



Project Title:	Project against Money Laundering	
Project Number:	49632	
Country:	Russian Federation	
	Local operator	EC Consultant
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1 PROJECT SYNOPSIS

Project Title: Project against Money Laundering

Project Number: 49632

Country: Russian Federation

Project objective: To strengthen the capacity of the anti-money laundering system established in the Russian Federation, in full compliance with European and international standards.

Planned outputs:

1. Strengthening the Federal Service for Financial Monitoring (Rosfinmonitoring) to enable it to exercise its functions in accordance with relevant regulations
2. Enhancing the capacities of the criminal justice system to cooperate with the Rosfinmonitoring within the anti-money laundering system
3. Supporting the financial sectors and other bodies required to report to help them meet their obligations in the prevention of money laundering and their cooperation with the Rosfinmonitoring.

Project activities:

1. Assistance with legal and policy development at a national level
2. Development of procedures for monitoring compliance and feedback by and to the Rosfinmonitoring
3. Training for employees of reporting institutions and their supervisory bodies
4. Financial analysis and computer-based training for the Rosfinmonitoring and law enforcement partners
5. Workshops directed at prosecutors and judges
6. Training of trainers within the Rosfinmonitoring and law enforcement partners
7. Improving international co-operation by the Rosfinmonitoring

8. Undertaking a feasibility study and proposals for a follow-up project
9. Improving inter-agency co-operation between the Rosfinmonitoring and law enforcement

Project starting date: 23 December 2002
Project duration: 29 months (1 February 2003 – 30 June 2005)

2 SUMMARY OF PROJECT PROGRESS

Introduction and start up activities

Although the project officially began in February 2003 the actual start of the activities did not take place until April with the holding of a start-up workshop. That workshop agreed the methodology for delivering the project objectives and a revised work-plan was adopted. The project strategy was:

- A modular approach with activities to deliver the objectives of the work plan dealt with under the individual modules.
- A consortium of experts from the FIUs of Belgium, Slovenia, France, United Kingdom, Luxembourg, and Italy to assist in the delivery of the project.
- The emphasis to be on the undertaking of activities that could demonstrate effectiveness, efficiency and economy with qualitative assessments on the sustainability of their impact on the beneficiaries.
- All project activities to be carried out in co-operation with the Rosfinmonitoring and a readiness to respond to their developing needs.

Progress per quarters

The **1st quarter** period to end of June was primarily concerned with the preparation of the inception report, the identification and appointment of staff, the location of project office premises, the identification of office and IT equipment suppliers, establishing a mechanism to provide the project team with funds, and the holding of a meeting in Paris with the beneficiary and consortium members to allocate areas of responsibility.

The **2nd quarter** period to end September included the holding of a meeting in St Petersburg to assist the beneficiary to formulate their submissions to the parliament on necessary changes to the anti money laundering legislation. Legal experts from Italy, Belgium and Sweden participated in the workshop together with representatives of the Rosfinmonitoring, Ministry of Interior, Prosecutor's Office, Justice Ministry, and Central Bank. In addition the project developed contacts with UK training experts and multi media developers to deliver computer based training resources and proposals for the creation of a training centre within the Rosfinmonitoring. By the end of the reporting period no decision had been made on office and IT procurement or facilities for the provision of funds to the project team and consequently the office facilities were not occupied.

The **3rd quarter** period to end December focussed on the development of those areas of the project that will provide the greatest sustainable impact viz., the involvement of the Rosfinmonitoring in the EU FIU Net Project, and the undertaking of a scoping study by UK experts to determine the parameters for a Training Needs Analysis and to propose options for the creation of a specialist training resource within the Rosfinmonitoring. In addition a high-level multi agency delegation was accompanied to London to meet with respective UK experts from the law enforcement, intelligence, and financial sector, and with government officials. At the end of the period the office premises were able to be occupied with the installation of office and IT equipment. However, a mechanism for the provision of funds for the project team was still not available.

The **4th quarter** period to end March 2004 included the creation of the project office infrastructure and concerted efforts to highlight the visibility, capabilities and opportunities of the project to a range of governmental and non-governmental organisations including the MVD, Financial Services Sector, FSB, and State Duma committee on security. Major events included the Luxembourg banker's course in January, the law enforcement cooperation seminar in March and preparations for a high level visit to Belgium in April. In addition, eleven reports or letters were forwarded to the Rosfinmonitoring proposing new activities or requesting decisions on others.

The **5th quarter** period to end June 2004 focused on the continued development of contacts outside of the Rosfinmonitoring in order to develop opportunities for project activities directed at other beneficiaries. These included: the State Duma Committee on National Security; the International Independent University of Environmental and Political Sciences; the Association of Russian Banks; and the Ministry of Interior. Major events included participation in hearings of the Duma Committee on Security related to terrorism and a study visit to Belgium by the head of the Rosfinmonitoring and the deputy head of the legal department of the Presidential Administration in April; the second meeting of the project steering group in May; and seminars in June for prosecutors and judges in Moscow, for Russian banks in Malta, and for the Rosfinmonitoring and law enforcement agencies in Khabarovsk, Far East Region.

The **6th quarter** period to end September 2004 saw the continuation of the successful strategy developed for improving cooperation between the Rosfinmonitoring and its law enforcement partners in the federal districts with the holding of a seminar in the South Federal District at Rostov-on-Don in August. In addition, the heads of the Rosfinmonitoring regional offices and other key individuals from the Moscow headquarters staff undertook a study visit to the London in July to learn about the interdependencies and relationships between the UK financial intelligence unit and its law enforcement partners. Training also featured heavily within this reporting period with the start of the train the trainers and training needs analysis programme for the Rosfinmonitoring in the UK in August that also included representatives from the Ministry of Interior Academy in Nizhniy Novgorod; the joint sponsoring with the Rosfinmonitoring of a seminar in St Petersburg in September dealing with the new FATF / Moneyval / IMF / World Bank evaluation and assessment procedure; and a training seminar for Russian banks in cooperation with the Association of Russian Banks (ARB)

in Malta at the end of June and beginning of July. This particular seminar led to a series of meetings with the ARB, the Russian office of the 'SWIFT' money transfer system, and senior figures representing the eight largest commercial banks in Russia who all wished to explore the possibilities for the Moli-Ru project to assist in the design, development, and delivery of anti money laundering training for their sector. Throughout this period the office was also occupied with the arrangement of the international seminar and workshops on the financing of terrorism to be held in Moscow in early October.

