

PGG II ANNUAL REPORT

ANNUAL REPORT 2019 - YEAR 1 OF IMPLEMENTATION

PROJECT INFORMATION

Project reference and title:	EU-JP/2341 - PGG II : 4. Strengthening anti-money laundering and asset recovery in Azerbaijan
Project type:	Bilateral
Target country:	Azerbaijan
Project planned starting date:	01/01/2019
Project effective starting date:	01/01/2019
Project duration:	36 months
National partners:	
Target groups and/or final beneficiaries:	Commission on Combatting Corruption of the Republic of Azerbaijan; District courts of Azerbaijan Republic (Azərbaycan Respublikasının rayon məhkəmələri); Baku Court of Severe Crimes (Bakı Ağır Cinayətlər Məhkəməsi); Civil society in Azerbaijan; Ministry of Internal Affairs (Azərbaycan Respublikasının Daxili İşlər Nazirliyi); State Security Service of the Republic of Azerbaijan (Azərbaycan Respublikasının Dövlət Təhlükəsizlik Xidməti); Financial Monitoring Service; Anti-Corruption Directorate with the Prosecutor General's Office; Office of the Prosecutor General (Baş Prokurorluğu); Relevant authorities supervising different categories of non-financial sector; State Tax Service under the Ministry of Economy; Baku Court of Appeals (Bakı Apellyasiya Məhkəməsi); Ministry of Justice (Azərbaycan Respublikasının Ədliyyə Nazirliyi); State Customs Committee of the Republic of Azerbaijan (Azərbaycan Respublikasının Dövlət Gömrük Komitəsi)
Date of report:	31/12/2019
Project team:	
Project Manager in Council of Europe Headquarters:	Zahra AHMADOVA
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I. EXECUTIVE SUMMARY – OVERALL ASSESSMENT

The project on “Strengthening Anti-Money Laundering and Asset Recovery in Azerbaijan”, specifically tailored to respond to the needs of Azerbaijan in the area of the fight against money laundering, terrorist financing and asset recovery represents a continuation of actions to strengthen capacities to fight and prevent corruption (2015-2017) and to strengthen anti-money laundering (2018), implemented in the country within the first phase of the PGG.

During the first year of implementation, the project interventions mainly focused on enhancing the operational and strategic capacities of the law enforcement, judiciary and financial intelligence officers through specialised training activities.

Key areas where progress was made during this reporting period include:

- Improved capacities of the law enforcement and judiciary in successfully sending and receiving mutual legal assistance requests;
- Strengthened financial intelligence capabilities to effectively leverage open source intelligence and create advanced strategic analysis products.

Challenges encountered during the reporting period relate to the following areas:

- The institutional restructuring of the Financial Intelligence Unit (FIU) of Azerbaijan in 2019 significantly delayed the planned targets of the Project related to enhancing financial intelligence capacities, as well as supporting the development process of the National Risk Assessment.
- In the area of asset recovery, which constitutes the second outcome of the project, no concrete progress in the reform process was observed.

During the first year of the implementation, the PGGII- Azerbaijan project carried out three capacity-building activities with 52 participants in total, of which 31% were women, while 59% were men.

II. RESULTS ASSESSMENT

Intermediate outcome 1

Increased strategic and operational capacities of Azerbaijani institutions to combat and prevent money laundering and terrorism financing

With a view to support the government in addressing the recommendations of international monitoring institutions, the Project contributed to enhancing the capacities of thirty law enforcement practitioners, namely prosecutors, investigators, judicial officers, on how to initiate and successfully conduct requests for mutual legal assistance related to anti-money laundering and countering financing of terrorism (AML/CFT) investigations. The recent press conference dedicated to the annual results reported by the Anti-Corruption Directorate under the General Prosecutor’s Office (ACD) highlighted the increase in the number of corruption-related criminal cases and outlined the number of ML investigations. The ACD believes that capacity building activities for the law enforcement and judiciary implemented within the first phase of the PGG and continued during the second phase, have contributed to attaining these results along with other complex measures they have carried out in this direction.

