



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

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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 second reporting period from 1 July 2008 to 30 September 2008 as agreed through the Cooperative Agreement between the Council of Europe and the United States Agency for International Development and during the first Steering Committee meeting among the Project partners on 28 April 2008.

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 is 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 (Technical Co-operation Department, Directorate General of Human Rights and Legal Affairs) is 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 offices are), is 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 amounts up to 800.000 USD.

The Council of Europe financial support is comprised as following:

- Human resource: 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 has put at the disposal of the Council of Europe free of charge Project Offices including here, project team offices, conference room, training room, and furniture. 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 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. The 2006 GRECO evaluation report welcomed the adoption of this programme 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 these recommendations will be assessed by GRECO in October 2008. Moreover, 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 recently released 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.

2.2 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

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>

obligation for officials to declare their assets and incomes, and makes provisions allowing for the confiscation of the proceeds of corruption. A Presidential Decree of March 2004, On the Implementation of the Law on Combating Corruption, provided for the statute of the State Commission on Combating Corruption, as well as for 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, where the following new provisions/offences were introduced: the offence of money laundering; confiscation of proceeds of crime; trading in influence; privileges and benefits, as well as 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 studied 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 prepared were sent to the Council of Europe, with view to their being discussed at a follow-up expert meeting.

The following pieces of legislation have reviews by the Council of Europe as draft laws that were to be presented during the parliamentary discussions in fall 2007: Draft Law on Conflict of Interest; Draft Law on Criminal Liability of Legal Persons for Corruption Offences; Draft Law On the Prevention of the Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism (AML/CFT) and the Draft Law on Ethical Conduct Code 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 separate Law on Criminal Liability of Legal Persons drafted by the Commission on Combating Corruption will not be passed. The above-mentioned Joint Working Group is supposed to finish modification of the new Criminal Code with criminal liability of legal persons issues incorporated into it by the end of 2008.

A number of other laws advanced to the next stage in the legislative process, such as Code on Competition and the Administrative Procedures Code passed in the 2nd reading in the Parliament while the Law on Education passed in the 1st reading. A Presidential Decree was issued on October 3, 2008 on "Changes and Amendments to the Law on Civil Service" identifying a number of preconditions for successful implementation of the law.

A number of other laws advanced to the next stage in the legislative process, such as Code on Competition and the Administrative Procedures Code passed in the 2nd reading in the Parliament while the Law on Education passed in the 1st reading.

The Draft Law **On the Prevention of the Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism (AML/CFT)** commented by US Department of Justice and Council of Europe experts in

December 2006 and then in March/April 2007, was passed in the 1st reading in the Parliament on 6 June 2008. Each draft law needs to go through 2nd and 3rd reading of the Parliament followed by issuance of Presidential Decree before it becomes legally binding. According to the Parliamentary procedures if any changes are made to the draft law during 1st, 2nd or 3rd reading it will be returned to the Office of the President for further elaboration.

However, Azerbaijan has still not enacted comprehensive and satisfactory AML/CFT legislation. The above-mentioned draft AML/CFT legislation, that was presented and passed a first reading in the Parliament, still has numerous deficiencies, which have been brought to the attention of the Azerbaijani authorities by MONEYVAL. These deficiencies need remedying in the second and third readings in the autumn. The MONEYVAL plenary decided at its July 2008 meeting to postpone consideration of a proposed public statement in respect of Azerbaijan's continuing non compliance with MONEYVAL reference documents (under Step VI of the MONEYVAL Compliance Enhancing Procedures) until MONEYVAL's December meeting. Furthermore, the Council of Europe Committee of Ministers, at its 1037th meeting (held on 8 October 2008) noted with concern that Azerbaijan is at Step V in MONEYVAL's Compliance Enhancing Procedures as there is no comprehensive anti-money laundering and countering the financing of terrorism legislation in place. The Deputies also welcomed the information provided by the Azerbaijani delegation that the legislative process is continuing and called upon the Azerbaijani authorities to urgently complete the process of adopting satisfactory and comprehensive anti-money laundering and countering the financing of terrorism legislation which meets all MONEYVAL's concerns and set an agenda for its early and effective implementation.