The **7th quarter** period to end December 2004 started with the successful delivery of an international seminar and workshops on countering terrorist financing attended by representatives of 38 countries and 11 international organisations. This activity was organised to coincide with the inaugural meeting of the Eurasian FATF style regional body (FSRB) and joint press conferences were held at the conclusion of both activities. Later in October a seminar for improving cooperation between the Rosfinmonitoring and its law enforcement partners in the federal districts was held in Nizhniy Novgorod in the Central Federal District. In addition the Project Team held a number of high level meetings with officials of the regional administration to promote the work of the Moli-Ru Project and agreement was reached with the Head of the Ministry of Interior Academy to hold a further seminar at their premises in May 2005. In November the 3rd Steering Group meeting was held at the headquarters of Rosfinmonitoring and later that month the TACIS monitoring team visited the project offices to undertake the 3rd monitoring report. In December a seminar jointly organised with the Independent International University of Environmental and Political Sciences on 'Countering Terrorist Financing Flows' was held at the premises of Vneshtorbank in Moscow. The seminar was attended by academics from Russia, Germany, and Sweden together with representatives from the financial services sector, Rosfinmonitoring and law enforcement agencies. The following project activities were cancelled due to the temporary unavailability of project funding: the seminar in Yekaterinburg on law enforcement cooperation (postponed until May); assistance to Rosfinmonitoring in conducting the training needs analysis in the Federal Districts outside Moscow; the organisation of the international typologies meeting; and the participation of Rosfinmonitoring in the FIU Net conference in The Hague.

The **8th quarter** period to end March 2005 was slow to start with no core activities being undertaken in January due to the extended Russian Christmas and New Year holidays. Important preparatory meetings were undertaken by the project team in London and Nizhniy Novgorod. Momentum in the delivery of core activities was re-established with a second course secured for bankers and FSFM staff in Luxembourg in February; a study visit by FSFM staff to the FIU in Madrid, Spain; an international seminar on combating the flows of finances to terrorists in Bavaria, Germany; a seminar on cooperation with law enforcement bodies in Yekaterinburg with the Urals Federal District RO of the FSFM; and a seminar for supervisors of regulated sectors of the financial services industry in Moscow in March. In addition, with the project drawing to a close at the end of the following quarter the planning process for the remaining activities was also initiated.

Project progress in final project period (9th Quarter – April-June 2005)

The core elements of project delivery for the final quarter were to concentrate on the undertaking of the final activities foreseen by the work-plan and to further develop contacts in other entities within the anti money laundering chain thereby increasing the opportunities for the project to impact on their activities and to identify possibilities for joint activities either within the existing project timeframe or within a future project.

The activities undertaken consisted of further study visits for Rosfinmonitoring staff to Finland and Germany (April), France and Ireland (May), and Italy (June); further seminars on cooperation between law enforcement agencies and Rosfinmonitoring held in Novosibirsk in the Siberian Federal District (May) and St Petersburg in the North Western Federal District (June); Continuation of the train the trainers programme in London (April); Seminar on cooperation with law enforcement in Nizhniy Novgorod in conjunction with the MVD Academy of Police and publication of the seminar materials (May); a further seminar on terrorist financing in the North Caucasus in cooperation with the IIUEPS, also followed by a publication (June); and the closing conference and final steering group meeting of the project (June). In addition work was also completed in June on the provision of software and installation of secure Internet connections to link Rosfinmonitoring to the FIU Net system.

The completion of the development of the three CD Rom training courses (Induction Course; Financial Analysis Course; and Law Enforcement Cooperation) has facilitated the further distribution of knowledge on AML/CFT issues and the role and responsibilities of Rosfinmonitoring more widely throughout the Russian Federation.

3 OVERALL REPORT ON THE TOTAL PROJECT

The project had three general objectives that the various outputs as depicted in the work plan were designed to achieve

Objective 1 - To enable Rosfinmonitoring to exercise its functions in accordance with relevant regulations, including its tasks regarding information, coordination and international cooperation

Objective 2 - To enhance the capacities of the criminal justice system to cooperate with Rosfinmonitoring within the anti money laundering system

Objective 3 - To enable the financial sectors and other bodies required to report to meet reporting, customer identification and other obligations, and cooperate with Rosfinmonitoring

Many countries and international organisations have contributed to the delivery of project activities and the emphasis has been on the undertaking of activities that can demonstrate effectiveness, efficiency and economy with qualitative assessments on the sustainability of their impact on the beneficiaries.

In order to achieve these aims a ‘Modular Approach’ was adopted that split the outputs envisaged by the work-plan into groups of activities. This approach enabled all the objectives of the project to be addressed in a variety of formats and provided for the delivery of the activities to be managed more effectively by the project team. Furthermore, this method provided clear action plans for achievement of each of the objectives within a designated timescale that were specific, measurable, achievable, and realistic and enabled the Project team to plan a diverse range of activities to support the project work plan and thereby provide a quality product to the various beneficiaries. At the same time it enabled the project team to be flexible and to respond to any urgent requests for assistance by the beneficiary. This proved to be an effective strategy and was instrumental in achieving a number of important results and positive outcomes in excess of those envisaged at the start of the project, particularly in relation to the further development of international standards in countering terrorist financing but also included, for example;

- Legal opinion provided to Rosfinmonitoring in preparation of the submissions to the State Duma regarding the amendments to the AML legislation.
- Seminar for prosecutors and judges was used by Rosfinmonitoring to develop submissions to a plenary session of the Supreme Court that was considering amendments to the AML legislation.
- A study visit to Belgium by State Duma and Presidential Administration representatives seeking advice on the implementation of specific aspects of the EU 3rd Directive.
- A study visit to the United Kingdom to examine the methodologies of dealing with terrorist financing that assisted in the creation and development of a designated terrorist finance department within Rosfinmonitoring.
- The provision of consultancy services and advice concerning the creation and development of the Eurasian FATF style regional body.
- Facilitation of attendance by Rosfinmonitoring management at EU conferences dealing with the development of the FIU Net Project that eventually resulted in the purchase, installation and connection to the EU FIU Net system that will enable Rosfinmonitoring to communicate more effectively with its international partners.