Furthermore, during the reporting period, the Project aimed to strengthen strategic and operational capacities of the Financial Monitoring Service (national Financial Intelligence Unit). A training on open source intelligence enhanced capabilities of twelve financial intelligence analysts and law enforcement officers to apply advanced techniques and strategies to effectively develop intelligence for the purpose of anti-money laundering investigations and asset recovery.

Meeting strategic analysis needs of the FIU, ten financial intelligence analysts learned about how to use advanced tools and available data to prepare quality and valuable strategic analysis products in order to identify money laundering and terrorist financing patterns and trends and preventing related threats. According to the results of the evaluation questionnaire and expert assessment, the training increased the knowledge and analytical skills of the participants. This should improve the quality of information they provide to decision makers on the development in the AML/CFT area.

Output 1.1.1

Strengthened strategic and operational capacities of AML/CFT structures in line with European and international standards

The need to enhance the strategic and operational capacities of the FIU was clearly underlined in the 2014 MONEYVAL evaluation report. The report recognised the need to provide internal trainings to FIU staff on **intelligence analysis** on a regular basis (R.30), as well as continue and intensify capacities in **reporting** (R.26).

With this in mind, during the first year of implementation, the Project delivered training activities on: 1) open source intelligence and 2) strategic analysis.

Through **the training on open source intelligence**, twelve financial intelligence analysts and law enforcement officers were introduced to the advanced techniques and strategies required to effectively gather and safely leverage relevant data, with the aim of enhancing anti-money laundering and countering financing of terrorism measures. This exposure helped to develop strong awareness on how to successfully analyse and assess information in a manner that will enhance the effectiveness of analytical conclusions and recommendations provided to decision makers, as well as strongly contribute to better handling of due diligence activities and intelligence-led investigations.

The experts noted that several of the participants showed a propensity for the subject matter as they were operating in this area already. However, many stated that this was a new area for them, and they needed additional support. There was a clear disparity in knowledge and experience between the investigative background of the anti-corruption officers and the FIU practitioners, who had extensive commercial experience in banking and economics.

It appeared that the trainees may have limited access to online resources in their work office, so support and guidance will be necessary for them to establish secure, covert terminals to conduct online research that can access all resources provided. Furthermore, their respective departments within the FIU and the Anti-Corruption Directorate will require a clear policy on how to operate online internet research in line with international standards and best practices.

Based on post-training surveys, the participants' capabilities to conduct proper and relevant open source investigation and analysis have been enhanced through this training which will strongly contribute to better assessment of various ML/TF threats and vulnerabilities of the country, especially in the near future, as part of the upcoming National Risk Assessment.

The training on strategic analysis enhanced the capacities of 10 analysts and intelligence officers on how to best employ advanced techniques and available data to prepare quality and valuable strategic analysis products and translate the results into meaningful outcomes. The participants received an opportunity to learn about the important role of strategic analysis in better understanding money laundering and terrorism financing patterns and trends and successfully preventing ML/TF threats. They also learned how to effectively leverage strategic analysis outcomes to contribute to policy formulation and identification of operational priorities.

The practical knowledge gained through this exercise will significantly contribute to the preparation of the National AML/CFT Risk Assessment report, as well as development of other internal reports, e.g. the reports released by the FIU on an annual basis. During the training, the experts highlighted the importance of such narrative reports for the FIU and all relevant institutions which should incorporate the results of strategic analysis, demonstrate evolving criminal patterns and recommend a set of actions with a view to prevent and combat ML/TF.

Based on post-training evaluation surveys, the theoretical knowledge complemented with practical experience will be used to develop typologies based on long-term ML/TF risk trends and identify various strategic analysis products, and better assess national and sectorial threats and vulnerabilities. The training helped the participants to get a more holistic view on the whole interrelation between strategic and operational analysis and draw a clear line between these two concepts. The training also provided insights into the contemporary mechanisms used for detection of ML/TF threats associated with blockchain transactions.

