

Whitepaper on Anti-Money Laundering in Azerbaijan



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Introduction

Azerbaijan, a nation strategically positioned at the juncture of Europe and Central Asia, boasts significant natural resources that have traditionally driven its economy. Predominantly reliant on its oil and gas sectors, which contribute approximately 92 percent of its export revenue and over half of the state budget, Azerbaijan has witnessed substantial economic growth. In 2022, the economy expanded by 4.6 percent year-on-year, slightly down from a 5.6 percent increase in the previous year, with notable growth in the non-oil and gas sectors as the country continued to recover from the global pandemic.

Despite these economic advancements, Azerbaijan faces several systemic challenges that could impede its long-term growth and stability. The economy is heavily influenced by a small group of government-connected holding companies, and while there have been improvements in intellectual property rights enforcement, issues such as judicial transparency and corruption remain significant hurdles. These challenges are particularly pronounced in the business environment, where slow progress on structural reforms hampers the development of a diversified and competitive private sector.

Moreover, Azerbaijan's strategic location and economic profile make it susceptible to various illicit activities, including drug trafficking, theft, tax evasion, and human trafficking. Organized crime groups have a noted presence within the country, exploiting these conditions. A critical concern for the nation is the risk of money laundering and terrorist financing, which are believed to often find their pathways through the local banking sector. This is compounded by gaps in the anti-money laundering (AML) legal framework, notably the exclusion of certain high-value goods dealers, such as those in arts, antiques, jewelry, precious metals, as well as travel and auto dealerships, from the list of entities required to implement stringent AML measures.

As Azerbaijan continues to navigate these complex issues, the need for robust AML strategies and reforms is clear. This report aims to delve into the history, current legal framework, and the effectiveness of AML measures in Azerbaijan, assessing both the progress made and the challenges that remain. By examining these elements, the report will provide insights into the steps needed to strengthen the fight against money laundering and enhance the overall economic integrity of Azerbaijan.



Legal Framework for AML

The history of AML efforts in Azerbaijan is relatively recent, reflecting the global trend toward establishing more rigorous financial regulations. As Azerbaijan transitioned into a market economy post-independence in 1991, it faced numerous challenges related to financial regulation and oversight. The need for a structured AML framework became apparent as the country's economy opened up to global markets, increasing the risk of financial crimes.

AML Authorities

Several key authorities are responsible for the implementation and enforcement of AML/CFT (Combating the Financing of Terrorism) measures in Azerbaijan:

Financial Monitoring Service (FMS-AZ)

Established in May 2018, this independent agency under the Central Bank of Azerbaijan acts as the country's Financial Intelligence Unit (FIU). It is tasked with monitoring financial transactions, investigating suspicious activities, and enforcing AML/CFT regulations. The FMS can impose administrative sanctions and penalties on institutions that fail to comply with the relevant laws.

The Central Bank of the Republic of Azerbaijan

Since its establishment in February 1992, the Central Bank has been the primary regulatory body ensuring that credit institutions and leasing companies adhere to AML/CFT legislation. It also takes necessary administrative and control measures to enforce compliance.



Financial Markets Supervision Authority (FMSA)

Created in February 2016, the FMSA aims to enhance oversight of the AML/CFT prevention system and supervises the securities market, investment funds, and insurance sectors.

Ministry of Internal Affairs and State Border Service

These entities play crucial roles in the investigative and enforcement aspects of AML/CFT. The Ministry of Internal Affairs handles the investigation and prosecution of money laundering and terrorism financing cases, while the State Border Service monitors and controls the movement of illicit funds across the country's borders.

Key Laws and Regulations Governing AML

Azerbaijan's legal framework for combating money laundering includes several key laws and regulations:

- **Anti-Corruption Laws:** Comprehensive legislation has been enacted to tackle corruption and, by extension, money laundering. The Anti-Corruption Commission plays a pivotal role in policy formulation and enforcement.
- **Financial Sector Oversight:** Regulatory bodies, particularly the Central Bank, are crucial in supervising financial institutions to ensure they meet AML compliance standards.
- **Taxation and Customs Control:** The Ministry of Tax and the State Customs Committee is instrumental in monitoring financial activities to detect and prevent potential money laundering.
- **Legal Professions:** The Union of Bar Associations and the Ministry of Justice oversee legal professionals, ensuring they comply with AML regulations.
- **Additional Bodies:** The Ministry of National Security, Chamber of Auditors, and the Ministry of Foreign Affairs also contribute to the national AML efforts. These bodies help shape policy, coordinate interagency efforts, and facilitate international cooperation related to money laundering prevention.