In the 26 operational months of the project between April 2003 and June 2005 a total of 36 core activities were undertaken involving over 2400 persons. Representatives of all the key agencies and organisations in each sector of the anti money laundering and counter terrorist financing chain have been involved at some time with project activities. These included: Financial Services Sector (bank and non bank financial institutions); Central Bank; Association of Russian Banks; Rosfinmonitoring; Ministry of Interior (Police, Narcotics Control Board); Customs Service; Federal Security Service; General Prosecutor’s Office; Ministry of Justice; State Legislature; Judges.

The project assisted the beneficiaries in a number of key sectors and in particular in:

1. Legal and policy development;

2. Developing procedures on monitoring compliance, feedback and supply of information by the FIU to the partners in the anti-money laundering chain;
3. Training employees of reporting institutions and their supervisory bodies;
4. Financial analysis and computer-based training for the FIU and law enforcement;
5. Raising awareness of law enforcement agencies, public prosecutors, and judges;
6. Assisting in the creation of a dedicated training department for Rosfinmonitoring and the development of appropriate training curriculum;
7. International co-operation between Rosfinmonitoring and foreign FIUs;

The activities of the Moli-Ru Project have influenced the course of the development of the Russian AML/CFT in each of the above named areas. Their impact may be summarized as follows and each area of achievement indicates the Project Output as envisaged in the work plan that was satisfied.

Legal and Policy Development

Supported Output

Output 1.4

Proposals will be available to further improve regulations related to the prevention and control of money laundering, as well as the tracing, search, seizure and confiscation of proceeds from crime in accordance with European and international standards

The assistance in this sector was primarily delivered by providing consultations and analysis of best international practices in the introduction of new AML/CFT legislation in the Russian Federation and/or amending the existing provisions in accordance with international standards.

In addition the activities of the Project were oriented to assisting Rosfinmonitoring in promoting the internationally accepted interpretations and/or recommendations with a view to their further acceptance by the Russian legislature. In this connection a number of the Project activities played an important role in particular; – the August 2003 St Petersburg Seminar to discuss the proposed amendments in the AML legislation and study visits by Rosfinmonitoring and Russian parliamentarians to Belgium March 2004 and Germany April 2005. These activities played an important role in assisting in the harmonization of the Russian and EU legislation on money laundering, introduction of reporting responsibilities for notaries, advocates etc. In general, during the period of the project necessary changes, amendments, and precisions relating to AML/CFT were introduced into the following laws of the Russian Federation:

- Federal Law “On fighting legalization of criminal proceeds and terrorist financing” (FZ-115)
- Federal Law “On banks and banking”
- Federal Law “On The Central Bank of the Russian Federation”
- Federal Law “ On combating extremist activity”
- Federal Law “On operative investigation activity”
- Federal Law “On securities market”

- Federal Law “On Militia”
- Civil and Civil Process Codes, Criminal and Criminal Process Codes, Code of the Administrative Offences.

In addition a number of Decrees of the President and Decisions of the Government of the Russian Federation introduced new legal norms into the sphere of AML and CFT. The role of the Project in the preparation of draft amendments of the legislation consisted of attracting international (European) expertise, organizing direct discussions between the proponents and opponents of the new legislation, disclosing the European experience in introduction and practice of similar laws and regulations. As a consequence the required proposals for changes in the Russian legislation have been drafted and proposed for implementation in the national legal practice. In addition, after consultation with the experts procured by the project, some of the legislative proposals previously drafted by the Russian participants were removed from the list of those draft documents prepared for submission to the legislation committee of the Russian State Duma.

A useful reference material ‘A compendium of current European and international legislation’ was developed by the project team, produced in printed form, and supplied to the Russian side.

Assistance was also provided by the organization of workshops to review existing legislation and regulations to achieve full compliance with the European and international standards. In addition assistance was provided on different stages of drafting proposals for amendments and awareness was created on further upcoming international legal developments. These workshops involved various target groups with a special focus on those who are responsible for drafting legislation. Legal experts from Belgium, Sweden, and Italy were engaged by the project team to provide the necessary assistance.

Developing procedures on monitoring compliance, feedback and supply of information by the FIU to the partners in the anti-money laundering chain.

Supported Outputs

Output 1.2

The analytical capabilities of Rosfinmonitoring in the handling of reports from different agencies will have been strengthened

Output 1.3

Effective mechanisms are in place to improve coordination among the different services involved (financial sector supervision, law enforcement, etc.)

Output 3.1

The financial sector and other relevant bodies have an increased awareness of the problem of money laundering, how to recognise it and how to protect their financial institution from it

Output 3.2

Financial institutions meet their reporting obligations towards Rosfinmonitoring and cooperate with the criminal justice system

There are currently about 50,000 legal and natural persons in Russia, who in accordance with the legislation are obliged to send reports to Rosfinmonitoring about financial transactions. A system of specialised bodies, both governmental and non-governmental supervises their activity from the point of view of its compliance with the existing AML/CFT legislation. Rosfinmonitoring plays the role of strategic coordinator of the supervisory activity as well as the role of the central body for collecting of all the incoming related information.

The practical results of the assistance in this sector included:

- a) Raising the awareness of the reporting institutions about the changes of legislation and reporting responsibilities; and
- b) Increasing the capability of the supervisory bodies to fulfil their obligations.

Both tasks were dealt with by way of workshops, seminars and study visits.

The target group of these activities were Rosfinmonitoring, other supervisory bodies (Central Bank of Russia, Federal Services for Securities and Markets, Insurances Supervisory Body, Federal Post Service and others) as well as reporting institutions that were primarily from the banking sector.

The project played an important role in consolidating the efforts of supervisors through acquiring knowledge about the best European practices (study visits for members of interagency AML/CFT system team to UK in October 2003) and holding a specialised seminar (April 2005) on coordination of the supervisor's efforts. The results of the April Seminar helped to improve supervision practises in what concerns the requirements of existing Russian legislation on reporting and methods of identification of clients (based on European experience). The project also helped to further develop Russian regulations on reporting and supervision practices in some particular financial spheres (leasing, securities, gambling) through best practices descriptions.

