

MONEYVAL: Fifth Round Evaluation Report on Azerbaijan



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News

On 12 February 2024, MONEYVAL published its [fifth round evaluation report on Azerbaijan](#). Its geographical, transcontinental location impacts the risks related to drugs smuggling and higher risk jurisdictions. The most important sector within the financial industry is the banking sector, holding 95% of the country's total assets. Since 2014, when MONEYVAL last evaluated Azerbaijan, the country has taken several actions to strengthen its legal and institutional anti-money laundering and countering the financing of terrorism (AML/CFT) framework and has started to put in place the elements of an effective AML/CFT system.

A national risk assessment (NRA) on money laundering and terrorist financing (ML/TF) was carried out in 2022. It assessed the TF risk level as medium-high with domestic corruption, tax-related crimes, smuggling, and drug trafficking being the main ML predicate offences. The conclusions of the assessment appear reasonable and were known to the authorities but MONEYVAL recommends further analysis to substantiate ML-related risks regarding the use of cash in the economy, misuse of real estate, legal persons, and organised crime. In more detail, the key findings of the report are as follows:

- At a policy level, domestic cooperation between the authorities appears to be adequate and has yielded positive results in terms of legislation (adoption of national action plans derived from the NRA findings). Effectiveness of cooperation beyond legislation is less evidenced, however. Given that the authorities perceive immovable property to be the main ML scheme in corruption matters, there remains a lack of suitable measures to fully mitigate the risks.
- The investigative authorities have access to financial intelligence and other information which they use to a certain extent to establish evidence and trace the proceeds of crime linked to ML, TF, and predicate offences.
- Financial intelligence is often gathered directly by the law enforcement agencies (LEA) from the private sector. The conversion rate from intelligence obtained through suspicious transactions reports (STRs) into case investigations and prosecutions is, however, insufficient. Most STRs are received from banks, while the contribution from some of the higher risk sectors remains limited. Whilst the Financial Monitoring Service (FMS) maintained that the quality of STRs is improving, insufficiencies remain; this is reflected in the low number of investigations being initiated from FMS disseminations. Further FMS work to improve their analytical capacity and capabilities and to promote the use of financial intelligence in investigations is therefore necessary.
- Azerbaijan has dedicated LEAs competent to identify and investigate ML offences. Major improvements are needed to pursue the investigation and prosecution of ML effectively, which would benefit from increased domestic cooperation between the relevant authorities at an operational level. While

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the overall number of ML investigations increased in the last year and some ML cases related to crimes posing high-level ML threats have been investigated and prosecuted, the results are not fully consistent with the risk profile of the country. Most of the prosecutions and convictions achieved pertain to self laundering and legal persons have not been investigated so far for ML.

- Confiscation is pursued as a policy objective to some extent but there is a need for parallel financial investigations to be conducted so that authorities are not solely focused on the establishment of the damage caused by the offence but also on tracing assets.
- Sanctions applied in case of false or undeclared cash do not seem to be entirely proportionate, dissuasive, and effective.
- Azerbaijan has achieved a substantial level of effectiveness for countering TF. The seven convictions secured during the reference period is in line with the risk profile of the country to some extent. The overall effectiveness is impacted by the deficiencies in TF risk understanding. There is no national counter-terrorism strategy, though the authorities adopted some policy documents where TF investigations have been integrated.
- Financial institutions (FIs) reflected their risk understanding and allocated the necessary resources to mitigate risks. The designated non-financial business and professions (DNFBPs) are less focused on risk scenarios which is also reflected in the low level of reporting suspicious activities.
- The customer due diligence (CDD) measures performed are generally sound and risk-based, with the exceptions of smaller non-banking financial institutions, such as life insurance companies, leasing companies, or exchange offices. Banks perform a series of checks and gather information on shareholders and management of their clients and sometimes go further to identify the ultimate natural person who holds control. The effectiveness of managing domestic politically exposed persons (PEPs) is negatively impacted by deficient legislation.
- Fundamental improvements are needed for the supervision of financial institutions and designated non-financial businesses and professions. While the Central Bank of Azerbaijan (CBA) applies basic “fit and proper” entry checks both for qualified owners and persons who can significantly influence the decision-making process, these do not always cover beneficial owners: the identification of potential association with criminals is not checked. The understanding of risks varies amongst supervisors and the risk-based approach needs to be strengthened. Enforcement and sanctioning powers for breaches of professional AML/CFT obligations should also be strengthened.
- The understanding of ML risks varies amongst supervisors. The CBA and the Bar Association demonstrated a better understanding of ML risks than the State Tax Service (STS) and Chamber of Auditors. Notwithstanding the fact that the real estate sector is weighted as bearing higher ML risk, during the period under review there was no supervision for the sector. The overall sanctioning regime is an area for improvement.
- Important steps were taken to prevent the misuse of legal persons, but more proactive measures are required to ensure the transparency of legal persons. Reporting entities should apply the necessary identification and verification measures in case of PEPs and beneficial owners (BOs).
- The country has no BO register and there is no requirement for the legal entities themselves to gather and retain their BOs information. Authorities have easy access to basic information kept by the STS, which is generally accurate and updated. To obtain BO information the authorities mainly appeal to banks. The quality of BO information is impacted by deficiencies identified at reporting entities.
- Looking at international cooperation, Azerbaijan achieved a substantial level of effectiveness and was commended for the authorities’ capacities to provide and seek constructive assistance in relation to ML, associated predicate offences, and TF. Mutual legal assistance (MLA) is provided in a constructive and timely manner to a large extent despite the unavailability of a case management system and prioritisation mechanism applicable to all competent authorities. Authorities seek MLA to pursue ML and predicate offence investigations. International cooperation on tracing, seizing, and confiscating

assets moved abroad is very limited, but authorities are making efforts to overcome this deficiency. The FMS does not entirely effectively seek assistance given risk and context of the country. No international cooperation has been performed by the supervisors in relation to AML/CFT matters.

In line with the follow-up procedures, Azerbaijan is expected to report back to MONEYVAL on progress achieved in improving the implementation of its AML/CFT measures in December 2025.

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