

ILLICIT FINANCIAL FLOWS AND ASSET RECOVERY In Georgia

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Foreword

Illicit Financial Flows (IFFs) impact a country's economic and social development in a myriad of ways. Undocumented flights of wealth to and from - as well as within - a country have severe repercussions on government revenues, wealth that could otherwise be invested in public spending and other forms of economic and social reforms. Illicit financial flows, particularly those related to organised crime, also withdraw funds from the legitimate economy and may force the State to divert more resources to prevent and respond to criminal activity or to treat or compensate victims. The drain on resources and tax revenues caused by IFFs blocks the expansion of basic social services and infrastructure programs that are targeted at improving the wellbeing and capacities of all citizens, in particular, the very poor.

IFFs in many developing countries mean fewer hospitals, schools, police, roads and job opportunities, as well as lower pensions. It is for these reasons that States must place significantly higher priority on seizing and confiscating illicitly-obtained assets, and to channel such recovered assets to high-priority development needs.

New paradigms and policies to counter IFFs must be established to produce an unbroken chain of work from tracing, freezing, seizure, confiscation and recovery of illicitly-obtained assets, through transparent management and liquidation of such assets, to distribution of the proceeds to high-priority development needs. It is this mechanism and paradigm that will enable countries to capture billions in assets and to directly channel them into, for example, more schools, hospitals, community clinics and infrastructure, as well as the much-needed payment of salaries for teachers, nurses and doctors. Such policies also can enable States to significantly reduce youth unemployment. All of these are key factors to a country's development.

In light of the above, the European Union and the United Nations Interregional Crime and Justice Research Institute (UNICRI) are proud to launch a series of studies on Illicit Financial Flows and Asset Recovery. These studies shed light on the significant damage being caused to States as a result of unchecked IFFs, and on the significant value of prioritising the capture of illicitly-obtained assets linked to such IFFs. The EU and UNICRI are committed to providing key support and expertise needed by States to more effectively respond to IFFs. In creating and implementing more effective responses, many of which are identified in the recommendations of these reports, States will be able to weaken the influence of organised crime, as well as inject significantly greater funding into high-priority development needs.



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Executive Summary:

Organised crime produces significant amounts of illicit revenue and proceeds globally and in Europe. Georgia has implemented impressive reform measures to combat corruption, organised crime and Illicit Financial Flows (IFFs) in the country, providing a positive example for the region. Despite this progress, Georgia still deals with certain criminality inside the country. The principal criminal activities in Georgia include theft, fraud, drug-related crime, property crime, cybercrime and financial crime. Significant levels of IFFs might have been produced by this criminal activity in recent years. Additionally, Georgia faces certain challenges regarding Chemical, Biological, Radiological, and Nuclear (CBRN) trafficking and terrorism financing due to regional insecurity.

This study's main objective is to provide targeted recommendations to national authorities, as well as other key stakeholders, in order to create and strengthen mechanisms for effective and efficient seizure and confiscation of assets linked to organised crime. The study also provides recommendations to strengthen the transparent management of recovered assets, including recommendations with respect to directing such assets to high-priority development needs. High-priority needs in Georgia include the employment, health, and infrastructure sectors.

Key Findings:

- If Georgia were to successfully seize and confiscate only 10% of the estimated country's annual IFFs, it would cover the cost to build approximately nine large hospitals, each with a 220-bed capacity.
- Such recovered assets could also cover approximately half of the total budget (2020) for universal healthcare (USD 227 million) in the country or approximately half of the allocated 2020 budget for primary schools (USD 235 million). Equally, such liquidated assets could also cover the cost to build throughout Georgia 568 small-sized schools (each housing 20 students), 99 mid-sized schools (each housing between 120 and 300 students), or 39 large schools (each housing 650 or more students).
- Alternatively, such recovered assets would be able to cover the costs of more than two-thirds (69%) of annual public teacher salaries or cover the cost of textbooks for students (grades 1 through 12) for the next 14 years.
- Policy-makers and stakeholders may wish to consider the establishment, in close coordination with the Prosecutor's Office, of a dedicated Asset Recovery Office (ARO) or a similar effective mechanism, already the standard within the EU. The ARO should have under one roof officials with access to key databases that will allow for the tracing of assets of individuals (and business entities) suspected of being involved in income-generating criminal activity; this would include access to databases of, for example, the tax authority, vehicle registry, land registry, business registry, criminal records database and public official asset declaration database. This would allow the ARO to provide police and prosecutors with a comprehensive picture of the assets held by those suspected of criminal activity.
- The Government of Georgia may also wish to consider establishing the use of Extended Confiscation and Confiscation of Equivalent Value as the norm in all cases involving serious income-generating crime (as well as the financing of terrorism).
- Consideration should be given to strengthening non-penal mechanisms for the seizure and confiscation of assets, as such mechanisms can often reduce the time to confiscate assets from a period of several years to a period of several months.
- Consideration should be given to bolstering mechanisms which ensure regular face-to-face dialogue with police and prosecutorial focal points in other key countries regarding the seizure, confiscation and recovery of assets linked to organised crime and corruption. Such face-to-face in-person dialogue often produces quicker and more comprehensive results.

Acronyms and Abbreviations

AA	Association Agreement
AML	Anti-Money Laundering
ARO	Asset Recovery Office
CARIN	Camden Asset Recovery Interagency Network
CBRN	Chemical, Biological, Radiological, and Nuclear
CCG	Criminal Code of Georgia
CoE	Council of Europe
CPCG	Criminal Procedure Code of Georgia
CPG	Civil Procedure Code of Georgia
CPR	The World Bank's Country Partnership Framework
CPS	Country Partnership Strategy
DCFTA	Deep and Comprehensive Free Trade Area
EaP	The Eastern Partnership
EU	European Union
EUR	European Union Euro
Eurojust	The European Union Agency for Criminal Justice Cooperation
Europol	The European Union Agency for Law Enforcement Cooperation
FATF	Financial Action Task Force
FMS	Financial Monitoring Service
GDP	Gross Domestic Product
GEL	Georgian Lari
GRETA	Council of Europe's Group of Experts on Action against Trafficking in Human Beings
IDP	Internally Displaced Person
IFF	Illicit Financial Flow
IMF	International Monetary Fund
MIA	Ministry of Internal Affairs of Georgia
MoLSHA	Ministry of Labour, Health and Social Affairs of Georgia
Moneyval	The Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
NATO	North Atlantic Treaty Organization
NBG	National Bank of Georgia
NRA	National Risk Assessment
OSCE	The Organization for Security and Co-operation in Europe
PEP	Politically Exposed Persons

POG	Prosecutor's Office of Georgia Program
RICO	United States Racketeer Influenced and Corrupt Organizations Act
RS	Revenue Service
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goal
SSSG	The State Security Service of Georgia
StAR	Stolen Asset Recovery Initiative
UN	United Nations
UNCAC	United Nations Convention Against Corruption
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
UNICRI	United Nations Interregional Crime and Justice Research Institute
UNTOC	United Nations Convention Against Transnational Organised Crime
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WHO	World Health Organisation

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1. Overview of Illicit Financial Flows and the Recovery of Illicitly-Obtained Assets



1.1 Introduction

This study examines illicit financial flows (IFFs) generated from organised criminal activity in Georgia. It provides an overview of organised crime and assets linked to organised crime in the country and outlines the legislative and operational frameworks in place to combat IFFs and to recover illicitly-obtained assets. Effective asset recovery policy is a fundamental component of combating IFFs and mitigating the harm produced by IFFs.

This study's main objective is to provide targeted recommendations to national authorities, as well as other key stakeholders, in order to create and strengthen mechanisms for the effective and efficient seizure and confiscation of assets linked to organised crime. The study also provides recommendations to strengthen the effective and transparent management of any recovered assets, including recommendations with respect to directing such assets to high-priority development needs. High-priority needs in Georgia include the employment, health, and infrastructure sectors.

The data collection for this study was undertaken from May to October of 2020 through open-source desk research, as well as feedback from members of civil society and other multiple stakeholders.

Definition of Illicit Financial Flows

There is no consensus regarding the definition of IFFs, as it covers a diverse set of activities and behaviours, reflecting the complex and multifaceted nature of illicit international trade and finance.¹ The absence of a comprehensible and universally adopted definition explains the difficulty in analysing it and, therefore, producing targeted responses. The United Nations Economic Commission for Africa (UNECA) stated that this lack of terminological clarity limits the emergence of effective policy measures.² Another reason for this struggle concerns the statistical feasibility of quantifying IFFs, which is extremely challenging. This is because IFFs, and related crimes, are purposefully hidden or disguised by criminals who are seeking to protect themselves from the interventions of law enforcement agencies. Consequently, attempting to gather reliable information to model criminal actions and the requisite

data through which to produce accurate responses is also challenging.³

Notwithstanding these limitations, for purposes of this study and to assist States in developing holistic and useful responses to the threat, IFFs are defined broadly as the revenue, proceeds and any other assets generated by the following activities:

- **Corruption**, including the proceeds of theft, bribery, graft and embezzlement of national wealth by government officials;
- **Illicit Commerce**, including the proceeds of tax evasion, misrepresentation, misreporting and mis-invoicing related to trade activities, and money laundering through commercial transactions; and
- **Other Serious Crime**, including the proceeds of criminal activities, including human and drug trafficking, smuggling, counterfeiting, racketeering (also known as criminal protection or extortion) and terrorist financing⁴

This classification, which is a slight alteration from that used by UNECA in 2013, highlights not only the diverse and evolving nature of illicit financial flows but also the need for multifaceted (holistic) responses that tackle the threat from various angles – e.g., not just a criminal justice response.⁵ The classification also disregards the characterisation that IFFs should only be international in nature – significant losses and harms can occur to national economies, healthcare and education systems, and to employment opportunities, even if IFFs occur within a specific country. The dynamic of the forms of IFFs differs from country to country, depending on the illicit flows transiting into, through and out of the country.

This study concentrates on the revenue, proceeds and other assets generated from organised criminal activities in Georgia. Due to the interdependent nature of IFFs, this study also examines assets generated from corruption and commerce to provide a useful framework on IFFs in Georgia. Money laundering is a crucial tool used by organised criminal groups worldwide to move illicitly-obtained revenue and to fund criminal activity. There is also a strong link between corruption and organised crime in many countries as both are propelled by the same limitations of governance and the law.

Recovery of Illicitly-Obtained Assets

The recovery of illicitly-obtained assets is essential to combating organised crime and IFFs as it deprives criminals of their financial gains and can act as a deterrent against future crimes (by removing the financial motivation of crimes). The recovery of illicitly-obtained assets can also help mitigate the harmful impact of IFFs through the liquidation and reinvestment of those assets into public welfare and high-priority development needs. For the purposes of this study, the asset recovery process includes the tracing, freezing, seizure, confiscation, and management of illicitly-obtained assets.

Worldwide progress in the recovery of illicitly-obtained assets has been, at best, modest. In 2012, the OECD launched a survey measuring assets frozen and returned between 2010 and June 2012. In this time period, a total of approximately USD 1.4 billion of corruption-related assets had been frozen. In terms of returned assets, a total of USD 147 million were returned to a foreign jurisdiction in the 2010-June 2012 period. These figures pale in comparison to the widely quoted estimate that the aggregate size of money laundering in the world could be somewhere between two and five percent of the world's GDP. In 2009 alone, criminal proceeds were estimated to be at 3.6% of global GDP, with 2.7% (or USD 1.6 trillion) being laundered.⁶

European Union (EU) progress in the recovery of illicitly-obtained assets has also been modest. Europol estimates organised criminal groups have a profit of EUR 110 billion annually in the EU.⁷

Corruption is estimated to cost the EU economy some EUR 120 billion per year.⁸ Europol estimates that about EUR 1.2 billion is confiscated each year in the EU, which represents 0.009% of EU GDP. For a country with a GDP of EUR 200 billion (e.g. Finland in 2014), this amounts to about EUR 17.7 million; for a country with a GDP of EUR one trillion (e.g. Spain in 2014), the figure is about EUR 88.7 million; for a country with a GDP of about EUR 2.2 trillion (e.g. France in 2014), it is about EUR 195.2 million.