Training employees of reporting institutions and professionals and their supervisory bodies

Supported Outputs

Output 3.1

The financial sector and other relevant bodies have an increased awareness of the problem of money laundering, how to recognise it and how to protect their financial institution from it

Output 3.2

Financial institutions meet their reporting obligations towards Rosfinmonitoring and cooperate with the criminal justice system

In relation to activities involving reporting institutions the influence of the Project delivered training for compliance officers from the banking sector by way of 2 seminars in Luxembourg in February 2004 and January 2005 delivered to 43 persons and 3 seminars and conferences in Moscow and 1 in Malta attended by 57 persons. One high profile achievement was the adoption of a joint declaration by 8 leading Russian commercial banks to voluntarily adopt higher standards of compliance and transparency in the sphere of AML/CFT.

Practical knowledge transferred to the personnel of reporting institutions through seminars organised by the Project included;

- Models and forms of money laundering in the Russian Federation;
- Suspicious transactions relating to money laundering disclosed by credit organizations;
- Criminal sanctions for money laundering: practice (Art. 174, 174.1 of the RF Criminal Code);
- The Bank's of Russia supervision over the anti money laundering and terrorist financing activities of credit organizations;
- The changes in the RF legislation resulting from adopting the new version of FATF 40 Recommendations;
- The role of the Association of Russian Banks (ARB) in assisting in the development of the national system of combating money laundering and terrorist financing;
- The Prosecutor's Office supervision over observing anti money laundering and terrorist financing legal acts;
- Sanctions against credit organization for failing to observe the legislation relating to money laundering and terrorist financing;
- "Know Your Client which is not an EC member" as the principle of the EC Convention;
- Sanctions applied to foreign banks in the EC countries and the USA.

As an outcome Rosfinmonitoring was able to structure its activities in a different way and they produced and disseminated standardised procedures on monitoring compliance, financial analysis, supplying information to enforcement authorities, providing feedback to partners in the chain, etc.

Financial Analysis and computer-based training in the FIU and law enforcement

Supported Output

Output 1.1

The staffs of Rosfinmonitoring (HQ and regional offices) have been trained in their respective tasks

The outputs in relation to these aspects of the project were met by the creation of computer-based training resources for Rosfinmonitoring and the other competent authorities within the anti money laundering chain as these were felt to be more

economical and effective in reaching large numbers of individuals throughout the territory of the Russian Federation. The project team collaborated with Rosfinmonitoring and a multi-media expert from the United Kingdom to produce 3 training CD-ROMs as follows:

1. Introduction to AML/CFT issues and induction course for employees of Rosfinmonitoring and those authorities who interact with them in accordance with the legislation.

The aim of the course is to provide an overview of money laundering as a subject, and an understanding of the role and functions of Rosfinmonitoring and their law enforcement partners in trying to combat it. The course:

- Outlines money laundering legislation and regulations in the Russian Federation;
- Outlines the relevant international standards for AML/CFT;
- Discusses and demonstrates the financial disclosure process;
- Gives an overview of the organizational structure within Rosfinmonitoring;
- Describes the roles and responsibilities of the various departments and divisions of Rosfinmonitoring;
- Describes the role of the law enforcement agencies;

2. Training Course for financial analysts

This course has been adapted from a similar product designed by the UK National Criminal Intelligence Service in cooperation with the Egmont Training Working Group and provides initial training in the analysis of money laundering cases, methods and typologies commonly used by criminals, and the various ways to organise and manage the financial investigation process.

3. A Training CD based on the work of the 2004 Moscow seminar of cooperation with the law enforcement agencies

This resource was created by audio and visual recording of the first regional seminar on cooperation between the law enforcement agencies and Rosfinmonitoring.

500 copies of each of these three training resources have been supplied to Rosfinmonitoring and will be distributed throughout the Russian Federation to each of their regional offices and those of partner agencies and institutions. Interestingly, the project team utilized the services of a UK multi-media expert who had experience of working on such projects with EU Financial Intelligence Units. Whilst the product of his work is excellent we have recently discovered that the MVD also has this expertise at the Nizhniy Novgorod academy and had we used their facilities the process would undoubtedly have been quicker, especially as translation issues would have been easier to deal with. It may well have been cheaper also. This point also highlights the absolute need for each agency to know what the strengths and skills of their partners are.

Cooperation with law enforcement agencies, public prosecutors, and judges

Supported Output

Output 2.1

Law enforcement and criminal justice officials have a better understanding of the role of their institutions in the anti money laundering system of the Russian Federation and cooperate with Rosfinmonitoring

The relationship between the FIU and its law enforcement partners and the cooperation mechanisms and communication channels between them is a major factor in determining the effectiveness of an AML/CFT system. In order to address this matter a series of seminars were conducted in the 7 Federal Districts of the Russian Federation attended by a total of 653 persons representing: Rosfinmonitoring regional offices; Ministry of Interior; Narcotics Control Board; Federal Security Service; Customs Service; General Prosecutor's Office; Presidential, and Regional Administration Departments; Judges; and the Ministry of Justice. Following the conduct of these seminars there has been a considerable increase in the number of requests to Rosfinmonitoring from law enforcement agencies and an overall improvement in cooperation and coordination between agencies in all regions. In addition the heads of the seven Rosfinmonitoring Regional Offices attended each seminar and this opportunity provided a platform for them to exchange experiences and practices with their colleagues and also to meet with the senior management team from Moscow on a more regular basis than they would normally have been expected to do.

The impact of the project on Rosfinmonitoring cooperation with law enforcement and improved interaction with the prosecution and judiciary was manifest in the higher levels of awareness of the primary institutions in the AML chain of the everyday processes and routines used by their colleagues in other agencies. During the 7 regional seminars organised in Moscow and the capitals of all the other Federal Administrative Districts, the existing problems were discussed openly and in frank manner and proposals made on how to improve the interaction between different agencies. In addition the holding of a seminar on cooperation with law enforcement agencies held in conjunction with the Ministry of Interior Academy of Police in Nizhniy Novgorod in May 2005 that was attended by more than 850 police officers identified that the resolution of this issue and that of training in financial investigation techniques for the police is an urgent and real requirement.