Output 1.1.2

Law enforcement and judiciary are equipped to investigate and process money laundering and terrorism financing cases effectively and efficiently

The 2014 MONEYVAL mutual evaluation questioned several aspects of mutual legal assistance (MLA) process in Azerbaijan which included availability of statistics on mutual legal assistance (R.36), putting in place of formal arrangements for co-ordinating seizure and confiscation actions (R.38) and remaining gaps identified in compliance with the Terrorist Financing Convention (SR.V). The MONEYVAL mutual evaluation also recommended arranging regular trainings on money laundering and terrorist financing substantial, procedural and investigative issues to the judiciary system. It advised that stronger focus should be placed by the investigative bodies competent to investigate proceeds producing crimes on the identification and recovery of proceeds of crime.

Furthermore, the OECD 4th Round of Monitoring report of the Istanbul Anti-Corruption Action Plan for Azerbaijan also encourages prosecutors to establish informal contact channels with foreign authorities in order to better prepare MLA requests and the execution thereof. The report also recommends provision of training and guidelines to the prosecutors and judges on the best practices in international judicial cooperation.

Addressing the recommendations and gaps outlined by the international monitoring institutions, the project strengthened the capacities of prosecutors, investigators, judges and other law enforcement authorities on how to successfully receive and send mutual legal assistance requests and hence minimise the grounds for refusals from foreign jurisdictions when seeking MLA. The project did so by organizing a two-day subject matter training which was attended by 30 law enforcement practitioners in October 2019.

The general training assessment led to the conclusion that further consideration should be given to the use of financial investigations. On a related note, a concerted effort should be made to ensure that the Financial Intelligence Unit (FIU) is engaged and fully utilised during the investigative (as well as the intelligence) stage of a cases.

III. CROSS-CUTTING ISSUES

- Gender mainstreaming

The project sought to promote gender-balanced participation in all capacity building activities. An average 31% representation of women was achieved during the events organised by the Project. A low female to male ratio was observed during the training organised for prosecutors, investigators, and judges whereas these positions are predominantly occupied by men in Azerbaijan. However, almost equal representation of female and male participants (45% female/55% male) was secured during the two training activities specifically organised for the FIU and the Anti-Corruption Directorate.

- Civil society engagement and human rights approach

The Project mainly focused on the implementation of specialised technical trainings in AML/CFT sector which makes it difficult to engage civil society sector in these types of technical training activities. Nevertheless, civil society was invited to the 2019 PGG Annual Co-ordination Platform Meeting which created an open venue for NGOs to address their questions and provide recommendations with regard to the project mid-term results and future project specific activities.

IV. SUSTAINABILITY AND STAKEHOLDERS' OWNERSHIP

The PGGII-AZ has been very well received by relevant Azerbaijani counterparts. The main project beneficiary institutions, the Financial Monitoring Service and the Anti-Corruption Directorate under General Prosecutor's Office, demonstrated willingness and support to actively engage in all project activities and provide the PGGII Project Team with necessary information and input. Other project counterparts, e.g. the Ministry of Justice, State Security Service, State Customs Committee, State Tax Service under the Ministry of Economy, have been successfully involved in a multi-agency project activity. They attended the first Steering Committee Meeting of the Project as well and demonstrated their readiness for cooperation and involvement in future relevant project activities.

With regard to EUD, the Project maintained efficient co-ordination and regular communication on the project activities and reported on institutional challenges affecting the delivery of project outputs. The Project extended invitations to EUD to all the project events.

V. COMPLEMENTARITY

With a view to ensure complementarity and avoid overlap, the PGGII Project Team regularly liaised with international organisations, working on the same and similar issues (e.g. USAID's "Empowering Civil Society Organizations for Transparency" project implemented by FHI360, ICNL, and MG Consulting, and "E-Learning Solutions to Support Justice Academy Phase II" project implemented by IOM Azerbaijan and financed by U.S. Department of State). No major challenges regarding cooperation or overlap of project portfolios have been observed.

VI. RISK AND RISK MITIGATION MEASURES

The following risks and mitigation measures were identified:**Project/programme delivery:** As a result of the institutional changes occurred in 2019 (in particular as regards the Financial Intelligence Unit), the national authorities may not be able and willing to fully cooperate with the project which would lead to non-implementation of a number of planned activities. This would have an effect on the achievement of the project objectives. The Project will continue close coordination and daily contacts with the FIU to ensure their participation in project activities and commitment to the project expected results.