While the overall legal framework of Azerbaijan has been brought into line with international standards and instruments, the prime challenge is now that certain laws still need to be passed by Parliament, and be followed by an effective and efficient implementation.

2.3 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 works 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 bringing 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 terrorism; and
- Introducing micro-system studies and integrity tests as tools to enhance the capacities for the prevention of corruption.

2.4 Expected Results and Methodology

The results of the project are 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 levels 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 are 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 the micro-system studies and through institutionalizing 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).

2.5 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 FIU, 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 FIU through delivery of relevant material (standards and best practices) in Azerbaijan language
Activity 3.5	Support to organisational set-up of the new FIU by providing guidelines and tools on the organigramme, job descriptions, Manual of Operations, Rules of Procedure, and elaboration of a training strategy for all FIU officers
Activity 3.6	Study visit(s) for new FIU 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

2.6 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/her competence/experience or, as necessary, by Short-Term Advisors selected according to their specific field of competence, through direct conversation with individual officials or groups of officials on the issues specified in the Workplan and wherever necessary.

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.

3 Overall Achievements

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				
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 1.5	Seminar/RTD on surveys	Completed	16 July 2008, Baku	Attended by around 10 participants: AZPAC project team, CCC representatives, NGO representatives. LTA submitted a report with recommendations on how CCC should proceed with future surveys.
Activity 1.6	Provision of assessment of equipment needs of CCC and its legislative Working Group (prior to provision)	On-going	October – November 2008	List of equipment needs finalised; purchasing of the equipment to be done in accordance with USAID and CoE procurement rules.
Output 2				

Activity 2.2	Advice and support for the elaboration of draft laws	On-going	September 2008	Opinions of local experts received on possible implementation of plea-bargaining and lobbying regulation in Azerbaijan
Activity 2.3	Review of compliance of national legislation with provisions of Council of Europe and UN anti-corruption conventions	On-going	September 2008	Local and international experts selected, schedule for visit of international experts agreed
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.
Output 4				
Activity 4.1	Micro-systems studies	On-going	July-September, Baku	Methodology elaborated, finalised and agreed with counterparts, local and international experts selected and schedule for studies finalised.
Activity 4.5	Provision of pilot training on Performance Evaluation for civil servants	Completed	15-16 September 2008, Baku	Training 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.
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4 Activities implemented and progress towards project objectives during the reporting period

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

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

Following the holding of a seminar on 18 June 2008 with the Commission on 'Implementation Status/Needs and Challenges', the AZPAC Project team discussed with the CCC what further specific assistance should be provided. First, it was agreed that the Civil Service Commission 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, and the AZPAC Long-Term Advisor provided the presentation on 30 September 2008 (see Annex 4 to this Report). Second, it was agreed with the CCC that as a possible second form of follow-up assistance it would be useful to hold a follow-up event in November or December. The aim of such an event would be to distribute to state bodies a template for their own anti-corruption action plans based on the recommended template submitted by the AZPAC Long-Term Advisor to the CCC in March 2008 and provide them with guidance on how to revise the action plans they already have in line with the template.

These activities have contributed and will contribute directly to 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...".

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 seminar (roundtable discussion) held on 16-17 July 2008 therefore had the objective of presenting this survey along with other important surveys that have been conducted in Azerbaijan (notably surveys of citizens and businesses conducted by Transparency International Azerbaijan), sharing experience, and providing 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 the 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 provision of this advice and recommendations will, 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".

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

In May the CCC submitted to the Council of Europe Secretariat its assessment of equipment needs of CCC and its legislative working group. This list will be reviewed and discussed with the Project Donor and the activity is then expected to be conducted in accordance with the Workplan.