- The various seminars allowed the participants to come to a number of conclusions that they considered important for further improvement of the performance of the institutions in question, viz.,
- The differing security classifications imposed on documents by the various agencies impedes cooperation;
- Cooperation would be improved by undertaking more joint training activities;
- There are valuable opportunities to be gained in the use of financial investigation techniques by the police in the investigation of predicate offences but active cooperation with the FIU is necessary to achieve this;

- There are opportunities for the Rosfinmonitoring to make more use of the information that can be obtained from other police resources in the early stages of their enquiries into a transaction report;
- There are opportunities for the police to integrate FIU information with all the other intelligence obtained during an investigation, and there was acknowledgement that the information the transaction report contains could provide important information for the detection of crime.

The seminars and meetings, organised within the project highlighted the fact that the majority of cases opened in accordance with Art. 174, 174-1 of the Russian Penal Code (money laundering provisions) invariably was only in connection with the identified predicate offence and not for offences of money laundering per se. The consequence of this is that a number of law enforcement agencies work in isolation of each other and often with little coordination of their investigations. For example, the preliminary investigation may be undertaken by investigators of the ministry of the Interior (directly) and simultaneously by the agency that discovered the predicate offence (Anti-Drugs Agency, Federal Security Service, etc). In addition the prosecutor has the right to accept the case from any of the agencies or transfer it for further investigation from one to another. A number of seminars for prosecutors and judges were organised in Moscow and in the regions aiming at not only improve the legislation but to improve the mechanisms of interaction between different branches of power and justice. One of the activities was organised immediately before the decision making meeting of the Supreme Court and the Prosecutors General Office which was to address the AML/CFT issue in order obtain some clear guidance from international legal experts. The rationale for involvement by the project in these areas was based to a large extent on the disparity between the numbers of money laundering offences prosecuted before the courts and prevalence of offences of these types generally.

Factors that contribute to this disparity occurring include:

- Lack of practical experience in the investigation, prosecution and judicial determination of money laundering and terrorist financing cases;
- Low level of specialised training in these issues among investigators, prosecutors, and judges;
- Absence of specialisation of judges in Russia
- Deficiencies in the existing system of information exchange on such cases with a sometimes-unsatisfactory level of exchange of information among various agencies.

There have been other activities consisting of seminars and workshops involving the General Prosecutor's Office and the judiciary, and seminars and round table meetings involving the supervisors of the various financial services sectors.

Assisting in the creation of a dedicated training department for Rosfinmonitoring and the development of appropriate training curriculum

Supported Output

Output 1.1

The staffs of Rosfinmonitoring (HQ and regional offices) have been trained in their respective tasks

The government of the Russian Federation has been working on the elaboration of a national strategy against money laundering and terrorist financing that is shortly to be formally adopted and the project team has contributed to the discussions of the working group. Within this national strategic framework the identification, development and delivery of relevant training is an integral aspect and will contribute to the successful delivery of the strategy against identified national targets. It is considered important that within the national strategy there is also a national training strategy where the development of training is not viewed in isolation but linked directly to the overall objectives for each organisation in the anti money laundering chain whilst at the same time taking into account the needs of the Russian Federation to respond to these issues as a whole. This concept was elaborated to the beneficiaries by the project team. In conjunction with these initiatives the additional creation of a ‘National Anti-Money Laundering Training Forum’, supported by Rosfinmonitoring at the highest level will also assist in the development of the national training strategy along with providing the necessary co-operation and co-ownership with other agencies that is essential for long term sustainability.

The diverse nature of the work of Rosfinmonitoring, together with their wide area of responsibility means that their training needs are complex and at the commencement of the project they did not have a dedicated in-house training resource available to them and it was therefore decided that the project team would assist by implementing a ‘train the trainers’ programme. Whilst deciding how the project was to deliver this particular support consideration and acknowledgement of the interdependencies that existed with other agencies, and the geographical spread and regionalised nature of Rosfinmonitoring and law enforcement had to be taken into account. Upon examination, these factors clearly indicated that a clear and thorough identification and analysis process was important and that any training solution for Rosfinmonitoring could only come from a detailed and specific analysis of their roles and responsibilities as the training needs are specific to Rosfinmonitoring and accordingly the solutions must be designed specifically for them. The project team secured the assistance of the Assets Recovery Agency (ARA) of the United Kingdom to design and assist in the delivery of the training and with their help selected staff from Rosfinmonitoring and the project team conducted the Training Needs Analysis (TNA) as part of a structured “Train the Trainers” programme.

A group of 12 representatives from Rosfinmonitoring and 2 from the Ministry of the Interior of the Russian Federation (Nizhniy Novgorod Police Academy) received instruction from professional trainers from the Centre of Excellence of the UK Asset Recovery Agency. The representatives of the beneficiary country received all necessary

training materials and the aim of this training was to build on the Russian trainees' background and experience by equipping them with the knowledge, understanding, skills, attitudes and behaviour needed to design a basic financial investigation course, and to create lesson plans and deliver the product to students utilising student centred training techniques. This initiative provided the project with a particularly powerful, cost effective and sustainable methodology to achieve the improvement of effective co-operation along the whole chain of national anti-money laundering services. The practical result will be that once the initial training under the project is complete, persons working in the field of combating money laundering in the beneficiary country will be instructed in their own language by their own tutors. This means that also after this project is completed, new employees in the different organisations in the anti-money laundering chain can still be trained.

The first stage was a 10-day course in held in the UK in August 2004 introducing the participants to the development of a training strategy in broad terms and covered the rationale and methodology of conducting the training needs analysis. Stage 2 between September 2004 and January 2005 involved the process of data collection for the TNA and Stage 3 was the production of the definitive TNA document in February 2005. Stage 4 comprised a further 5 day course in the UK in April 2005 dealing with the actual development of a curriculum and supporting lesson plans to enable the trainees to create the template of the training course and to deliver this course to their colleagues in Rosfinmonitoring. Throughout the whole process the ARA and the Project Team assisted Rosfinmonitoring in their activities and provided constructive feedback and development plans where appropriate. At the conclusion of this initiative Rosfinmonitoring are left with a core of trained trainers and a training course designed by those individuals specific to the needs of Rosfinmonitoring and the Russian Federation.