Political: As a result of the changes in the governmental structures and policy considerations, political will and commitment of national authorities may be reduced and this could have an effect on the anticipated support from the government to carry out reforms in the field of anti-money laundering and asset recovery and adapt policies in line with international norms and standards. The Project will continue seeking constant engagement with relevant authorities and other CoE bodies (political and monitoring) in an attempt to ensure continuing political commitment to reforms.

Human Resources: As a result of the current capacities of the relevant authorities, the ability of beneficiary institutions to absorb all the project assistance may be limited and this could influence the level of spending and achievements of the objectives. The Project will take into consideration the capacities of the beneficiaries and adapt project activities to these realities as well as needs.

VII. COMMUNICATION AND VISIBILITY

The Project followed the PGG Communications Strategy, agreed between the European Union and the Council of Europe, which is applicable to all programmatic outputs, including official communication, technical papers, activity agendas and presentations, news/media feeds, and project visibility kits (i.e. banners, folders, notepads, and pens).

A project communication plan was developed in 2019 to achieve the following:

- Improve understanding about the areas of intervention as they relate to the implementation of the national priorities in anti-money laundering and countering financing of terrorism, and asset recovery, and highlight the results produced through the project;
- Inform about the role of the Council of Europe and the European Union in supporting the reforms and capacities to effectively prevent and combat money laundering and terrorism financing and recover proceeds from crime in line with European and international standards;
- Foster donor awareness of the project outcomes and ensure coordination with other donors implementing projects of a similar focus to avoid duplication of project activities for the same beneficiary institutions.

Visibility items featuring the project identity (folders, notebooks, pens, roll-up) were produced in 2019 in accordance with the PGG Communications Strategy, agreed between the European Union and the Council of Europe. The Project followed these guidelines in developing all programmatic outputs, including official communication, technical papers, activity agendas and presentations, news/media feeds, and project visibility kits.

A Project Summary Leaflet was published on the dedicated project website of the Economic Crime and Corruption Division. News updates about project activities were regularly published on the dedicated project website, including the website of the CoE office in Baku and associated social media platforms (Facebook, Twitter), and the website of EU/CoE Partnership for Good Governance II programme and associated social media platforms (Facebook, Twitter).

As in the previous years, the opening session of the 2019 PGG Annual Co-ordination Platform Meeting was open to the press for the presentation of the mid-term results of the PGGII projects in Azerbaijan.

VIII. LESSONS LEARNED AND POSSIBLE FOLLOW-UP

The project activities solely designed for one or two beneficiaries with targeted and limited audience (10 to 12 participants) proved to be very successful. This approach appeared to be very effective as it allowed the trainers to conduct an observational learning assessment and focus their support and guidance on all the participants equally and get them all engaged in interactive discussions.

With a view to assess the short-term impact of the two training activities organised by the Project for the FIU, the trainees were requested to submit short but specific examples if and how they have been able to apply the knowledge and skills conveyed through these activities. The Project received several testimonials from the trainees with a description of what specifically they are planning to employ or have already applied in their daily work. Furthermore, at the end of each training activity, the trainees completed semi-structured questionnaire forms which helped to assess the content and relevance of the training, identify needs for further training activities and reveal any potential challenges. In general, the evaluation forms demonstrated the overall satisfaction with the trainings implemented so far.

IX. KEY DELIVERABLES (publications, etc.)

Major reports and documentation produced with project support:

- Situation Report: Azerbaijan (ECCD-PGGII-AZ-01/2019)

List of Activities:

- Training on Mutual Legal Assistance in AML/CFT Investigations (9-10 October 2019, Baku, Azerbaijan; Number of participants: 30; Female/Male participants: 6/24)
- Open Source Intelligence (OSINT) Training (25-29 November 2019, Baku, Azerbaijan; Number of participants: 12; Female/Male participants: 5/7)
- Training on “Strategic Analysis for the Financial Intelligence Unit” (18-19 December 2019, Baku, Azerbaijan; Number of participants: 10; Female/Male participants: 5/5)