from the Ministry of Taxes that was originally regarded as necessary for the final completion of the reports, the reports were submitted to the ministries and CCC for comments on 20 May 2009. The final version of each report was submitted to the respective ministries in early September 2009.

Activity 4.3: Training on the concept of Integrity tests in the judiciary for Legal Judicial Council and prosecutors

The training was originally scheduled for late April 2009 but was then scheduled for July 2009 as the same trainer was to provide also the training on special investigative means (Activity 3.2). The training was postponed again due to travel problems preventing the trainer’s attendance. It finally took place on 8 September and was provided by Martin Bridger, Detective Chief Superintendent, London Metropolitan Police. The training was attended by officials of the Judicial Legal Council and prosecutors.

Activity 4.4 – Workshop to support the elaboration and implementation of a national strategy and action plan for training on ethics and conflict of interest for the Civil Service Commission (Baku, 31 January 2008)

A key component of the AZPAC project was the assistance to the Civil Service Commission in the elaboration and implementation of a national strategy for training on ethics and conflict of interest. The elaboration of such a strategy was complicated somewhat by the fact that the draft conflict of interest law had not yet been passed (and has not yet been passed at the time of writing this report). The Law on Rules of Ethical Conduct was passed in June 2007. The implementation of this activity therefore proceeded as planned, on the assumption that the training strategy for implementation of the Rules of Ethical Conduct can also be applied to the implementation of conflict of interest provisions once these become law.

To prepare the ground for the development of a National Strategy and Action Plan for training on ethics and conflict of interest, a Workshop on Drafting and Assessment of Training Needs and Modalities for the Civil Service Commission was conducted on 31 January 2008. The Workshop brought together 80 representatives of all relevant Government agencies dealing with human resources to discuss and exchange views on current training needs on conflict of interest and ethics. The workshop was opened by the Civil Service Commission chairman and was followed by a fruitful discussion and presentation of the Council of Europe expert on international standards and practice, public awareness and mechanisms for monitoring enforcement of ethical conduct rules in government agencies. It was agreed that the AZPAC Project Long-Term Advisor, after receiving necessary inputs from the Civil Service Commission, would prepare the comprehensive Action Plan on three trainings for the civil servants to be delivered during the period February – May 2008.

In February 2008, in close consultation with the Civil Service Commission, the Long-Term Advisor drafted a proposed National Strategy and Action Plan for Training of Civil Servants on Ethics and Conflict of Interest, which was submitted to the Civil Service Commission on 20 February 2008. The Civil Service Commission agreed with the proposed strategy as the right approach to be followed in developing training on these issues.

Activity 4.5 – Provision of pilot trainings on ethics and performance assessment

On the basis of the national training strategy and action plan, three pilot trainings on implementation of the ethics rules were envisaged as part of the AZPAC projects. The trainings were also to cover the issue of civil servant performance evaluation, as required by amendments to the Civil Service Law which came into effect in 2007. In February 2008 the Civil Service Commission provided the AZPAC Long-Term Advisor with a set of draft Regulations for Evaluating the Performance of Civil Servants. On 12 March 2008, the Long-Term Advisor provided the Commission with a brief set of comments on the draft regulations, as a precursor to training.

Following the elaboration of the proposed National Strategy and Action Plan, four trainings were provided by the Long-Term Advisor on the implementation of the Law on Rules of Ethical Conduct on 11 April 2008, and by two CoE experts, Ms Linda Austere from the Latvian NGO Providus on 15-16 April 2008, and Mr Hans-Joachim Rieger from German DBB Akademie on 7-8 May and 15-16 September 2008. The trainings focused on clarification and communication of ethical rules to civil servants, how to train civil servants to resolve ethical dilemmas, and enforcement.

The first introductory training was attended by approximately 37 government officials (20 women and 17 men). The second training was attended by around 50 officials (19 women and 31 men). The third training was attended by 45 officials (24 women and 21 men). The first training was provided by the Long-Term Advisor at the location of the AZPAC office and therefore involved minimal costs. This allowed for another training from Mr Rieger on performance assessment as requested by the Civil Service Commission (CSC) and which was provided on 15-16 September 2009. The last training, attended by 36 officials, provided feedback to the CSC on its draft Regulations for Evaluating the Performance of Civil Servants (including a written technical paper submitted after the training) thus enabling the CSC to modify the draft Regulations by the end of 2008 and to train participants on how a performance evaluation system should be implemented in practice.

Around 20% of the participants in all trainings were from the Civil Service Commission and the remainder, from the human resources departments of state institutions. The trainings, especially the first and third, were highly interactive, stimulated lively discussion among the participants, and were evaluated very positively by them.