For bribery alone, the most widely accepted estimate of global bribery puts the total at around USD 1.5 to 2 trillion each year.⁹

Corruption, bribery, theft and tax evasion, and other illicit financial flows cost developing countries USD 1.26 trillion per year. That is roughly the combined size of the economies of Switzerland, South Africa and Belgium, and enough money to lift the 1.4 billion people who get by on less than USD 1.25 a day above the poverty threshold and keep them there for at least six years.¹⁰

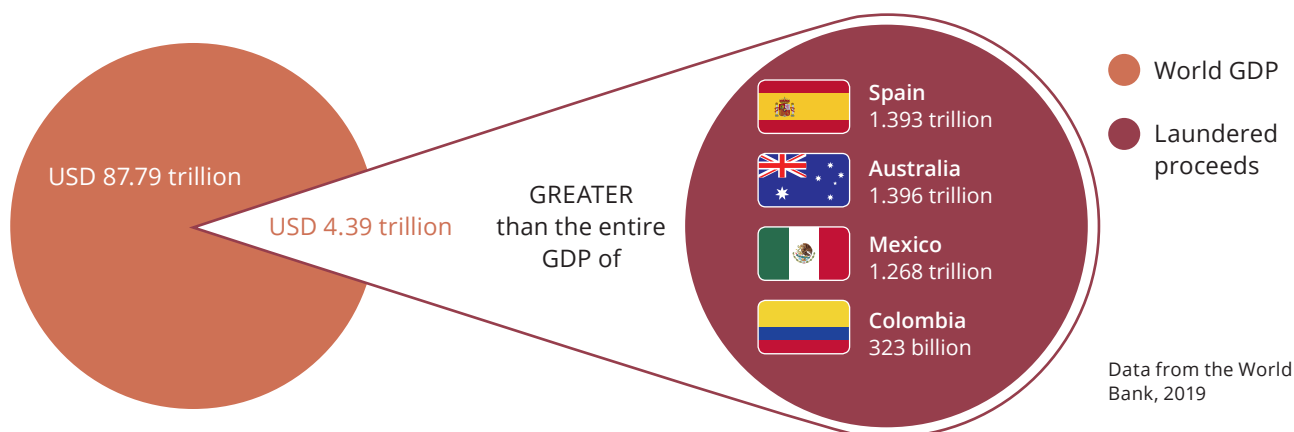
A USD 1 million bribe can quickly amount to a USD 100 million loss to a poor country through derailed projects and inappropriate investment decisions which undermine development.¹¹

Notwithstanding the above, such estimates should be treated with caution. They are intended to give an idea of the magnitude of money laundering, which represents only a portion of IFFs. Due to the illegal nature of the transactions, precise statistics are not, nor likely ever will be, available and it is therefore impossible to produce a definitive estimate of the amount of money that is globally laundered every year. The Financial Action Task Force (FATF) therefore does not publish any figures in this regard. Still, there is near-universal consensus that money laundering and IFFs worldwide undermine most economies as well as development.

Just as IFFs weaken development, the recovery of assets linked to IFFs can enhance development. The recovery of only a small portion of illicitly-obtained assets linked to serious criminal activity – both from abroad and from within a country – can provide developing countries with much-needed additional resources. In this context, prioritising the tracing, seizure, confiscation and recovery of illicitly-obtained assets can, aside from providing a useful deterrent to criminality, fund high-priority development needs, such as those in the health, education or infrastructure sectors.

Many obstacles, particularly in cross-border cooperation to recover assets, have allowed criminal organisations and corrupt officials to take advantage of such weaknesses. Proving that assets are linked to criminal conduct can be a complex and lengthy process, ultimately producing a lack of public confidence in state institutions. Nevertheless,

Estimated annual amount of global laundered proceeds is greater than the entire GDP (2019) of the following countries combined



countries that have had the most success in the tracing, freezing, seizure and confiscation of illicitly-obtained assets (whether located abroad or within that particular country) are those that have adopted mechanisms that can accelerate criminal justice processes for confiscation,¹² as well as mechanisms for non-conviction-based forfeiture of assets.¹³

An increasing number of jurisdictions have adopted mechanisms for initiating proceedings for unexplained wealth or illicit enrichment.¹⁴ Many countries now recognise the value of establishing dedicated Asset Recovery Offices (AROs), essentially offices that house officials with access to multiple databases (e.g., vehicle registry, business registry, tax information, customs database, criminal records). Such

AROs, once in place, can take a cross-institutional view of one's assets, as well as the assets held by family members or associates of those suspected of being involved in serious criminal activity – more often than not, when one launders illicitly-obtained assets, he or she does not place them in his or her own name.

Additionally, the establishment and training of specialised forensic financial analysts, who support the role of prosecutors in proving financial crimes, have proven to be beneficial in both criminal proceedings as well as in civil confiscation proceedings. States that have developed strong inter-institutional cooperation mechanisms also have shown greater success in the recovery of illicitly-obtained assets.¹⁵

Mechanisms for Accelerated Conviction and Non-Conviction-Based Forfeiture

- Plea bargaining, reconciliation or other expedited settlement of criminal proceedings requiring the defendant to return illicitly-obtained assets in exchange for a reduced sentence (or information regarding assets illicitly-obtained by others);
- Mechanisms that allow courts to impose orders for extended confiscation
Example: issuing an order stating that all assets acquired, say, over the past five years by a defendant convicted of a serious crime, are presumed to have been illicitly-acquired, unless the defendant can rebut this presumption;
- Orders for the confiscation of legally-acquired assets of the defendant, where the State demonstrates that it has taken every reasonable measure to locate the illicitly-acquired assets, but has been unable to do so.

Additional valuable mechanisms may include a separate civil confiscation proceeding against assets that are considered to be illegally-acquired – such proceedings still place the initial burden on the State to prove that certain assets are the product of illicit activities, albeit at a lower burden of proof; civil confiscation proceedings, while they do not adjudicate the criminal culpability of any particular individual, or allow the judge to deprive anyone of their liberty, have the advantage of being able to be adjudicated over a span of months, and to recover assets more quickly, in stark contrast to, say, a criminal money laundering case, which typically takes several years. The initiation and adjudication of a civil confiscation case (against illicitly-acquired assets) does not necessarily preclude the initiation and adjudication of a parallel criminal case (against an individual).

1.2 International Regulations and Recommendations

A broad set of international conventions, standards, and bodies have been developed in order to combat IFFs. These include UN conventions which establish standards that all countries are expected to meet in order to avoid providing a safe haven for various kinds of IFFs. They also include treaties or organisations with narrower membership, but which set out more detailed measures to be applied by their member countries; a number of these treaties allow for useful peer reviews to ensure adequate compliance.

In 2015, the General Assembly of the UN adopted the Addis Ababa Action Agenda which invites “appropriate international institutions and regional organisations to publish estimates of the volume and composition of illicit financial flows”.¹⁶ Similarly, the [2030 Agenda for Sustainable Development](#) and the Sustainable Development Goals (SDG) call on countries to:

- significantly reduce illicit financial and arms flows by 2030;
- substantially reduce corruption and bribery in all their forms;
- develop effective, accountable and transparent institutions;
- strengthen domestic resource mobilisation, also by supporting developing countries;

- enhance global macroeconomic stability;
- strengthen the recovery and return of stolen assets and combat organised crime.¹⁷

The EU and the OECD have also played key roles in defining priorities that countries need to consider to better address the threats of money laundering and IFFs, as well as the need to strengthen mechanisms for the seizure and confiscation of assets, and the need to tackle tax evasion.¹⁸ Additional mechanisms such as the Camden Asset Recovery Inter-Agency Network (and similar networks) provide much-valued support and cross-border dialogue for police and prosecutors to better capture assets linked to Organised crime and high-level corruption.¹⁹

Key International Parameters Regarding Illicit Financial Flows

- 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
 - 1999 UN International Convention for the Suppression of the Financing of Terrorism
 - 2000 UN Convention against Transnational Organised Crime
 - 2003 UN Convention against Corruption
 - FATF 40 Recommendations
-

2. Overview of Illicit Financial Flows and Organised Crime in Georgia



2.1 Overview of The Country of Georgia



- Population: 3.72 million people where 86.8% are ethnic Georgians. 83.4% are Orthodox Christian and 10% identifying as Muslim²⁰
- Official language: Georgian
- Currency: Georgian Lari (GEL)²¹ - Member of UN, WTO, CoE, OSCE, EaP
- April 1991: independence from USSR
- Association Agreement with the EU (including visa-free travels)
- Attractive transit country for organised crime due to its geographical position

Socio-Economic Context

Georgia is considered a lower-middle-income country by the World Bank. Georgia has a current GDP of USD 15.7 billion and a GDP per capita of USD 4,764.²² After independence in the early 1990s, the country faced a considerable economic deficit, high poverty rates, and weak public services.²³ However, over the last two decades, Georgia has implemented strong economic reform measures, raising living standards and creating robust growth.²⁴ The country's GDP per capita increased at an average annual rate of 4.8 percent (from 2010 to 2019). The poverty rate nearly halved (from 2007 to 2018), with improvement in both income and living conditions.²⁵

Growth has been fuelled by declining unemployment and growing wages, robust external transfers, and high public spending.²⁶ The country has also seen growth in exports (22% increase) and in proceeds from the tourism industry (27% increase) in recent years.²⁷

Georgia has a strong macroeconomic framework and business environment, and has invested in recent years in trade liberalisation and infrastructure upgrades. The World Bank's Doing Business 2020 Report ranks the country 7th globally in terms of the most business-friendly environment.²⁸ The World Bank further highlights the country's resilient and entrepreneurial economy.²⁹ Some of the country's main economic industries include agriculture, viticulture, and mining. Top export destinations consist of neighbouring countries, with Azerbaijan and Russia the most common destinations.³⁰ Georgia signed an Association Agreement (AA) with the EU in 2014, which included a Deep and Comprehensive Free Trade Area (DCFTA).³¹ Georgia also signed a Free Trade Agreement with China in 2017.³² Georgia imports the majority of its natural gas and oil but does have a sizeable hydropower capacity that supports energy needs.³³

Georgia's banking sector is well capitalised and profitable and has overall strict banking supervision. However, systemic financial sector vulnerabilities remain, such as deficient financial safety nets and a weak crisis preparedness framework.³⁴ Georgia is well-positioned geographically to serve as a hub for doing business between Europe and Asia. In recent years, the country has invested in strengthening its ability to serve as a transportation, energy, trade, tourism, and innovation regional hub.³⁵ Georgia has also invested in strengthening its digital infrastructure, especially in rural communities, and creating more digital opportunities and an innovative job market.³⁶

Despite significant progress, Georgia still faces persistent socio-economic problems. Recent National Democratic Institute polls revealed growing dissatisfaction among Georgians regarding the direction of the country, with economic issues a primary focus.³⁷ Public debt has increased significantly from GEL 8.9 billion in 2011 to 22.7 billion in 2020, and the economy has seen a rise in inflation and significant depreciation of the GEL.³⁸ The poverty rate remains high at 20%, and the share of the population that is vulnerable to falling below the poverty line is above 40% (predominately in rural areas).³⁹

Inequality remains high, especially regarding disparities between rural and urban citizens, between genders, and for minorities.⁴⁰ While the country has made progress on gender and minority issues, there are continued challenges in the economic and civil integration of women and

national minorities.⁴¹ Additionally, Georgia's population is ageing and shrinking due to low birth rates and emigration from the country, placing strain on the social welfare system.⁴²

The global COVID-19 pandemic has and will continue to negatively impact the socio-economic situation in the country, with economic activity projected to stagnate in 2020. This could lead to a deterioration of poverty reduction efforts, with a significant number of Georgians falling into a lower income threshold.⁴³ Georgia's unemployment rate was already high (11.5% in 2017⁴⁴) and has increased during COVID-19. In a September 2020 NDI poll, a quarter of the adult population surveyed reported being unemployed.⁴⁵ In the aftermath of COVID-19, employment and economic opportunity will continue to be key priority areas for Georgia.