FATF Evaluation

The Financial Action Task Force (FATF) conducts periodic evaluations of its member countries to assess the effectiveness of their AML and CTF measures. Azerbaijan's latest evaluation reveals both strengths and areas needing significant improvement in its AML/CTF framework.

Key Findings from the 2023 Mutual Evaluation Report

Understanding of ML/TF Risks

Azerbaijan's understanding of money laundering (ML) and terrorism financing (TF) risks is primarily based on the National Risk Assessment (NRA) of 2022. This assessment identifies domestic corruption, tax-related crimes, smuggling, and drug trafficking as the principal ML predicate offenses. However, the FATF suggests that Azerbaijan could benefit from a more comprehensive analysis to substantiate the authorities' understanding of some ML and TF risks. While there is adequate domestic cooperation at the policy level, leading to legislative changes and national action plans, the effectiveness of these measures beyond legislative changes appears less substantiated.

Use of Financial Intelligence

The investigative authorities have access to financial intelligence to establish evidence and trace proceeds of crime linked to ML, TF, and predicate offenses. However, the conversion rate from intelligence obtained through Suspicious Transaction Reports (STRs) and other reports into case investigations and prosecutions is notably low. Most STRs are received from banks, with limited input from higher-risk sectors. There is a recognized need for the Financial Monitoring Service (FMS) to improve its analytical capacity and promote the use of financial intelligence in investigations more effectively.



Investigations and Prosecutions

Azerbaijan has dedicated law enforcement agencies (LEAs) competent in identifying and investigating ML offenses. There has been an increase in the number of ML investigations, addressing previous deficiencies such as the lack of parallel financial investigations and limited use of circumstantial evidence. However, the outcomes of these investigations and prosecutions are not fully consistent with the country's risk profile, particularly concerning legal persons not being investigated for ML.



Confiscation and Policy Objectives

Confiscation of criminal proceeds is pursued to some extent, with authorities focusing more on establishing the damage caused by the offense rather than on tracing assets. The measures in place for managing seized and confiscated property need strengthening, and the sanctions applied for false or undeclared cash are not entirely proportionate or effective.

Terrorism Financing and International Sanctions

Azerbaijan has secured several TF convictions, aligning somewhat with the country's risk profile. New legislation has been adopted to ensure the implementation of UN Security Council Resolutions (UNSCRs) related to terrorism and proliferation financing without delay. However, the effectiveness of these measures and the proactive communication and enforcement of financial sanctions require improvement.

Overall Effectiveness and Compliance

The FATF evaluation indicates that while Azerbaijan has made progress in certain areas of its AML/CTF framework, significant challenges remain. These include enhancing the analytical capabilities of the FMS, improving the effectiveness of financial investigations and prosecutions, and ensuring a more comprehensive understanding and implementation of international sanctions and confiscation policies.

In conclusion, Azerbaijan's efforts in combating money laundering and terrorism financing show a commitment to aligning with international standards. However, the FATF's evaluation underscores the need for continued development in several critical areas to strengthen the overall effectiveness of the AML/CTF regime.



Introduction

Azerbaijan has demonstrated significant progress in developing a regulatory framework aimed at combating money laundering and terrorism financing. The establishment of key authorities, such as the Financial Monitoring Service and the Financial Markets Supervision Authority, underscores the nation's commitment to enforcing stringent AML/CFT measures.

However, challenges persist, as highlighted by FATF evaluations, which point to the need for enhanced effectiveness in certain areas. These include the analytical capabilities of the Financial Intelligence Unit, the effectiveness of legal and investigative processes, and the robust implementation of international sanctions and asset confiscation strategies.

As Azerbaijan continues to refine its AML/CFT framework, the focus remains on addressing these challenges to ensure the integrity and security of its financial systems in alignment with international standards.





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