The trainings conducted under Activity 4.5 are a direct contribution to the fulfilment of GRECO Recommendation xviii - *“to enact and implement standards on conflicts of interest for all civil servants and officials... and to provide for an appropriate mechanism to enforce these standards”*, and to the follow-up of the fulfilment of GRECO Recommendation xxi - *“to adopt a Code of Ethics for all civil servants, both at state and local level”*. It should be noted that Activity 4.5 was also complemented by the model presentation provided to the CSC by the Long-term Advisor for training local government officials (see Activity 1.3)

Activity 4.6: Training for civil servants on reporting corruption and protection of whistle blowers within the civil service administration

On 12 March 2009, the AZPAC Long-term Advisor conducted one-day training for civil servants on best practices in the area of . The training, which provided a number of concrete recommendations and drew attention to the conditions that must be in place for any regime to facilitate whistleblowing and protect whistleblowers to function, was attended by officials from the Civil Service Commission and 29 other state institutions.

The training provided vital information to the Azerbaijan authorities, information that will provide a good basis for implementing properly GRECO Recommendation xx – to introduce clear rules/guidelines to ensure that officials who report suspicions of corruption in public administration on good faith are adequately protected from retaliation – including through the strengthening/modification of current whistleblower protection clauses in the draft Law on the Prevention of Conflicts of Interest in the Activities of the Public Officials.

4 Activities dropped

Due to circumstances beyond the control of the AZPAC team, project activities 1.2, 2.5 and 4.2 were dropped. Activity 1.2 – to support the CCC during the 2008 GRECO compliance evaluation became unnecessary, because the CCC had already submitted its responses to GRECO by the time the Long-term Advisor took up his position in Baku. Activity 2.5 – the elaboration of legislative guidelines and recommendations issued by the 3rd Round GRECO Evaluation Report – was impossible to implement because no GRECO 3rd Round Evaluation was scheduled prior to the end of the Project. During discussion of implementation of Activity 4.2 – the introduction of integrity testing to contribute to the strengthening of capacities for the prevention of corruption within the Ministry of Taxes – it became apparent that a misunderstanding had occurred during the formulation of the Workplan; the Ministry of Taxes understood integrity tests as a form of audit of the functioning of tax offices – an issue on which the Council of Europe does not possess specific expertise - whereas integrity testing in the anti-corruption literature refers to ‘sting’ operations to reveal corrupt officials, something the Tax Ministry did not request. This Activity could therefore not be implemented as originally understood, and since the Micro-systems Study conducted on the tax administration could itself be regarded as a form of integrity testing in the former sense, Activity 4.2 was dropped as well.

5 Conclusions and Recommendations

The AZPAC Project was implemented according to the Workplan with the exception of Output 3, whose activities were implemented later than planned due to delays in passing anti-money laundering legislation, and the activities dropped for reasons beyond the control of the Project Team as described in Section 4 above.

The overall objective of the Project was to ‘enhance the implementation of GRECO and MONEYVAL recommendations and compliance with European and international anti-corruption standards’. Project activities conducted according to the Workplan (as described in Section 3 of this report) provided the Azerbaijan authorities – the Commission on Combating Corruption and other counterparts and beneficiaries of specific activities – with a wealth of information that has

enhanced their capacities to follow on the GRECO and MONEYVAL recommendations cited in Section 3. More specifically:

- The project delivered the reporting and monitoring templates (Activity 1.4) that can be used by the authorities to significantly improve the formulation and implementation of their anti-corruption policy. If used systematically, these templates can play a big part in making the formulation, implementation and monitoring of implementation of anti-corruption policies easier and more efficient.
- The Project delivered important advice on the conduct of future surveys (Activity 1.5). This advice can be used to make important improvements in future surveys, thereby raising the reliability and relevance of the information yielded by such surveys as a vital input into the anti-corruption policy process.
- Under Activity 2.1 important recommendations concerning the reform of the legislative process in Azerbaijan were provided. The activities conducted as part of this component – and especially the February 2009 event organised in the Parliament – stimulated an important debate on this issue. In combination, this has created a good context for valuable reforms of the legislative process to be initiated.
- The project provided advice on a number of draft laws (Activity 2.2) – for example providing comments on the draft Conflict of Interest Law. The opinions and recommendations provided in these Technical Papers have been a valuable input for the authorities in determining if, and how to move forward in the areas of plea-bargaining, regulation of lobbying and conflict of interest.
- Activities 2.3-2.4 delivered detailed analysis of the compliance of the legislation of Azerbaijan with the requirements of international anti-corruption conventions. In the context of the continuing implementation of GRECO recommendations, the upcoming 3rd Round Evaluation, and future review mechanisms for the United Nations Convention against Corruption, these outputs will be a valuable tool for improving compliance with Council of Europe conventions and the UNCAC.
- The activities under Output 3 of the project have provided key advice and training on the establishment of a system to prevent money laundering and terrorism financing, as well as improving the prosecution of economic crime and corruption. A large number of state agents from different institutions (judiciary, prosecution, police, National Bank, etc) have been provided with an opportunity to learn and discuss the international standards and good practices in investigating techniques, mutual legal assistance in criminal matters, use of Special Investigative Means, financial investigations, inter-agency cooperation, etc, thus significantly raising the institutional capacities to better suppress and combat corruption and money laundering. In addition, at the early stages of the implementation of the new anti-money/terrorism financing legislation, such assistance proved to be a very valuable asset to the authorities.
- The micro-systems studies delivered under Activity 4.1 include a detailed analysis of the vulnerability to corruption of three key sectors – tax, health