Political and Governance Context

Georgia is a democratic republic governed under its 1995 Constitution of Georgia.⁴⁶ The parliament is the supreme representative body of the country and exercises legislative power. Parliament is elected through both a majority and a proportional voting system. The prime minister is head of government and is nominated by parliament. The president is head of state and is elected by a college of electors, which include members of parliament and local government (this will start in 2024).⁴⁷ The judicial branch consists of the Constitutional Court, the Supreme Court, the Court of Appeal, and regional and district courts. There have been several constitutional amendments since 1995; the most recent was in 2020 with reforms to the electoral system aimed at creating a more proportional system.⁴⁸

Georgia has undergone considerable political and institutional change in recent decades. After independence from the USSR, the country underwent several structural changes regarding the government. In 2003, widespread citizen protests over pervasive government corruption and disputed parliamentary elections led to the formation of a new government. Widely referred to as the "Rose Revolution," the government (comprised largely of pro-western reformers) implemented bold economic and political reform measures. The country has made progress on strengthening its democratic system, with the majority of Georgians confident in free and fair elections in 2020.⁴⁹ Successive governments have adopted tailored and systemic reform measures such as pervasive efforts to combat organised crime and corruption to solidify the country's progress.⁵⁰

Significantly, Georgia has made impressive regulatory and institutional progress in combating corruption. The World Bank's World Governance Indicator ranks Georgia among the best countries in Europe in terms of control over corruption.⁵¹ The country has implemented significant reform measures within the Criminal Code of Georgia (CCG) and the Criminal Procedure Code of Georgia (CPCG) that provide a robust legislative framework on combating corruption and organised crime.⁵² Government transparency and efficiency have increased, and low-level corruption has declined considerably.⁵³

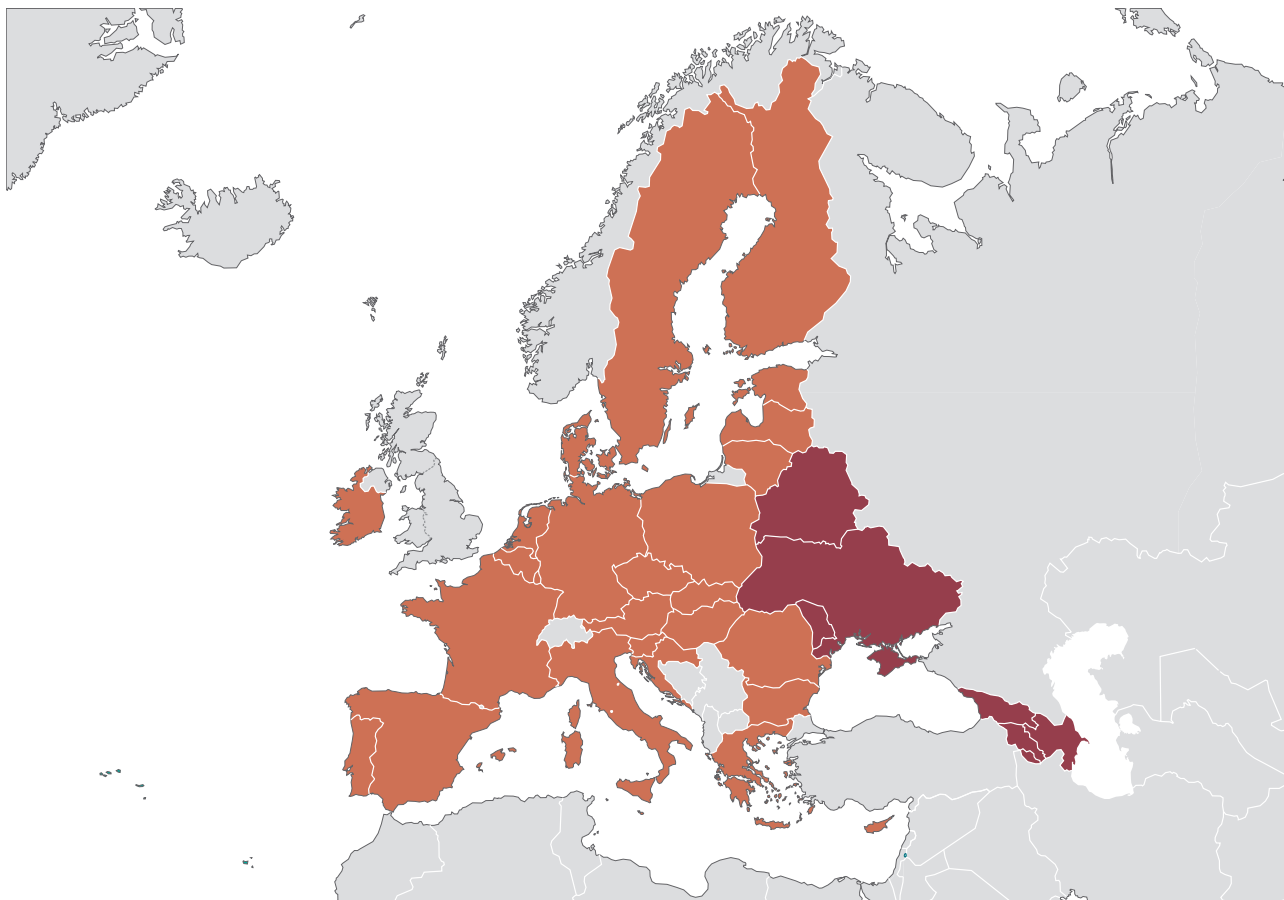
While governance reform measures have been impressive, key obstacles remain for Georgia in establishing political stability and strong democratic governance. The country faces precarious geopolitical and territorial situations, and its democratic institutions are not fully solidified and therefore fragile.⁵⁴ A key issue is the current mixed electoral system, which remains after a failed 2019 constitutional amendment that would have transitioned it to a fully-proportional parliamentary system.⁵⁵

Geographical and Regional Context

Bordering the Black Sea, between Turkey and Russia, Georgia is in the southern Caucasus region of Eurasia at the junction of Eastern Europe and Western Asia. The region experiences considerable geopolitical tension and instability, to which Georgia is not immune. Georgia is still dealing with the socio-economic effects of its August 2008 conflict with Russia. Centred in the occupied Tskhinvali region / South Ossetia and Abkhazia, the five-day conflict resulted in devastating human loss, substantial physical destruction of villages, and considerable flows of internally displaced persons (IDPs).⁵⁶ In 2016, Georgia had one of the world's highest shares of IDPs relative to the total population, at approximately seven percent.⁵⁷ Relations between Georgia and Russia are uneven today, with political relations in decline but economic relations increasingly strong.⁵⁸ There is one official border crossing between Georgia and Russia.⁵⁹

Georgia has solidified its strong relationship with Europe and the EU in recent years. Through its AA and DCFTA with the EU, Georgia cooperates closely with the EU on strengthening democratic institutions and rule of law and on the implementation of social and economic policies. In 2017, the EU granted Georgia visa-free access to the Schengen Area, further solidifying its close relationship with the EU.⁶⁰ Stronger European integration and Euro-Atlantic relationships are stated policy priorities for the government.⁶¹

Organised crime and the Eastern Partnership



Georgia is a member of the Eastern Partnership (EaP), a joint policy initiative between the EU, its member states, and six eastern neighbouring countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

During the 2017 EaP Summit, the partnership countries reiterated their commitment to the establishment and further development of sustainable structures to prevent and fight corruption, strengthen transparency, and combat money laundering. A Joint Declaration from the Summit established as key priorities 'effective systems of declaration of assets and of conflict of interest with easily searchable databases' and 'development of a legal framework and mechanisms for the recovery and management of assets and effective tools for financial investigations'.

Often serving as transit points for trafficking and smuggling, all six EaP countries are threatened by organised criminal groups in the region. These criminal groups and the illicit revenue generated from their crimes have a detrimental impact on the development and stability of the EaP region, the EU, and the Europe generally. It is imperative to implement a common strategy and operational responses between the EU and EaP countries, particularly on the issues of tracing, freezing, seizure, confiscation and return of illicitly-obtained assets.

Georgia has two occupied regions: the Tskhinvali / South Ossetia Region and Abkhazia. Each has remained under Russian control since the 2008 Russian-Georgia war, as confirmed by the European Court of Human Rights (ECHR).⁶² The regimes in place in these occupied regions are not widely recognised by the international community, or by the UN.⁶³ These occupied territories are security risks to Georgia, as both are considered to have favourable conditions for transnational criminal activities.⁶⁴ Both are considered to be risk factors in the context of the fight against terrorism, though the impact of the situation in these territories upon the financial system in Georgia is reported to be insignificant.⁶⁵

Additionally, Georgia's location creates security challenges for the country. The country is a natural transit corridor connecting Asia and Europe and thus an attractive transit route for illicit goods. While Georgia has made strides in recent years on border control and security, it still deals with the transit of illicit goods such as illegal drugs.⁶⁶ While Georgia's proximity to Iran, Turkey, Azerbaijan, and the Russian North Caucasus region heighten the country's exposure to terrorist-related activity, the latest Moneyval 2020 Report on Georgia indicates that "Georgia is not amongst countries with a high risk of terrorist attacks..." And that "Georgian territory is not considered to be a favourable transit route for foreign terrorist fighters".⁶⁷

While Georgia's geographic location can expose the country to being a natural transit area for terrorists and foreign fighters,⁶⁸ and the Pankisi Gorge region bordering Russia has confirmed ties to terrorism recruiting and activity,⁶⁹ Chapter IV of the NRA analyzes and assesses TF risks in the country and concludes that the terrorism financing risk in Georgia is low.⁷⁰

2.2 Illicit Financial Flows and Organised Crime in Georgia

Organised crime is a significant problem globally and in Europe. Organised crime destabilises and negatively impacts entire regions and produces significant amounts of illicit revenue and proceeds. Organised crime also has a considerable negative human impact on society, such as sexual exploitation and drug abuse. For the purposes of this study, the impact of organised crime in Georgia is examined through illicit revenue and assets generated

from criminal activity. Europol estimates organised criminal groups have a profit of EUR 110 billion annually in the EU.⁷¹

Additionally, organised crime is a growing industry economically. A 2011 Europol Organised Crime Threat Assessment highlights the increasingly multi-commodity nature of the criminal activity, and the transnational, highly mobile, and flexible nature of organised crime groups.⁷² Different organised criminal activities are often interrelated and interconnected; organisations will use illicitly-obtained revenue generated from one crime to fund and sponsor another crime. A cycle is thus created utilising illicitly-obtained assets, further demonstrating the crucial importance of policies and operational structures that target revenue streams and the confiscation of assets in a holistic, comprehensive manner.