The provision of equipment to the CCC and its legislative working group currently under implementation is expected to improve the strategic anti-corruption framework by 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 2.2 - Advice and support for the elaboration of draft laws

During the reporting period two opinions were commissioned and received from local experts: one on the possibilities of introducing plea-bargaining in Azerbaijan and one on how lobbying should be regulated (see Annexes 5 and 6 to this Report). Both these opinions are being examined in turn by international experts who will provide comments and recommendations. In the case of plea-bargaining, 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. Accordingly, the international expert is being provided and funded by the DoJ. On the subject of lobbying regulation, in addition an event on preventing corruption in the legislative process will be held in December 2008 together with the Milli Majlis (Parliament of Azerbaijan), CCC and DAI (Development Alternatives, Inc). The international expert (the AZPAC Long-Term Advisor) will submit a consolidated opinion/recommendations on how lobbying should be regulated in Azerbaijan after this event.

The opinions commissioned on if and how plea bargaining should be introduced in Azerbaijan (Activity 2.2) will provide well-founded advice on if and how legislation should be drafted in this area. The opinions commissioned on how lobbying should be regulated in Azerbaijan will 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.

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 involves the commissioning of assessments from national and international experts of the extent to which the 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 of consideration of legislation (see Annex 8 to this Report), following which national experts were commissioned. Following the submission of reports by national experts international experts will conduct missions in Baku in November, after which they will submit opinions on the conclusions of the national experts.

The results of Activity 2.3 will in turn be 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. The implementation of this activity will also be a very important contribution to fulfilment of Azerbaijan's international obligations under the three mentioned anti-corruption 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

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

Activity 3 of the AZPAC project is 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". To date this part of the project has been delayed due to the failure of the authorities to pass an anti-money laundering law, and the Council of Europe remains concerned over the slow progress in relation to the anti-money laundering legislation. However, in June a draft law passed first reading in Parliament. 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 as it stood in the draft then valid.

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 first reading in the Milli Majlis in June 2008. The representatives of the Azeri authorities appeared to be willing not only to ensure the quick completion of the passage of the law in the autumn parliamentary session, but also to take into account the criticisms of the draft. It is hoped that this will contribute to the rapid passage of an improved draft – thereby contributing to implementation of GRECO Recommendation xiv. The AZPAC team was informed by CCC representatives in September 2008 that the problems identified in the draft have been acknowledged by the Azerbaijani authorities and that an amended draft will be passed before the end of 2008.

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 of 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 implementation of Activity 3

proper. The Council of Europe remains ready to proceed with implementation of Output 3 as soon as above-mentioned legislation is passed.

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 the public service

Activity 4.1: Conducting 3 micro-system studies

One of the most important elements of the AZPAC project is the carrying out of micro-system studies on selected institutions to identify corruption-prone areas and make recommendations aimed at preventing corruption. In June the institutions in which the studies will be conducted were clarified. During the reporting period a draft methodology for conducting the studies was submitted by the Basel Institute on Governance, which will conduct the studies in cooperation with the AZPAC team. The methodology was then refined and updated on the basis of i) input and background work from the AZPAC team in Baku, and ii) feedback from the ministries concerned. The methodology was finalised in early October. Two national experts have been selected for each study based on agreement between the AZPAC team and the CCC. Preliminary work by the national experts to identify relevant laws, regulations and procedures for analysis as well as persons to be interviewed will be followed up by a two-week mission of Basel Institute experts in December 2008.

The micro-systems studies being implemented under Activity 4 are a direct implementation of the objective of Output 4, and in general are a direct contribution to the fulfilment of GRECO Recommendation i. 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.

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

Following the three trainings provided in April-May 2008 on the implementation of the Law on Rules of Ethical Conduct, a final training was provided in September 15-16 to the Civil Service Commission and ministry human resources officials on performance evaluation for civil servants. The training was designed to provide feedback to the CSC on its draft Regulations for Evaluating the Performance of Civil Servants, and to train participants on how a performance evaluation system should be implemented in practice. The training was provided by the Council of Europe expert, Mr Hans-Joachim Rieger from DBB Akademie, who also provided a written summary set of recommendations on how the draft Regulation should be modified and how the system should be implemented, together with a model training template for the CSC to train ministry officials responsible for implementing performance evaluation (see Annex 7 to this Report). The training was attended by 36 persons, who evaluated it very highly.