and education. The comprehensive reports provide not only an analysis of the situation in these institutions, but also recommend actions to be undertaken. These recommendations are of significant importance for the authorities in their effort to formulate the reform policies.

- Activities 4.4-4.5 supported the drafting of a national strategy for training the Civil Service on ethics and conflict of interest, and provided key pilot trainings to the Civil Service Commission and senior human resources officials. These activities are a vital investment to provide Azerbaijan with the tools it needs to implement a proper ethics framework in the Civil Service.
- Activity 4.6 provided important guidelines and training on the facilitation of whistleblowing and protection of whistleblowers which can be used to draft or modify relevant legal acts – including specifically relevant provisions in the draft Conflict of Interest Law.

In all of these areas, the AZPAC project has fulfilled the goals of the project in terms of completing the activities in the Workplan. For the project to be implemented optimally – that is, for the indicators stated in the Workplan to be fulfilled – it is necessary for the assumptions stated in the Workplan to hold, including commitment by the Azerbaijan authorities to use the outputs of the project to implement specific measures or reforms. While at the time of writing it is clearly premature to make a comprehensive assessment in terms of developments in the anti-corruption reforms and other activities by the authorities on the basis of the project outputs, the AZPAC team has provided the outputs necessary for such implementation to be completed.

Furthermore, as foreseen by the cooperative agreement between the USAID and CoE the project evaluation had been conducted and the Evaluation Report was subsequently submitted. The report states that *'The project has reached, or prepared, as much **impact** as was possible. In order to achieve full and **sustainable** impact of the project's outputs, it is now necessary that the beneficiaries make further use of the numerous tools provided for by the project – otherwise the efforts potentially risk being lost...'*

*...'*For the **design** of the project, the entire spectrum of possible stakeholders had been consulted and included. As a result, the four major needs were appropriately addressed (strategy, legislation, establishment of FIU, and prevention of corruption in the civil service). The project's indicators are rather broad and point mostly beyond the actual completion of the project; this makes sense since the project depends on the beneficiaries now carrying forward the advice and training provided for by the project. With hindsight, it seems that the activities could have been more **conditional** to participation of the beneficiaries, e. g. the advice on surveys could have been made conditional to the publication of already existing surveys and/or to the conduction of a survey during the course of the project. The project has been **delivered** in a professional and timely fashion, and in good cooperation between the local project team and the beneficiaries. The evaluator recommends posting all non-confidential technical papers, presentations and activity reports produced in the framework of the project on the **website** of the project and on the website of the beneficiaries. This would provide an opportunity of the project's valuable outputs and resources being used by a wider public and allow for full transparency...'

...' As an overall assessment, it can be said that the project has already achieved, or prepared, considerable impact with a comparatively small

budget; in order to achieve full and sustainable impact of the project's outputs it is necessary that the beneficiaries make further use of the numerous tools provided for by the project'.

6 Visibility

The AZPAC team has completed and delivered to the donor the Branding Strategy and the Marking Plan in accordance with the requirements of the Cooperative Agreement between USAID and Council of Europe. Moreover, throughout the implementation period a number of press releases/media advisories were issued and relevant project events had significant media presence.

The project web-site:

http://www.coe.int/t/dghl/cooperation/economiccrime/corruption/Projects/AZPAC/azpac_en.asp

has been regularly updated and filled with all relevant information as well as with technical papers and project reports thus significantly contributing to the project's visibility.

7 Annexes

Annex 1: AZPAC Workplan of Activities

Annex 2: AZPAC up-dated Calendar of Activities

Annex 3: List of AZPAC Project Documents /Technical Papers