Georgia is a positive example of a country's ability to combat widespread and deep-seated internal organised criminal activity. Georgia had a substantial problem with organised crime and criminal networks until around 15 years ago. Since then, notable progress has been made.

After the 2003 Rose Revolution, Georgia committed itself to combat organised crime through the implementation of legislative, operational, and societal reforms. Georgia has and continues to make notable progress in combating organised crime in the country. In 2017, the World Bank ranked the country 38th out of 137 countries with respect to combating organised crime.⁷³

Georgia ranked 24th in the World Economic Forum's 2018 Global Competitiveness Index, which measures the impact of organised crime on business.⁷⁴ The country has sought not only to implement legislative reforms but also to address the systemic and cultural components of organised crime, adopting a sweeping and holistic approach to reform measures. This has helped to prevent influence of criminal networks over public officials, law enforcement, and civil society.

Georgia remains committed to combating organised crime with its most recent 2017-2020 National Strategy on Combating Organised Crime.⁷⁵

While substantial progress has been made on combating organised crime in Georgia, key areas of criminality are present in the country. Georgia remains an appealing country for criminal activity due in part to its geographical location⁷⁶ Georgia remains a transit country for various illicit commodities trafficked into the EU.⁷⁷

Additionally, Georgian criminal networks are still very active outside of the country, in part as a by-product of the successful fight against the criminal world within Georgia.⁷⁸ The European Council highlights the involvement of Georgian nationals in organised crime in EU member states as a significant issue.⁷⁹

For example, 12 special operations were carried out in five EU countries from 2018 to 2019, which resulted in the arrest of 166 persons of Georgian descent.⁸⁰

The existence of these criminal groups abroad creates the risk that they might try to launder money in or through Georgia. A recent National Risk Assessment (NRA) report highlighted illicit financial flows in countries in the region as a risk-factor for Georgia.⁸¹

This study briefly examines several prevalent forms of criminal activity in Georgia, which together may generate a substantial amount of illicit revenue, proceeds, and other assets. While these activities can be categorised in other ways, for the purposes of this study the following categories are applied to the dominant criminal activities in Georgia:

- Drug-related Crime
- Human Trafficking
- Property Crime
- CBRN Trafficking and Terrorism Financing
- Cybercrime
- Financial Crimes

Drug-Related Crime

Georgia, due to its location, remains an attractive transit country for drug trafficking into Europe. The Caucasus region is an increasingly important transit point for the trafficking of illicit drugs, especially heroin.⁸² Heroin is trafficked from the Middle East (e.g. Iran, Afghanistan) to Georgia via its southern neighbours and then across the Black Sea or by land to Russia or other European countries such as Romania.⁸³ Due to ineffective measures in place to prevent such drug-related trafficking, occupied Tskhinvali / South Ossetia, and occupied Abkhazia are both appealing regions for the drug trafficking trade.⁸⁴

From 2015 to 2018, there were 3,020 cases of illicit drug production, sales, and border-crossing attempts in Georgia, for which 332 persons were convicted.⁸⁵ Georgia has seen an increase in heroin seizures in recent years. According to UNODC seizure data, large flows of opiates have occurred in recent years in the Southern Caucasus region, with significant seizures reported in Georgia since 2014.⁸⁶ Large individual seizures from 100 kg to 200 kg have occurred, including seizures at the Sarpi and Vale border crossings (2013) and the port of Batumi (2016).⁸⁷ UNODC data also indicates that around 600 kg of heroin was seized in Georgia in 2014.⁸⁸ UNODC data also suggests the Caucasus trafficking route is mainly used for opiate trafficking. However, law enforcement authorities in the region have also seized small quantities of other drug types such as cocaine and synthetic drugs.⁸⁹ Georgia also has some drug production, such as indoor cannabis production.⁹⁰ However, this production is limited. Drug trafficking and drug abuse in the country have reinforced and fuelled one another, and civil society in Georgia has invested considerable attention to counter drug usage.⁹¹

Human Trafficking

Human trafficking is a considerable problem in Europe and globally, with an annual global profit of almost EUR 30 billion.⁹² For the purposes of this study, human trafficking encompasses both domestic and cross-border trafficking for sexual and labour exploitation. It also includes illegal adoptions and ovum (human egg) trafficking. This study considers migrant smuggling as separate from human trafficking. Independently, migrant smuggling also remains a profitable criminal enterprise regionally with significant economic and human consequences.

Georgia is a country of origin of victims trafficked for both labour and sexual exploitation, and is also a destination country for persons trafficked for sexual exploitation.⁹³ To a lesser extent, it is also a transit country for sexual exploitation.⁹⁴ According to statistical information provided by Georgian authorities, six persons were identified as victims of trafficking in 2011, six in 2012, 39 in 2013, 12 in 2014, and 16 in 2015.⁹⁵ A 2019 joint Europol investigation highlights the risk of illegal adoptions, surrogacies, and human egg trafficking involving Georgian criminal networks or Georgian victims.⁹⁶ Traffickers target pregnant women for illegal adoptions or women for ovum trafficking. Victims of all forms of trafficking are often vulnerable individuals with few economic or educational opportunities, highlighting the importance of reducing poverty and inequality in the country.

Property Crime

Serious criminal activity involving Georgian citizens, but outside of the country, includes organised property crime is a substantial problem in Europe, with combating such crime highlighted as a priority area under the 2018-2021 EU Policy Cycle.⁹⁷ Highly mobile transnational criminal networks carry out organised thefts and burglaries across Europe (especially in France, Greece, Germany, Italy, and Spain), often utilising diaspora communities to conduct these crimes.⁹⁸ A large portion of these criminal groups is comprised of Georgian citizens or have ties to Georgia. These risk destabilising progress made domestically on combating criminal networks and crime as revenue can make its way back to Georgia and be used to fund crime domestically. A 2017 European Commission report on visa liberalisation programs highlighted organised property crime carried out by Georgian criminal groups as a serious concern, particularly because their control of criminal markets in the EU is increasing.⁹⁹

A 2018 multinational Europol investigation demonstrates the highly mobile and prolific nature of these groups.¹⁰⁰ The investigation targeted a Eurasian crime group comprised of Georgian and Armenian individuals responsible for large-scale shoplifting in France and residential burglaries in Greece.¹⁰¹ High ranking thieves' in-laws were arrested and the network had a clear hierarchical structure and rigid rules. The total estimated damage was in the EUR several million.¹⁰²

While Georgian policymakers and officials within the Georgian judicial system may have limited ability to control this outside-of-Georgia criminal activity involving Georgian citizens, this dynamic should be mentioned in the context

of understanding that such activity may be producing IFFs into the country.

CBRN Trafficking and Terrorism Financing

Georgian citizens have been involved in recent years in the attempted trafficking of chemical, biological, radiological and nuclear (CBRN) material. CBRN trafficking poses a serious security risk to Europe, with former USSR republics having to deal with heightened risks and vulnerabilities.¹⁰³ Over 630 CBRN trafficking incidents were recorded in the Black Sea states between 1991 and 2012, almost half of them in Russia.¹⁰⁴

According to various news reports in 2016, Georgian state security services arrested three Georgian and three Armenian citizens for attempting to sell radioactive uranium.¹⁰⁵ In January 2016, Georgian authorities arrested three individuals charged with selling radioactive Cesium.¹⁰⁶ And in August 2014, two Armenian citizens were detained at the Georgia-Armenia border for attempting to smuggle radioactive Cesium.¹⁰⁷

Other incidents involving the attempted trafficking of highly enriched uranium have taken place in post-USSR Georgia, with seizures occurring in 2003, 2006, and 2010.¹⁰⁸ The three incidents appeared to be linked and raised concerns that criminal networks were attempting to utilise drug and human trafficking routes for CBRN trafficking.¹⁰⁹ And in 2019, news reports identified the attempted selling of USD 2.8 million worth of uranium in Georgia.¹¹⁰

Case Study: 2016 Radioactive Uranium Trafficking

In April 2016, the Georgian State Security Service reported the arrest of six individuals attempting to sell radioactive Uranium in Tbilisi. According to news reports, the individuals were attempting to sell the Uranium material for USD 200 million. The case demonstrates the significant potential risk of uncontrolled CBRN materials being trafficked in Georgia, which could have severe socio-economic and political impact in Georgia. The monetary value of IFFs created from such a crime would likely be extensive, as would the societal consequences. Importantly however, the case also demonstrates Georgia's effective legal and institutional framework on combating CBRN trafficking.

The State Security Service's counter-intelligence unit carried out the investigation under Article 230 of the Georgian criminal code. In total, three Georgian citizens and three Armenian citizens were arrested. According to news reports, the uranium was sealed in a special factory container found in one of the suspects' homes.

Georgia has invested in both domestic and international operations to counteract CBRN trafficking, such as investment in detection technology at custom checkpoints and action plans with international partners. Overall, Georgia's work in CBRN demonstrates the importance of preventing organised criminal activity in order to prevent the socio-economic cost of related IFFs and the negative societal impact of such activity.

Georgia is considered a low-risk country for terrorism financing. Key terrorist activities require significant funding and financial operations, and criminal activity can be used as a source of income for terrorist activities. Such criminal activities include drug trafficking, human trafficking, smuggling of contraband goods, bank fraud, and tax fraud.¹¹¹ Additionally, some criminal activities can also supply terrorist activities, such as CBRN trafficking, and launder money and assets related to terrorist activity.¹¹² Sophisticated terrorist groups also use cryptocurrency to finance their activities.¹¹³

Although Georgia is not among the countries with a high risk of terrorist attacks, region-wide dynamics have a significant impact on the country. Developments in the North Caucasus, the Middle East and Central Asia have posed different types of threats to Georgia.¹¹⁴ Furthermore, the occupied Tskhinvali / South Ossetia region and occupied Abkhazia region provide favourable environments for terrorist activities.¹¹⁵

Georgia's systems for identifying, investigating, prosecuting and sanctioning TF function well Overall, TF is well integrated into national counter-terrorism measures, although there is scope to improve this by creating separate standing task forces for ML and TF and widening membership to include all relevant authorities.

Source: MONEYVAL. *Fifth Round Mutual Evaluation Report, Georgia*. September 2020, <https://rm.coe.int/moneyval-2020-20-5th-round-mer-georgia/1680a03271>

The North Caucasus have seen substantial instability and violence through conflicts such as the Russia-Chechen war. While Georgia has had its own citizens join international terrorist organisations, the country is not considered to be a preferred transit route for foreign terrorist fighters.¹¹⁶ In 2017, there were three ongoing terrorism-financing related cases.¹¹⁷

Cybercrime

Cybercrime is increasingly common globally and in Georgia. Cybercrime is estimated to cost the world almost USD 600 billion annually, or 0.8% of global GDP.¹¹⁸ For

Europe and Central Asia, the estimated cost is USD 160 billion annually.¹¹⁹ Europol's 2020 Internet Organised Crime Threat Assessment report highlights cybercrime as a fundamental feature of the European crime landscape, with cybercrime one of the most dynamic forms of crime encountered by law enforcement in the EU.¹²⁰ Transnational cybercriminal groups are increasingly complex, adaptable, and bold in their criminal behaviour.¹²¹ This has led to an increase in the profitability of cybercrimes such as ransomware attacks.¹²² Cybercrimes such as phishing and malware schemes are very prevalent in Europe and costly to Europe.¹²³ The non-physical nature of these crimes often means a large number of countries have citizens implicated in the same crime. This results in large-scale transnational investigations and criminal proceedings, as well as the need to be more efficient in such investigations.