At the conclusion of the project the students possess the knowledge, understanding, behaviors, skills, and abilities to take undertake the training needs analysis to clearly identify their present and future needs. They were also instructed in the design of curricula and the development of supporting lesson plans.

International co-operation

Supported Output

Output 1.5

The Rosfinmonitoring is cooperating and exchanging information with the FIUs of other countries

The most important results in this sphere included:

- Facilitation of international contacts with other FIUs;
- Provision of assistance in preparing and negotiating memoranda of understanding with foreign FIUs and in particular Germany;
- Assistance in the organisation of important international activities in Russia, that helped to enhance Russia's standing as an important and reliable international

- cooperation partner e.g., FATF evaluation methodology training, FATF typologies, international seminar on CFT;
- Help in development of the Rosfinmonitoring counter terrorist financing strategy. During the period of the project Russia signed 11 out of 12 universal anti-terrorist conventions;
 - The procurement and installation of the FIU Net system within Rosfinmonitoring.

In October 2004 an international seminar with workshops on terrorist financing was held in Moscow and attended by 184 persons representing 38 countries and 11 international organizations. The Minister of Finance of the Russian Federation, the Ambassador to the EC Delegation in Moscow, the Director of Legal Co-operation of the Council of Europe, and the Chairman of the Financial Action Task Force (FATF) all participated in this important and high-level event. In addition a letter of welcome and support from the President of the Russian Federation was read out to the delegates. This seminar attracted a substantial amount of media coverage and coincided with the official declaration of the establishment of the Eurasian FATF style regional body by the Russian Federation. In order to further promote the work of Rosfinmonitoring in relation to countering terrorist financing three additional scientific seminars dealing with the economy of terrorism were organized in cooperation with international academic institutions and delivered in Moscow, Munich, and Kislovodsk in the North Caucasus. Two of these activities resulted in the publication of handbooks on the economy of terrorism and terrorist financing issues generally.

A concrete result of the increased international interaction during the last three years has been the Russia initiated inclusion of 3 Chechen organisations “ Islamic International Brigade”, “Islamic Special Task Regiment”, and “Reconnaissance-sabotage battalion of Chechen Shahids” (Riyadus-Salihin) into the terrorist list (1267) of the UN Security Council. Russia is a signatory to the Strasbourg 1990 Convention and has also signed the 2003 Anti-Corruption Convention. It became a member of FATF in June 2003 and initiated the creation of the Eurasian FATF style regional body in October 2004 comprising Russia, Belarus, China, Kazakhstan, Kyrgyzstan, and Tajikistan. In addition Rosfinmonitoring currently has Memoranda Of Understanding on the exchange of financial information with 15 countries; France, UK, Italy, Belgium, Panama, Poland, Czech Republic, USA, Estonia, Ukraine, Columbia Luxembourg, Sweden, Finland, Latvia).

Nine study visits involving a total of 85 persons were organised primarily for Rosfinmonitoring staff to examine the operational practices of foreign FIUs and thereby improve their capacities for international cooperation. The countries visited were: United Kingdom; Belgium; Germany; France; Spain; Finland; Netherlands; Ireland; and Italy. Foreign experts from those countries and also from Sweden; Luxembourg; Slovenia; Bulgaria; Denmark and "the Former Yugoslav Republic of Macedonia" have also contributed to the success of the project by assisting in the delivery of various aspects of the work-plan.

4 LESSONS LEARNT AND RECOMMENDATIONS

The combating of financial crime, money laundering, and the financing of terrorism are a priority for the law enforcement and intelligence communities in the Russian Federation and it is clear that they have made excellent progress in improving their systems to European and international standards during the lifetime of the project. In less than three years they have developed from being on the FATF black list of non-cooperating countries and territories to becoming a full member of the FATF and initiating and leading a regional FATF body.

As Rosfinmonitoring has developed they have been able to absorb the best practices from the EU and elsewhere, yet had the luxury of identifying and discarding the not so good practices. They have also had the opportunity to note the lessons learnt from the mistakes others have made, which has now enabled them to create structures that in some respects are more efficient and effective than some of their EU counterparts. For example their response to terrorist financing contains aspects that many countries are seeking to copy.

The response from law enforcement should also be acknowledged, as that is no less commendable. Specialised police units now exist for dealing with the product from the FIU and for undertaking financial investigations. Training has improved and so has the awareness of many senior officers of the issues surrounding money laundering and the importance of removing the profits from crime. Cooperation between police and Rosfinmonitoring has also improved with an acceptance of the need to coordinate activities and investigations in real time, and a greater awareness of their respective roles, responsibilities, and procedures.

The achievements listed above clearly indicate that Moli-Ru project has made a major contribution to the development of the anti money laundering and counter terrorist financing system in the Russian Federation. In addition, by the diversity of the activities that have organized and the quality of the expertise that has been procured for them on a wide range of issues, the project has assisted in a very practical way to the professional development of Rosfinmonitoring as an organization, and of its personnel.

At the start of the MOLI-RU project in February 2003, the Russian Federation had:

- Only recently (after two veto by former President) managed to adopt the specialized anti-money laundering legislation (federal law on fighting money laundering) and to launch a national FIU
- Had virtually no experience in the organization of a coherent system of countering money laundering and terrorist financing,
- Lacked proper expertise in establishing the desirable level of cooperation between various elements of the system, in particular in the field of cooperation between the newly created administrative FIU and the law enforcement;
- Possessed very limited international ties and connections necessary for successfully combating money laundering and terrorist financing (AML/CFT);

- Encountered a deeply rooted suspicion and lack of trust, occasionally amounting to passive sabotage of the AML/ CFT efforts on the part of the reporting institutions;
- Lacked the necessary number of experienced specialists in the business area.

As a consequence the country failed to comply with international standards of AML/CFT that was reflected by the fact that Russia continued to remain on FATF list of non-cooperating countries and territories (NCCT).