The training was the last in a series of trainings that focused predominantly on the implementation of the Law on Rules of Ethical Conduct. Training on performance evaluation was included due to the fact that the establishment and implementation of a performance evaluation system is envisaged under Measure 23 of The Action Plan for the Implementation of the National Strategy on increasing Transparency and against Corruption 2007-2011. The training and the accompanying feedback are expected to improve considerably the draft performance evaluation regulation of the Civil Service Commission, and provided the Commission and ministry human resources officials with vital information on implementation of the performance evaluation system.

5 Planned Activities for period October-December 2008

Output	Description of activity	Status	Date
Output 1			
Activity 1.3	Seminar on state body anti-corruption action plans	Planned	November/December 2008
Activity 1.6	Provision of equipment to the CCC and its legislative Working Group	In preparation	October 2008
Output 2			
Activity 2.2	Event on integrity of the legislative process as a component of advice/RTD on possible lobbying regulation	In preparation	December 2008
Activity 2.3	Review of compliance of national legislation with provisions of CoE and UN anti-corruption conventions	Ongoing	October-December 2008
Output 3 - Note: some of the activities (3.4, 3.5 and 3.6) foreseen under Output 3 will take place after the adoption of the Anti-money Laundering legislation			
Activity 3.1	Two 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	Planned	After passage of AML law
Activity 3.2	Two 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 FIU, 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	Planned	After passage of AML law
Output 4			
Activity 4.1	Preparing and conducting micro-system studies	On-going	November-December 2008

6 Conclusions and Recommendations

During the reporting period the Council of Europe has been implementing the following project activities according to or ahead of the Workplan³ schedule:

- Support to the Commission on drafting and conducting surveys on anti-corruption perception and attitudes
- Provision of equipment to the CCC and its Working Group
- Provision of advice and support for the elaboration of draft laws
- Preparation of 3 micro-system studies
- Provision of pilot training and methodology with relevance to performance assessment.

These activities have contributed significantly to fulfilment of the overall objective of the project – to enhance the implementation of GRECO and MONEYVAL recommendations and compliance with European and international anti-corruptions standards – and the objectives of specific project outputs as defined in the Workplan.

Furthermore, 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. The Branding Strategy and the Marking Plan are submitted in Annex 3 to this Report.

Cooperation and communication between the AZPAC team and its counterparts – in the reporting period the Commission on Combating Corruption and Civil Service Commission – has been excellent. The fact that the Workplan was jointly prepared, agreed and subsequently approved by project partners (CoE, CCC and USAID) significantly influenced the implementation of project activities. The Workplan has been adhered to (with the exception described above), and preparation and implementation of further project activities is currently continuing with no problems. Full implementation of the project depends however upon the passage of the anti-money laundering law, and also upon the full development of individual anti-corruption action plans by state bodies.

6.1 Revision of the Project Budget

Following the one year project's implementation period (30 September 2007 – 30 September 2008), the Council of Europe will propose (for approval) to the donor the revised budget in accordance with the Cooperative Agreement Attachment C – "Revision of Award Budget". The proposed revised budget will not constitute a request for additional funding but will only show a re-allocation of already awarded funds in order to have sufficient financial means to carry out the forthcoming project's activities of key importance.

7 Annexes

Annex 1: AZPAC Workplan of Activities

Annex 2: AZPAC up-dated Calendar of Activities

Annex 3: Project's Branding Strategy and Marking Plan

Annex 4: Model Civil Service Commission presentation on implementation of ethical rules for officials of local executive authorities

Annex 5: Technical Paper on Plea bargaining and issues related to its implementation in Azerbaijan

Annex 6: Technical Paper on Regulation of Lobbying in Legislative Process of Azerbaijan: Lessons Learnt and Recommendation from International Experience

³ The Workplan was adopted at the Start-up conference held on 10 December 2007 in Baku, by signing of a Memorandum of Understanding by CoE, CCC and USAID

Annex 7: Technical Paper on Performance Evaluation System (PES) For Civil Servants in Azerbaijan

Annex 8: Analysis of compliance of legislation of Azerbaijan with international anti-corruption conventions