Georgia has participated in numerous large-scale joint operations, including with Europol, aimed at dismantling transnational cybercriminal networks. A recent example is Europol's 2019 "Goznym Malware" operation, which dismantled a complex network attempting to steal an estimated USD 100 million from financial institutions.¹²⁴ Georgia has participated in various other joint operations, including a 2018 e-Commerce Action that produced arrests of individuals responsible for more than 20,000 fraudulent transactions with compromised credit cards.¹²⁵ Internet financial fraud is increasing in the country.¹²⁶ In addition to direct cybercriminal activity, technology is used to support and facilitate other illicit criminal activities such as human trafficking recruitment and criminal network communication.¹²⁷ According to the most recent NRA, 2,559 cases of cybercrime were identified in Georgia between 2014 to 2018, and 401 persons were convicted of criminal offences.¹²⁸ The number of cybercrime cases has been increasing within the country as well.¹²⁹

Financial Crime

A large amount of illicitly-obtained assets in Georgia derive from bank fraud financial crimes.¹³⁰ The majority of money laundering cases investigated from 2015 to 2018 were related to the transfer of fraudulently-obtained funds acquired abroad and transferred to bank accounts or through remittances.¹³¹ While the ease of doing business in Georgia attracts investment, it also attracts the entry of illicitly-obtained assets into the financial system.¹³² Furthermore, while Georgia has made significant strides in combating corruption, there is room for strengthening the effectiveness in this area.

Generally, bank accounts are one of the most common means used for money laundering in the country, with money being deposited into a bank account and then withdrawn.¹³³ There is some evidence of non-residents managing to open bank accounts with fake IDs and also money being transferred into the accounts of fictitious legal persons from other countries, which are then transferred abroad.¹³⁴ As Georgia has increasingly invested in growing its technology sector, potential risk areas have developed. Georgia is an increasingly popular virtual currency mining location, posing a significant money laundering risk. Although virtual currencies are not currently regulated, joint efforts of FMS, the National Bank of Georgia and financial institutions have led to increased awareness of the problem. Banks now apply more restrictive risk-based approaches to those involved in cryptocurrency mining or trading.

The US State Department in 2020 listed Georgia as a major money laundering jurisdiction for narcotics

trafficking, which the US defines as a country “whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking.”¹³⁵ Still, some progress has been made: in 2019, 25 money laundering prosecutions were initiated and five people, as well as one business, were convicted of money laundering.¹³⁶ According to the most recent NRA, bank accounts are the main means of money laundering in the country.¹³⁷

Most cases of tax evasion in the country are the product of claims of lower-than-actual taxable income; cases such as setting up corporate structures offshore are considered to be quite rare.¹³⁸ The rarity of tax offences in Georgia is attributed to a number of measures, including a strong governmental effort to simplify tax rates and to ensure that most tax administration is done electronically, thus reducing opportunities for corruption.¹³⁹

Effective Reforms to Limit Tax Evasion

According to the International Monetary Fund (IMF), Georgia has implemented one of the most successful tax reform policies in the world. The country has implemented various measures to reduce the level of tax evasion in the country which include reducing the number of tax rates, introducing modern technologies (electronic declarations), and increasing capacity for tax collection. As a result, the share of tax revenues in GDP from 2004-2015 rose from 12% to 25%, a tenfold increase in nominal terms.

As for tax evasion itself, from 2014-2018, some 815 cases of tax evasion were identified, for which 148 persons were convicted. During the same period, GEL 134 million was recovered for the state budget.

Additionally, the RS uses special indicators to identify alleged traffickers and victims at border crossings. The RS is also able to investigate business entities and report them to the Ministry of Internal Affairs.

3. Combating Illicit Financial Flows and Organised Crime in Georgia



3.1 Georgia's Policy Assessment and Reform Landscape

Georgia prepared a National Risk Assessment (NRA) Report in 2019, in accordance with FATF standards and by the Inter-Agency Council of Georgia led by the Minister of Finance.¹⁴⁰ Georgia has its 2017-2020 National Strategy on Combating Organised Crime and its 2017-2018 Action Plan. Both focus on "(a) combating the so-called thieves-in-law; (b) fighting transit of narcotic drugs; (c) fighting cybercrime and organised crime employing cyber methods, (d) using modern police methods to combat organised crime, and (e) international bilateral and/or multilateral operational and wider law enforcement cooperation in combating organised crime."¹⁴¹

Georgia recognises the importance of confiscation and has the necessary regime in place to address this. Tracing and preserving assets is strongly promoted as a policy objective and measures have been taken to improve effectiveness in this area. While there are concerns about the application of provisional measures in some cases, Georgia has achieved a significant level of confiscation overall, and a wide range of criminal proceeds and instrumentalities is being confiscated, including property in third party hands. No assets outside the jurisdiction have been confiscated (although some cases are pending). The application of value-based confiscation is limited and there are concerns about the understanding of some authorities in this respect. Confiscation results reflect the risks in Georgia to some extent. Georgia's declaration system for cross-border movements of cash or BNIs is not being enforced effectively, as the proportion of non-declared or falsely declared cash or BNIs that is confiscated (or indirectly removed from the party in breach through a fine) is very low.

Source: MONEYVAL. *Fifth Round Mutual Evaluation Report, Georgia*. September 2020, <https://rm.coe.int/moneyval-2020-20-5th-round-mer-georgia/1680a03271>

Combating IFFs and recovering illicitly-obtained assets involve multiple policy areas, and require cross-sectoral and cross-national responses. From crime control measures to financial sector regulation, addressing IFFs requires a wide range of policy measures. Furthermore, just as IFFs are often transnational and interconnected, policy measures implemented to combat and recovery IFFs should be transnational, interrelated, and mutually reinforcing. From crime control to financial regulations, operational effectiveness and transparency should both be prioritised.

In recent years, Georgia has invested substantially in policy reform measures to combat the nexus of corruption, organised crime, and IFFs. Anti-organised crime and anti-corruption measures became fundamental priorities following the 2003 Rose Revolution. Georgia has continuously demonstrated its commitment to reform, resulting in positive growth and policy outcomes.

Demonstrating its commitment to reform and international compliance, Georgia is a member of Moneyval and completed a fifth-round evaluation in 2020.¹⁴² More recently, the Council of Europe completed its 2020-2023 Action Plan for Georgia, which takes into account recommendations and opinions by Moneyval.¹⁴³ These assessments highlighted the progress made on combating IFFs and implementing effective asset recovery mechanisms. However, both reports outline key areas for improvement, both with respect to IFFs and the recovery of illicitly-obtained assets.

3.2 Georgia's Legislative Framework on Illicit Financial Flows

Legislative Framework on Combating Organised Crime and IFFs

Georgia has a generally comprehensive legal system for the application of effective anti-organised crime and IFF measures. According to the 2019 NRA, investigative

agencies have effective legal instruments to combat organised crime.¹⁴⁴ In 2004, new criminal code amendments borrowed heavily from the Italian anti-mafia model and the United States Racketeer Influenced and Corrupt Organizations (RICO) Act. In 2009, further reform measures were implemented to close loopholes. Legislation was introduced to enable authorities to confiscate illicitly-obtained money and property, and to introduce the concept of plea bargaining.¹⁴⁵

In 2018, Georgia approved a package of legislative amendments aimed at introducing stricter punishment for membership in, and leadership of, criminal organisations. The amendments were to the CPCG, the CCG, the Law of Georgia on Organised Crime and Racketeering, and the Civil Procedure Code of Georgia (CPG).¹⁴⁶ In October 2019, Georgia adopted a new AML/CFT law, which substituted outdated legislation; this was supplemented by two bylaws adopted by FIU of Georgia, which strengthened regulation of reporting entities. The new legislation took important steps towards increasing effective legislation on combating money laundering and IFFs. Such steps included extended enhanced due diligence measures to domestic politically exposed persons (PEPs) and increased the ability of law enforcement to retrieve financial investigation information.¹⁴⁷ There are various laws, legislative measures, specialised prosecution offices and law enforcement bodies created to combat organised crime in Georgia.

- Article 223 of the CCG criminalises membership in an illegal formation, including a criminal organisation.¹⁴⁸
- Membership in criminal groups is punishable in Georgia by deprivation of liberty from 7 to 10 years and being a thief in law is 9 to 15 years.¹⁴⁹
- Law No. 2354 of Georgia facilitates the fight against and prevention of organised crime, the “criminal underworld” and racketeering, and the fight against members of the “criminal underworld” “thieves in law” for the protection of private, public and state interests.¹⁵⁰
- The notion of membership of a criminal group and related offences was expanded in 2018, strengthening the legal means for combating organised crime in Georgia.¹⁵¹
- Law No. 5183 of Georgia facilitates the fight against drug-related crime, the prevention of the spread of drug addiction, the protection of private, public and state interests against drug dealers and persons

assisting in drug-related activities, and the prevention of the use and spread of narcotic drugs.¹⁵²

- Georgian law criminalises any form of human trafficking, including for purposes of sexual and labour exploitation. Such trafficking is punishable by imprisonment from 7 to 20 years (or higher in cases involving minors).¹⁵³
- Article 230 to 234 of CCG facilitates the fight against the trafficking of CBRN materials. Under article 230, the illegal handling, including the transfer, of CBRN material shall be punishable by imprisonment for a term of 5 to 10 years. Under article 234, the transit, import or export of CBRN waste in or out of the territory of Georgia shall be punishable by a fine or imprisonment for a term of 5 to 10 years.¹⁵⁴
- Georgia has a National Strategy of Georgia on the Fight Against Terrorism 2019-2021, along with a respective Action Plan.¹⁵⁵
- Chapter XXXVIII of the Criminal Code of Georgia refers to terrorist offences. The country’s Law of Georgia on Combating Terrorism referred to in Chapter 2.3.1 of the National Strategy, also addresses the area of countering terrorism.
- In 2017, Georgia adopted the Rules of Providing Information and Filing the Illegal Income Legalisation and Terrorism Financing Risk Supervisory Reports by Commercial Banks, with the intent to improve combating and reporting of terrorism financing.¹⁵⁶
- The Prosecutor’s Office (POG) conducts investigations in selected cases and exercises procedural guidance over the investigation of all crimes. It also undertakes criminal prosecution and participates in criminal law cases at court. It coordinates the fight against crime and carries out international judicial cooperation.¹⁵⁷
- The POG has a Special Unit that investigates complex corruption and money laundering crimes.¹⁵⁸
- The State Security Service of Georgia (SSSG) was separated from the Ministry of Internal Affairs (MIA) and started functioning as an independent agency in 2015 through the Law on the State Security Service. Part of its mandate is to combat transnational Organised crime, international crime and to contain other threats to State security.¹⁵⁹
- The SSSG also is mandated to coordinate and monitor the CBRN Threat Reduction Strategy. It is responsible

for the detection of illicit trafficking cases of radioactive and nuclear materials. The SSSG leads the Coordination Council on Combating Chemical, Biological, Radiological and Nuclear Threats. This council approves CBRN strategy and action plans.¹⁶⁰

- The SSSG is also the main authority for combating terrorism, together with the Ministry of Interior, Ministry of Defence, the Intelligence Service, the Special State Protection Service, POG and other respective state authorities.¹⁶¹
- The SSSG has an Anticorruption Agency, which detects and investigates corruption cases in the public sector, as prescribed by Georgian legislation.¹⁶²
- The Interagency Coordinating Council for Combating Organised Crime was established in 2013 and consists of the POG, MIA, Ministries of Justice, SSSG and Finance and Education. The council drafts the national strategy and action plan against Organised crime.¹⁶³
- The National Bank of Georgia (NBG) and the Ministry of Finance implement tasks related to anti-money laundering. The Ministry of Finance has a Financial Investigation Unit.¹⁶⁴ This is distinct from the country's Financial Monitoring Service (Georgia's FIU), which is a stand-alone and operationally independent agency and is not part of any investigative authority.
- The Revenue Service (RS) under the Ministry of Finance inspects goods transiting at the border, including inspection of large vehicles at land borders.¹⁶⁵
- Georgian law criminalises tax evasion if the amount of tax liability exceeds GEL 100,000. The statute of limitation for tax audits is three years, and in the event of payment of outstanding tax liability within 45 days, the person shall be exempted from criminal liability.¹⁶⁶
- The RS uses automated risk management systems for tax administration. Selection for entities for tax and customs audits is based on predefined risk factors.¹⁶⁷
- Georgia established a Cybercrime Division under the Ministry of Internal Affairs.¹⁶⁸ Georgia has a comprehensive legal framework covering information and cybersecurity and its overall cybersecurity capacity is well organised. The 2017 Global Cybersecurity Index ranked Georgia 8th overall worldwide. Georgian law criminalises unauthorised access to a computer system and other offences stipulated by the Budapest Convention.¹⁶⁹

- Georgia has implemented various laws and policies to limit the risk of terrorism financing in the country. For example, charities, which are often used as fronts to raise and launder money for terrorism activity, have to register with the RS and must submit activity and financial reports to the RS annually.¹⁷⁰ The SSSG is the lead agency that handles terrorism-related incidents and investigations through its Counterterrorism Unit.¹⁷¹

Legislative Framework on the Recovery of Illicitly-Obtained Assets

Georgia has a generally comprehensive legal system for the application of confiscation of proceeds from crime. The legal framework for seizure, confiscation, and management of crime proceeds is defined by both criminal and civil procedure.