During the period of execution of the MOLI-RU project the anti-money laundering/counter-terrorist financing (AML/CFT) system in the Russian Federation substantially evolved with considerable progress in meeting international requirements and standards achieved. The actual scope and depth of those changes can be properly appreciated only through the comparison of the initial situation with the one that emerged by the time of completion of the MOLI-RU project.

As previously stated, the Project against Money Laundering in the Russia (MOLI-RU project) officially began in February 2003 although the actual start of the activities took place in April 2003. During this initial period the strategy of the project was developed and this was based on the peculiarities and realities of the situation appertaining to the Russian system for combating money laundering and terrorist financing system at that time. Also occurring at this time was widespread legalisation of illegal businesses and the proceeds of crime together with many cases of high value fraud, particularly targeting the public sector, and it was noted that Russia's organised crime groups had targeted the economy as a sphere of major interest and control. Already in mid 1990s, shadow economic activity and money laundering had become major fields of operations for the organised criminal networks.

The exact amount of dirty money circulating in the Russian economy is hard to establish but an approximate evaluation may be based on an assessment of the size of the Russian shadow economy which, according to the Russian National Security Council in September 2003, amounted to 20- 25 % of GDP i.e. about 2-2.5 trillion Roubles (or USD 67 – 83 billion) per annum. The extent of the criminal activity per se was about 5% (500 billion Roubles) per annum. The latter figure (that in US dollar equates to about \$ 16.7 billion) may be regarded as a rough estimate of the scale of criminal money laundering in the Russian Federation at that time. It is estimated that approximately 9 million people received their main source of income from within the shadow economy. As a consequence of operating within the shadow economy it was clear that in addition to their criminal proceeds, their wages and other payments received by them required laundering. In addition a very significant illegal cross border outflow of funds was taking place that in 2002 was estimated to be at a rate of \$12 billion a year.

Though obviously unsatisfactory, the situation at this time represented a significant advancement compared with that of only five years before, when according to the Home Ministry figures the shadow economy accounted for nearly 40 per cent of GDP (\$100 - 110 billion) and the illegal capital flight was at least \$24 billion a year.

On 7 August 2001, President of the Russian Federation signed the federal law (no 115-FZ) on action to combat the laundering of proceeds from crime that is aimed at preventing and suppressing activities related to money laundering. It regulates, among other things, reporting obligations and monitoring requirements for transactions involving monetary or other assets and entered into force on 1 February 2002. In line with this law, and through Decree no 1263 (1 November 2001) of the President of the Russian Federation, a Russian Financial Intelligence Unit (FIU), called the Financial Monitoring Committee of the Russian Federation (*in Russian: Komitet Finansovogo Monitoringa - KFM*) was created. Its powers were defined by Ordinance no 211 (2 April 2002) of the Government of the Russian Federation. (In 2004, in accordance with the federal administrative reform, the KFM was renamed into Federal Service of Financial Monitoring – Rosfinmonitoring, while preserving its mandate and responsibilities. The Rosfinmonitoring is a federal executive body authorized to take measures against legalization (money laundering) of criminally gained income and the financing of terrorism and to coordinate the activities of other federal bodies with executive power in this sphere. It reports to the Ministry of Finance of the Russian Federation and on the annual basis submits to the Ministry a report on combating money laundering and financing of terrorism.

Aims and objectives of Rosfinmonitoring include:

- Collecting, processing and analysing information on the monetary and other transactions with property subject to surveillance in pursue to the legislation of the Russian Federation;
- Building a universal information system and managing a federal database in the field of countering money laundering;
- Forwarding of relevant information to the law enforcement and other agencies;
- Pursuance of international agreements of the Russian Federation on interaction and information exchange with competent agencies of foreign countries in the AML field;
- Presentation of the Russian Federation in international organisations with regard to counteracting money laundering and suppression of terrorism.

Rosfinmonitoring works in collaboration with other federal bodies of the executive, entities of the Subjects of the Russian Federation, local self-government bodies, public associations, and other organizations, including international bodies.

While the Rosfinmonitoring plays a central role in the prevention and control of money laundering, the role of other institutions is equally crucial. Before the creation of the FMC the responsibility for co-ordination of anti-money laundering work lay with the Ministry of Internal Affairs, which for this purpose created within its structures an Interagency Centre for Suppression of Money Laundering (ICSML). Shortly before the creation of the FMC there was a period of uncertainty about within which body the Russian FIU would be placed. That caused considerable competition and certain rivalries between The Ministry for Internal Affairs, the Taxation Ministry and the Ministry of Finance. After the creation of the FMC as an autonomous agency, the ICSML was

disbanded as the FMC assumed the responsibility of co-ordination of anti-money laundering and anti-terrorist financing activity in the country. The Ministry of Internal Affairs however, as the main law enforcement agency in the AML process (unlike the Rosfinmonitoring, which according to the law has no law enforcement powers) needed a structure to organise and lead this direction of anti-crime work.

In September 2002, a special Operative Investigation Bureau (ORB-4) was set up within the Main Directorate of Economic Crime (GUEP) of Criminal Militia Service of the Russian Ministry of Interior with the mission of “fighting money laundering and severing the channels of terrorist financing”. Other government agencies combat money laundering within their sphere of competence and the Federal Security Service of Russia is amongst others combating organised crime, corruption, and terrorism, and thus also money laundering. The control and supervision of credit institutions are exercised by the Central Bank of Russia (CBR) that in 2003 inspected 997 banks checking their compliance with the existing AML regulations. In 2002, 26 banks were fined by the CBR for various violations of AML legislation and additionally the operating licences from 2 commercial banks were withdrawn. At the same time it must be noted that about 200 banks presented no reports at all to the Rosfinmonitoring.

The AML procedures in the securities market are monitored by the Federal Securities Market Service; that of insurance companies by the Insurance Surveillance Department of the Ministry of Finance; the one of post and telegraph offices by the Ministry of Telecommunications; while leasing and pawn shops are monitored by the Rosfinmonitoring). Coordination and cooperation with these bodies thus poses a major challenge to the Rosfinmonitoring. Such co-ordination constitutes a separate line of Rosfinmonitoring activity and is a core responsibility of a separate department. Russia ratified the International convention on laundering, search, seizure and confiscation of the proceeds from crime (1990 Strasbourg Convention) through adoption of a special Law on Ratification (FZ-62 on the 28 May 2001).