- The CPCG allows for criminally-acquired property and the proceeds thereof to be confiscated.¹⁷²
- According to the CPCG, racketeered property and illicit or undocumented property of a person convicted of money laundering, terrorism financing, being a thief in law, human trafficking or drug trafficking may be confiscated. Illicit or undocumented property of a criminal's family member or close relative may also be confiscated. The standard of proof required to prove the illicit nature of property in the civil process is lower and does not require proof of a link between the property and a particular offence. In the case of undocumented property, the burden of proof lies with the defendant and they must submit proof of legal acquisition of the property in question.¹⁷³
- A court order is required for the seizure of property. In the event of urgency, if there is a reasonable suspicion that the property will be concealed or destroyed, prosecutors can issue the order of seizure, which then later is subject to approval by the court.¹⁷⁴ The country's FMS also has the power to suspend transactions without a court order for a maximum of 72 hours.
- Article 52 of the CCG indicates that the confiscation of property shall mean gratuitous deprivation in favour of the State of the object or instrument of the crime or the criminally obtained property. Any income from the property is included.¹⁷⁵

- Confiscation of equivalent value is provided under Article 52 of the CCG.¹⁷⁶
- Georgia permits civil forfeiture of any undocumented property in the possession of persons convicted for money laundering or other designated offences.¹⁷⁷
- A dedicated Asset Recovery Office has not yet been established in Georgia; the country has, however, designated the Unit of European Integration and Cooperation with International Organisations (EU Integration Unit) of the Chief Prosecutor's Office as an Asset Recovery Office.¹⁷⁸
- Georgia has an Asset Declaration System for Public Officials that is continually monitored.¹⁷⁹
- Certain entities are required to establish the origin of the property of politically exposed persons.¹⁸⁰
- The procedure of civil confiscation of illegal or undocumented property applies to officials, their family members, close relatives and related persons (related to bribery).¹⁸¹ Prosecutors are allowed to file a civil lawsuit against current or former public officers and their close relatives, and can request the court to confiscate the defendant's illicit or unexplained property that has been discovered by the Civil Service Bureau as a result of the review of the official's Asset Declaration.¹⁸²
- The Law of Georgia on Facilitating the Prevention of Illicit Income Legalisation is important legislation for combating terrorism financing as the law creates the legal mechanisms against the legalisation of illicit income and financing acts of terrorism.¹⁸³
- National legislation provides for the ability to issue an order by the court to freeze assets of individuals or legal entities related to terrorism. Enforcement of court-ordered freezing of assets is carried out by the National Bureau of Enforcement.¹⁸⁴
- With the court's permission, investigative authorities have the right to monitor bank accounts and monitor online communications.¹⁸⁵
- The CCG allows for third party confiscation, which allows for the confiscation of illicitly acquired property and proceeds regardless of whether the property or proceeds are in the possession of a third party.¹⁸⁶
- The CCG allows for the use of extended confiscation, which allows for the confiscation of illicitly acquired

property and proceeds without a conviction if the accused dies or is deemed incapacitated.¹⁸⁷

- The 2019 NRA notes the important impact of the introduction of a system of monitoring of property declarations of officials and their families on combating corruption. Since 2017, the Civil Service Bureau has been checking the accuracy of the information contained in about 10% of declarations every year.¹⁸⁸
- Virtual currency, such as Bitcoin, is not currently regulated by Georgian legislation. There is no central regulatory authority for virtual assets.¹⁸⁹

Legislative Framework on Regional and International Cooperation

International and regional cooperation are necessary components of combating and investigating organised crime and IFFs. Both are equally necessary for the effective recovery of illicitly-obtained assets. Georgia has demonstrated commitment to such international coordination. The country has a sound legal and procedural framework for exchanging information with foreign partners in a comprehensive, proactive and timely manner.

- Georgia has ratified 34 international agreements and eight bilateral agreements regarding mutual legal assistance and cooperation.¹⁹⁰
- Georgia can provide mutual legal assistance to another country based on agreements or the principle of reciprocity. Such assistance may include searches and seizures, as well as the confiscation of property. It may also include the monitoring of bank transactions. In cases involving urgency (risk of concealment of illicit property), such measures can be conducted even before receiving a formal request from competent authorities of another country.¹⁹¹
- Georgia and Eurojust (the EU's Judicial Cooperation Unit) established a cooperation agreement in 2019 to strengthen the joint fight against cross-border organised crime in the EU and South Caucasus.¹⁹² The agreement aims to foster judicial and strategic cooperation, and more fully align Georgia policies with EU standards.¹⁹³ The agreement, which allows Georgia to appoint as needed a Liaison Prosecutor, also aims to increase joint institutional and operational capacity and provide the swift and safe exchange of information and evidence.¹⁹⁴

- Georgia and Europol signed an operational agreement in 2017 to combat serious and organised cross-border criminal activities. The agreement allows for the exchange of information and the joint planning of operational activities.¹⁹⁵
- Georgian authorities have continued to develop the legal framework for combating human trafficking in accordance with the Council of Europe's Group of Experts on Action against Trafficking in Human Beings' (GRETA's) recommendations.¹⁹⁶
- The US Department of Justice provides assistance to the Prosecutor's Office and to judiciary institutions in the criminal law area. The US provides training and technical assistance to judges, prosecutors, defence attorneys, public defenders, and legal institutions.¹⁹⁷
- The US Bureau of International Narcotics and Law Enforcement Affairs also provides assistance with investigations on human trafficking, drug trafficking, and cybercrime.¹⁹⁸
- Georgia participates as an observer in the informal network CARIN (Camden Asset Recovery Interagency Network), an international network that aims to assist countries in the tracing and seizure of property acquired through criminal activities.
- The Georgian Prosecutor's Office has designated an official for cooperation with the EU Property Recovery Service.
- The Financial Monitoring Service (FMS) has been a member of the Egmont Group of Financial Intelligence Units since 2004 and exchanges operational information with similar services in other countries through a secure communication channel.¹⁹⁹

3.3 Georgia's Utilisation of Legislative Framework

Government's Utilisation of Framework on Combating Organised Crime and IFFs

In many regards, Georgia has effectively utilised its legislative framework on combating organised crime and IFFs. After the 2003 Rose Revolution, Georgia implemented

significant high- and low-level anti-corruption reforms. Georgia has received considerable praise internationally for its effective reform measures. The World Bank highlights key reforms in the police, especially traffic police, as helping to sever ties between the government and organised criminals.²⁰⁰

One such reform was the increasing in police salaries.²⁰¹ Georgia ranks 8th out of 165 countries in readiness to prevent cyber-attacks according to the 2017 Cyber Security Index by the International Telecommunication Union (ITU).²⁰² The NRA states that investigative agencies have effective legal instruments to combat organised crime.

According to a 2017 European Commission report, Georgian police have made progress on intelligence-led and community policing reforms since 2015 and have established a unified crime analysis system.²⁰³ Georgia has overall effective inter-agency coordination mechanisms in the field of fighting against drug-related crimes; trafficking has been effectively identified and investigated.²⁰⁴ Georgia has various working groups on human trafficking aiming to increase the ability to investigate such crimes. The Ministry of Interior has four mobile teams and a working group of prosecutors and investigators that inspect high-risk sites. The RS monitors and investigates cases involving border crossings and other customs-related issues.²⁰⁵

According to GPO data, 72 individuals were charged with being a thief in crime from 2015 to 2018.²⁰⁶ Additionally, Georgia also reported having 44 money laundering cases in 2018.²⁰⁷ Some 80 cases of human trafficking were identified from 2015 to 2018, for which 15 traffickers were convicted.²⁰⁸ According to the data, the country also had 2,559 reported cases of cybercrime from 2014 to 2018, with 401 persons convicted for their involvement in such crime.²⁰⁹ From 2015 to 2018, there were 3,020 cases of illicit drug production, sales, and cross-border drug trafficking, for which 332 persons were convicted.²¹⁰

However, Georgia can more fully and effectively use its framework. In 2019, Georgia approved its first Money Laundering and Terrorism Financing National Risk Assessment and Action Plan. The NRA aims to raise awareness of competent authorities and the private sector by helping them to determine and align resources in response to existing risks, assessed at both national and sectoral levels. A 2018 European Commission report indicates the need to strengthen societal resilience and institutional and operational capacities to prevent and fight crime, including corruption and other serious crimes such as trafficking in human beings, drug trafficking, money laundering, and terrorism.²¹¹

Investigative capacity is also a key area for improvement. The 2020 European Council Action Plan suggests that the effectiveness of investigations into money laundering and terrorist financing cases needs to be improved.²¹² Additionally, deficiencies in the country's human trafficking framework remain. Georgia should prioritise ensuring human trafficking cases are investigated proactively and prosecuted successfully. It also should ensure cases result in proportionate and dissuasive convictions.²¹³ The country's investigation, prosecution, and conviction numbers on human trafficking remain relatively low.

Georgia overall effectively implements its legal and institutional mechanisms to combat terrorism and CBRN trafficking in the country.²¹⁴ The threat of foreign terrorists using the territory for transit is largely controlled and trafficking of CBRN material has largely been suppressed in recent years.²¹⁵ In 2014-2020, seven cases of illegal handling of radioactive/nuclear materials were detected, for which 29 persons were prosecuted.²¹⁶ All customs checkpoints in the country are equipped with effective radiation control systems.²¹⁷

Government's Utilisation of Framework to Recovery Illicitly-Obtained Assets

According to POG data, from 2014 to 2018, Georgia confiscated property valued at approximately GEL 20 million. Victims were also compensated for damages in the amount of GEL eight million.²¹⁸ From 2014 to 2018, Georgia also seized or confiscated cash in the amount of GEL 422 million.²¹⁹ From 2014-2018, tax audits resulted in the recovery of GEL 2.8 billion from accrued tax liabilities.²²⁰

Georgia largely utilises its policy framework to recover illicitly-obtained assets. In recent years, commercial banks have better detected misuse of their accounts and do block suspicious international transfers. However, there are still gaps in the implementation of mechanisms to prevent money laundering and other financial crimes, and recovering assets related to these crimes. While commercial banks do submit suspicious transaction reports to the FMS, these are more often related to already implemented transactions.

Due to the international dimension of much of the financial crime in Georgia, the success of investigations and recovery of illicitly-obtained assets largely depends on effective cooperation with other countries. Georgia has exchanged information with 103 jurisdictions, including major trading partners and all EU member countries, on tax-related information.²²¹

The procedure for freezing property of listed persons related to terrorism financing has been substantially expedited and the mechanisms for applying financial sanctions on the basis of UN Security Council Resolutions have improved.²²²

Government's Utilisation of Framework on International Cooperation

Georgia actively and effectively participates in international regimes to combat organised crime and IFFs, and the recovery of illicitly-obtained assets. Georgia is one of the most active third-party countries in judicial cooperation with Eurojust.²²³ Georgia has invested in bilateral and international cooperation on CBRN materials. The country has a joint action plan with the US on countering nuclear smuggling and weapons of mass destruction terrorism.²²⁴ Georgia has also carried out a joint operation with Interpol as part of a screening exercise against the illicit trafficking of CBRN materials.²²⁵

Georgia is actively engaged in countering terrorism at the international and regional levels. Georgia cooperates closely with NATO, the CoE, the OSCE, and the Organization of the Black Sea Economic Cooperation.²²⁶ Georgia effectively utilises transnational coordination to combat drug trafficking. Georgia has a Drug Transit Prevention Team that has been operating since 2014 and monitors incoming cargoes and carriers for the purpose of preventing drug trafficking.²²⁷ This team, in coordination with the UNODC, has conducted drug seizures, including, for example, some 15 tons of Acetic Anhydride in 2018.²²⁸ Georgia also utilises transnational coordination to combat cybercrime, such as successful international investigations like the GozNym case.²²⁹

4. Impact and Cost of Illicit Financial Flows in Georgia



4.1 Estimates of Direct Cost of IFFs on and in Georgia

IFFs are by nature intended to be hidden and the measurement of such flows is therefore imprecise.²³⁰ IFFs can be estimated using relevant data (e.g., statistics on seizures of criminal proceeds, comparisons of registered exports from one country to registered imports to another). Estimates on IFFs in developing countries vary significantly, and while work has been done by the United Nations and other entities to estimate the proceeds of various transnational criminal activities, there remain considerable knowledge gaps, including on the extent to which these proceeds flow through the international financial system.²³¹ Additionally, as many forms of IFFs are not detected (e.g., cash transactions), estimates of IFFs are likely to be conservative. Given this, estimates may provide only a small hint of the magnitude of the impact of IFFs. Still, estimates can still provide the foundation for further understanding the significance and impact of IFFs on a country and globally. Estimates can also provide measurements that may assist policymakers and other key stakeholders to implement an effective policy related to IFFs and asset recovery.

According to the National Statistics of Georgia, proceeds from the shadow economy of Georgia was 10% of GDP in 2015.²³² Additionally, a 2018 IMF study estimated the share of the shadow economy in Georgia in 2015 to be 53% of GDP, which is high for a country,²³³ although this figure is contrasted with the roughly 10% estimated by the National Statistics Office of Georgia.²³⁴ While a shadow economy is not necessarily comprised of all illicit revenue (but also includes unreported and informal revenue), it can help in understanding the total illicit economy in a country. A Global Financial Integrity report on IFFs from developing countries estimates cumulative IFFs from Georgia between 2004 to 2013 to be USD 14.9 billion.²³⁵ In 2013 the total IFFs was estimated at USD 1.19 billion.²³⁶

4.2 Harm Assessment of Illicit Financial Flows in Georgia

Georgia suffers considerable harm from IFFs beyond direct monetary cost. It is imperative to understand and address the extensive and multidimensional nature of the harm generated by IFFs. When the impact beyond the loss of tax revenue is taken into account, the cross-sectional and

damaging nature of IFFs is evident. The harm from IFFs and correlated crime has a severe socio-economic, political, and developmental impact, and negatively affects the overall functioning of a state. IFFs strip country resources that can be used to finance much-needed public services, from security and justice to basic social services. Perhaps most importantly, IFFs can also have a direct impact on a country's ability to raise, retain, and mobilise resources to finance sustainable development.²³⁷ A country with pervasive IFFs risks significant reductions in its capacity for effective and sustainable development. It also risks weakening state capacity to combat organised crime and prevent future IFFs, thus creating a negative cycle of reinforcing criminal activity and IFFs in the country. Socio-economic consequences such as high unemployment, disenfranchisement, and political distrust can also increase participation in illicit behaviour and organised crime, again feeding a negative cycle and reinforcing IFFs. This impact is felt more strongly in developing countries, which often have a smaller resource base and markets.²³⁸

Overall, IFFs create substantial economic, political, societal, and development costs in Georgia. Progress made by the government to increase country growth and stability is diminished by the allowance of substantial IFFs in and involving the country. Combating IFFs and related crimes should therefore be a crucial component of Georgia's development strategy. Reducing IFFs and strengthening asset recovery mechanisms are key target goals highlighted by the United Nations Development Programme (UNDP) for the achievement of SDGs by 2030 (under SDG Goal 16.4).²³⁹ The recovery of illicitly-obtained assets can provide critical financial resources for Georgia to invest in key sectors, such as education, health care, infrastructure and employment opportunities. This will assist Georgia in its achievement of SDGs and general country development.

Due to the pervasive and cross-sectional nature of the impact of IFFs, harm can be assessed utilising various frameworks. The impact of IFFs on one sector of a country cannot be separated from their impact on another sector (e.g., economic and political harm are interdependent). For the purposes of this study, the harm assessment of IFFs is briefly examined through:

- Economic Harm
- Political and Governance Harm
- Societal and Development Harm

Economic Harm

IFFs and corresponding organised criminal activity have a considerable negative economic impact both globally and on individual countries and regions. IFFs have a direct economic impact through the loss of tax revenue and the withdrawal of funds from the legitimate economy. States may be forced to divert financial resources towards mitigating the financial costs caused by IFFs and related criminal activities, thus negatively impacting a country's budget, often creating or increasing budget deficit.

Indirectly, IFFs can destabilise national markets and disincentivise economic investment. Corruption and organised crime can create a considerable lack of trust in the justice and economic sectors, which discourages investment and increases friction between the state and businesses. Additionally, IFFs often infiltrate the legal economy, causing significant damage to businesses.²⁴⁰ Small and medium enterprises are especially susceptible to IFFs.²⁴¹

Political and Governance Harm

IFFs have a detrimental impact on the quality of state institutions and can incentivise state capture and corruption.²⁴² IFFs affect trust in public officials, government institutions, and the rule of law. Low levels of trust, civic engagement, and social capital can impede development and further bolster organised criminal groups.²⁴³ This creates a harmful cycle that increases political instability and weakens governance. The cost of corruption to developing countries is also enormous, with the World Economic Forum estimating an annual USD 1.26 trillion in cost to developing countries.²⁴⁴

What Could be Done with USD 1.26 trillion?

To illustrate the significant cost of corruption, USD 1.26 trillion is enough money to lift the 1.4 billion people living on less than USD 1.25 a day above the poverty threshold and keep them there for at least six years. Additionally, UNCTAD proposed in March 2020 a USD 1 trillion liquidity injection through the IMF to help countries with the COVID-19 crisis, providing money for crucial emergency health services and social relief programs.

Corruption, private and public, not only directly generates IFFs (e.g., banking fraud, embezzlement, favouritism

in public procurement contracts) but also creates an environment in which organised criminal activity can flourish; the two are mutually reinforcing.²⁴⁵ Corruption can also weaken the threat of judicial and legal consequences for criminal activity, mitigating any real deterrent effect of the legal system.

Societal and Development Harm

The economic and political instability created through IFFs can increase inequality and economic and social polarisation. IFFs are associated with a consolidation of wealth on a global scale, and evidence suggests that IFFs cause greater inequality in a country.²⁴⁶ IFFs related to tax avoidance can also shift the tax burden towards middle and lower-income individuals.²⁴⁷ Social marginalisation and criminal economies are often inextricable issues.²⁴⁸ Lack of employment opportunities in the formal economy can also further incentivise illicit behaviour, such as smuggling.²⁴⁹ IFFs also cause physical and psychological harm to individuals, such as drug abuse and violence. In addition to the important human impact of physical and psychological harm, both can be costly to a country (e.g., additional costs for the health care system).

Another negative consequence of IFFs is the damage done to civil society partnerships and to regional and international partnerships. For civil society, a lack of trust in government institutions and public officials prevents effective and innovative partnerships on development needs (e.g., civil and community engagement on employment initiatives). For example, international actors can make development support contingent on policy reform. Such arguments can equally be made for inhibiting private sector investment.

4.3 Investment of Recovered Assets into Georgian Development

IFFs in developing countries such as Georgia mean fewer hospitals, schools, police, roads, and pensions, as well as fewer job opportunities.²⁵⁰ The UN has indicated that there is clear "collateral damage" of outflows produced by embezzlement, the diversion of public property, and the plundering of the public treasury.²⁵¹

Increased focus on the seizure and confiscation of only a portion of assets linked to IFFs would have a significant impact on accelerating development within Georgia, assuming that recovered assets are liquidated and effectively distributed to high-priority development needs. The following presents the development challenges for key sectors, as well as the development opportunities in Georgia if the government were to prioritise the recovery of only 10% of assets lost through IFFs in the country.

Important Note: Georgian authorities, who have been highly useful in their feedback to this report, have indicated that using estimated amounts of IFFs is not an accurate-enough source for judging the effectiveness of the confiscation system of the country. This report merely highlights the value of using seizure and confiscation, both in penal and non-penal modalities, to inhibit Illicit Financial Flows. Any recommendations flowing from this study can of course be adopted or rejected by Georgian policymakers.

The Systematic Country Diagnostic (SCD) highlights that Georgia could double its per-capita GDP and eradicate extreme poverty by 2030 if it sustained its average growth rate (4.5%) from the past 10 years.²⁵²

In 2015, the UN adopted the SDGs to assist governments and civil society in achieving critical development objectives. The organic incorporation of SDGs into national policies is an important component of international and national development.