In 2002 Rosfinmonitoring undertook measures to secure Russia’s expulsion from the FATF black list (NCCT List). The goal was achieved in the autumn of 2002. Following the adoption of legislation and the creation of the FMC, Russia was removed from the list of non-co-operative countries established by the Financial Action Task Force (FATF) in October 2002. In June 2003, the Russian Federation became a member of the Egmont Group and the FMC was thus recognised as a Financial Intelligence Unit meeting the Egmont Group standards. Soon after, in June 2003, Russia became a full member of FATF.

Though those achievements were quite important and in some cases crucial, at the time the MOLI-RU project was started, the overall situation with fighting money-laundering and terrorist financing was still very difficult and required much work in the direction of constructing a comprehensive AML/TF national system,

A pre-requisite for the effective implementation of the project work plan was that the beneficiaries accepted that money laundering and terrorist financing constituted a

substantial threat to the national economic and general security situation of the Russian Federation. This factor was evident from observing how the scale of the criminal and shadow economic activity had become a major impediment in the country's transition to democracy and modern market economy. The permeation of dirty money in the Russian financial sector adversely affected Russia's national image and the acceptability of its business community within international economic relations. At the same time the rampant corruption in the higher echelons of the Russian society played an important negative role in obstructing the establishment of an effective anti-money laundering and terrorist financing system corresponding to existing European and international standards.

The start of the Project (February 2003) was the first month when the Russian businesses began to submit reports to the newly created national financial intelligence unit. Only 6 months before this date the Russian Federation was removed from FATF non-cooperative countries' and territories list (NCCT) the so-called "Black list". Consequently the financial system was suffering from the previous prolonged period of lack of control over the sources of provenance of funds, circulating in it. In these circumstances a priority activity for the successful management of the project was for the Moscow based team to establish effective and efficient cooperation, communication, and interaction with the beneficiary and also with different elements of the Russian AML/CFT system as a whole. This cooperation relied on the following code of delivery of the Project:

- An appreciation of and attendance to the real needs of the beneficiary (Rosfinmonitoring)
- The beneficiary's full active involvement in the preparation and delivery of each and every activity of the Project
- Full compliance with the Terms of Reference of the Project
- Absolute transparency of the work of the Project Team

In these circumstances it was extremely important that the project team identify and fully respond to the real problems of the Russian Federation in fighting money laundering, and not only the generic ones, as usually described by specialized international bodies (FATF, IMF, World Bank, etc). The project team dedicated significant amount of their working time and effort in identifying the key problem areas of the system and designing the most appropriate solutions to address the most outstanding needs of the beneficiary. Rosfinmonitoring on its part fully accepted these inputs, particularly through incorporating some of the findings and recommendations into the 'National Strategy for Fighting Money Laundering and Terrorist Financing' that was being elaborated on the order of the President of the Russian Federation.

In cooperation with Rosfinmonitoring the deficiencies in the existing system of AML/CFT were identified together with a group of factors that have a likelihood of increasing the risks to efforts to deal with these issues, namely:

- Gaps and inconsistencies in the legal regulative framework, including the Russian criminal and civil legislation;
- Underdevelopment of conceptual and judicial bases of the state (government) financial control;
- Imperfect state of information support, disunity and diversity of information

- resources necessary for successfully combating AML/CFT;
- Unsatisfactory level of cooperation efficiency between government entities, the FIU (Rosfinmonitoring), law enforcement agencies and various organs of financial control;
- Deficiencies in the law enforcement practice, and in supervision, stemming from the lack of specially trained personnel and developed methodologies.

The identification of those key issues allowed the Project Team and Rosfinmonitoring to flexibly adapt the activities of the Project to the most urgent current needs of the Beneficiary without compromising the strategic direction of the Project or deviating from the originally agreed terms of reference. Thus, when in August 2003, March, May and October 2004 and the beginning of 2005, the Beneficiary expressed their desire to shape the planned MOLI-RU activities on legislation, cooperation with law enforcement, judiciary, prosecutors or on terrorist financing in accordance with the newly evolved requirements of the Russian FIU, the Project team was able to fully meet the demands of the Russian side.

The cornerstone of cooperation between the project team and Rosfinmonitoring was the delivery of activities that could demonstrate effectiveness, efficiency and economy with qualitative assessments on the sustainability of their impact on the beneficiaries.

The outstanding problems within the AML/CFT sphere include:

- The necessity to complete the introduction of AML/CFT legislation that complies to European and international standards and to guarantee compliance with them, particularly in relation to seizure and confiscation of the proceeds of crime.
- To continue to improve cooperation within the AML/CFT system in particular with the financial services sector, law enforcement, and the judiciary;
- To develop a domestic system for training and professional development;
- To continue to develop methods to improve the CFT measures.

The scope of further assistance may include the above mentioned issues and as stated it would be important to support the Russian Federation in preparation for the adoption of new international standards on money laundering and the financing of terrorism, as reflected in the new Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism, adopted in May 2005. This new Convention contains a number of new standards referring notably (but not exclusively) to the financing of terrorism, which were only marginally covered by the MOLI-RU 1 project.

Besides those issues three key issues may be addressed in the immediate future:

- Development of measures to help financial sector organisations to prevent money laundering and terrorist financing through their structures;
- Measures to increase inter-agency information exchange;

- Public awareness programmes and the necessity to help create a positive image of AML/CFT activity in the country.

The project team has been personally informed by representatives of the various beneficiaries at all levels on a number of occasions during the past 2 years that the Moli-Ru project has made a major contribution to the development of the anti money laundering and counter terrorist financing system in the Russian Federation. In addition, by the diversity of the activities that have been organized and the quality of the expertise that has been procured for them on a wide range of issues, the project has assisted in a very practical way to the professional development of Rosfinmonitoring as an organization, and of its personnel.

Overall this indicates that the project has succeeded in achieving the overall objectives of this particular project but as AML and CFT issues continue to evolve internationally there will still be more action to take by both Rosfinmonitoring and law enforcement and a follow-on project to maintain the momentum of the reforms already discussed within this report is a necessary next step.