Key to these goals is the assurance of social inclusion and equality, and the full participation of all people in economic, social, and political life.²⁵³ Georgia's 2020 draft state budget outlines an increase in expenditures, with a total budget of GEL 14.2 billion.²⁵⁴ According to the draft budget, funding for the Ministry of Internally Displaced Persons, Health and Social Affairs will significantly increase.²⁵⁵

Georgia's development goals are set out in its platform "Georgia 2020", which emphasises freedom, rapid development, and prosperity through four policy goals—economic reform, education reform, spatial arrangement and infrastructure, and governance. Georgia also has highlighted its need to address climate change adaptation and mitigation.²⁵⁶

The World Bank's Country Partnership Framework (CPR) and Country Partnership Strategy (CPS) for 2019-2022 with Georgia aim to consolidate economic gains while focusing on prioritising inclusive growth, poverty reduction, and the expansion of human capital.²⁵⁷ The government aims to move towards an innovation-based economy, supported by a combination of technical, entrepreneurial, and managerial skills development.²⁵⁸

For the purposes of this study, the potential benefits of reinvesting recovered assets into development sectors are briefly examined through three key sectors:

- Economic Opportunity and Education
- Health Care
- Physical and Digital Infrastructure and Sustainability

Economic Opportunity and Education

The Georgian government highlights the creation of economic opportunities and the more efficient use of labour resources as key priorities for country growth.²⁵⁹ These priorities align with the public interest as unemployment was a top national concern for 45% of Georgians in 2020.²⁶⁰ In addition to high unemployment, there is large inequality in employment and economic opportunities.²⁶¹ A Country Social Analysis for Georgia from 2017 highlighted substantial barriers to employment and participation in the country's economic growth for marginalised groups.²⁶² There are also large employment disparities between urban and rural areas (lower income levels in rural areas) and between genders (lower income level for women).²⁶³

Georgia's human capital potential remains under-utilised, in part because of reliance on the agriculture and labour sectors for employment (agriculture accounts for nearly 50% of total employment).²⁶⁴ Labour income dominates in Tbilisi and agriculture income dominates in rural areas.²⁶⁵ University educated and skilled workers, predominantly young people, therefore face high levels of unemployment as a result of persistent mismatches in skill and the labour market; unemployment among young Georgians was 30% in 2017.²⁶⁶ The World Bank sees the modernisation of the agriculture industry as a key development opportunity, as it can increase employment and incomes in rural areas.²⁶⁷ Georgia also has a key goal of enabling people in both rural and urban areas to be better equipped for new work possibilities, which can help increase economic competitiveness in global markets and reduce poverty.²⁶⁸

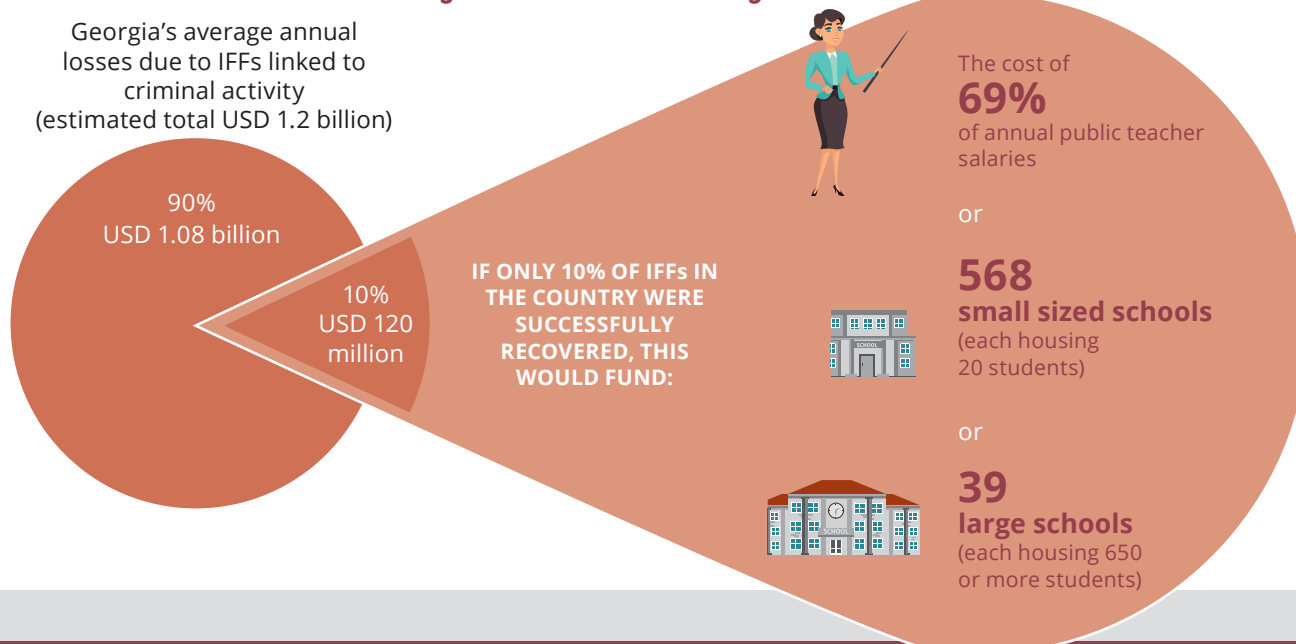
A key component of employment and economic opportunity is the education system. Georgia has made education reform a key policy priority in recent years.

The government's 2018-2023 Education Reform Agenda increased the budget for education and outlined key goals of modernising the education system and harmonising it with European standards.²⁶⁹ While Georgia has implemented key reforms such as new curriculums and teacher development, considerable areas for improvement remain.²⁷⁰ Georgia has received international support on its education reform, such as through the World Bank's Innovation, Inclusion, and Quality project. The 2019 project invested EUR 90 million into Georgia to support the development of human capital through greater access to preschool education, higher quality education, vocational training, and improved learning environments.²⁷¹ Furthermore, supporting education and employment growth is critically important in light of the economic impact of COVID-19.

Projected expenditures under the 2020 draft budget estimate GEL 1.14 billion (USD 344 million) allocated for education, an increase in GEL 155 million from 2019.²⁷² Funding for primary schools is estimated at GEL 780 million (USD 235 million) and funding for higher education is estimated at GEL 142 million for 2020.²⁷³

If Georgia were to prioritise the seizure and confiscation of only 10% of the estimated USD 1.2 billion in annual IFFs in the country, this would cover approximately half of the allocated 2020 budget for primary schools (USD 235 million). The 10% of the USD 1.2 billion (or USD 120 million) could also cover the cost to build throughout Georgia 568 small-sized schools (each housing 20 students), 99 mid-sized schools (each housing between 120 and 300 students), or 39 large schools (each housing 650 or more students).²⁷⁴ Alternatively, such recovered assets would be able to cover the annual costs of more than two-thirds (69%) of public teacher salaries, or cover the cost of textbooks for students (grades 1 through 12) for the next 14 years.²⁷⁵

How Recovered Assets Can Strengthen Education in Georgia



Health Care

Georgia inherited an extensive and highly centralised *Semashko* system from the USSR, which Georgia struggled to maintain following independence.²⁷⁶ The main regulatory actor of the health care system is the Ministry of Labour, Health and Social Affairs (MoLSHSA). However, there has been the decentralisation of regulatory power to subordinate agencies. Georgia has made considerable policy strides in improving the country's health care system in recent years, starting with the implementation of a universal health coverage program in 2013.²⁷⁷ The World Health Organization (WHO) assessed Georgia's overall system in 2018, outlining the impressive range of knowledge, skills and capacity to deliver primary health care services by health providers and actors.²⁷⁸

Despite this progress, the WHO also outlined inefficiencies, lack of accountability, and critical gaps in service delivery.²⁷⁹ Improving the health care system and the health of citizens remain key development priorities. Additionally, COVID-19 demonstrates that investment in the health care system is fundamentally important. In 2020, Georgians noted healthcare policy as a key election issue and priority.²⁸⁰ The primary health care infrastructure is underachieving, especially in rural areas.²⁸¹ The government has outlined placing more emphasis on the most vulnerable in public health care as a priority area.²⁸² The government also outlines strengthening family medicine and developing responsive, effective, and sustainable primary care as key priorities.²⁸³

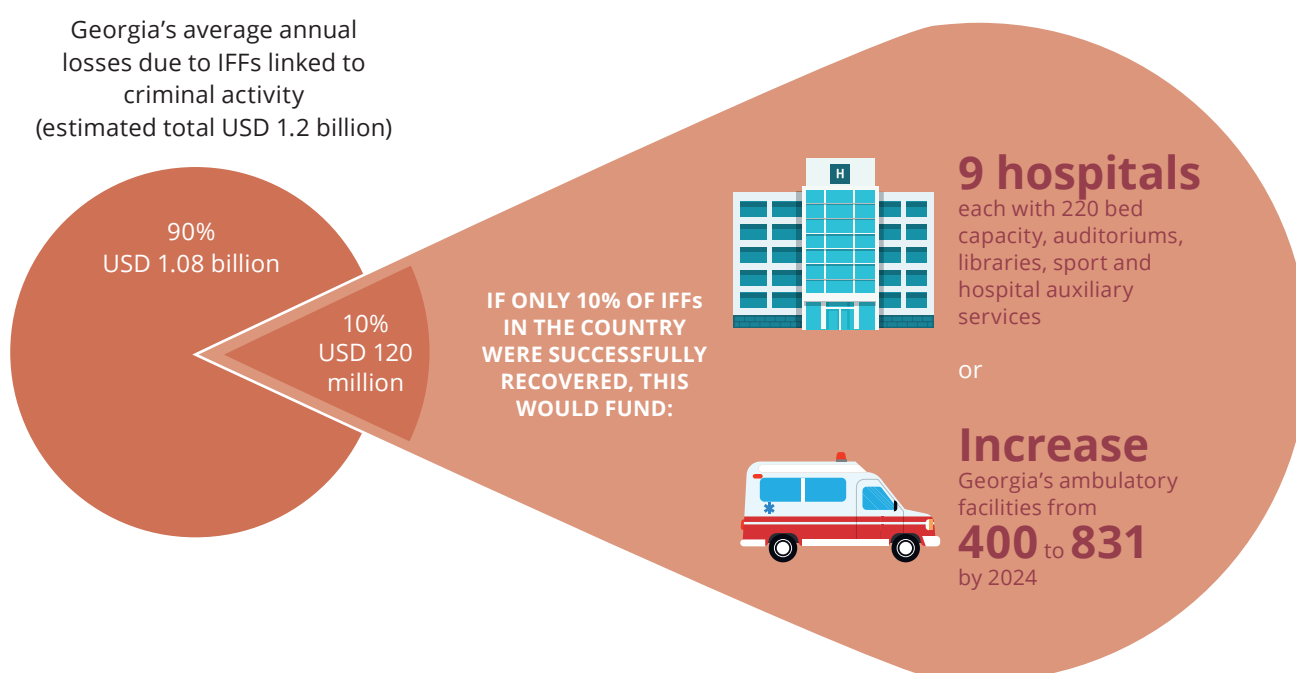
The country faces various pervasive health sector issues. An ageing population brings growing numbers of older

citizens living with chronic conditions.²⁸⁴ There is also a high prevalence of smoking and alcohol use and increases in obesity rates.²⁸⁵ Cardiovascular disease is the leading cause of death (69% in 2014), followed by cancers, chronic respiratory diseases, and diabetes.²⁸⁶

The 2020 draft budget allocated GEL 754 million (USD 227 million) for the Universal Healthcare Program, with an increase of GEL 36 million on designated priority areas.²⁸⁷ Ambulance and transportation have an estimated budget of GEL 82 million for 2020, a GEL 38 million increase from 2019. Transparency International Georgia, however, estimates that 2019 expenses show the program would need an additional GEL 40 million for 2020²⁸⁸ and this was prior to the start of COVID, which has led to unanticipated health expenditures for the country.

If Georgia were to prioritise the seizure and confiscation of only 10% of the estimated USD 1.2 billion in annual IFFs in the country, this would cover approximately half of the total 2020 budget for universal healthcare (USD 227 million). Alternatively, these recovered assets would cover the cost to build roughly nine large hospitals across the country, each with a 220-bed capacity, auditoriums and libraries for medical students and residents, sports facilities, parking lots, as well as the construction of hospital auxiliary facilities, such as laundries, dining complexes and modern fire safety systems.²⁸⁹ Similarly, the recovered assets could also significantly contribute to Georgia's effort to build ambulatory facilities, from 400 to 831 by the year 2024, across the country.²⁹⁰

How Recovered Assets Can Strengthen Health Care in Georgia



Physical and Digital Infrastructure and Sustainability

Georgia has invested considerably in recent years in strengthening its infrastructure. However, despite significant investment, considerable gaps and issues in transport and digital connectivity remain (both intra- and international connectivity, especially in rural areas).²⁹¹ Georgians highlight infrastructure issues, including roads and water supply, as key concerns.²⁹²

The World Bank's CPS for Georgia highlights the continuing need to address challenges to connectivity to alleviate existing infrastructure gaps.²⁹³ Road, port, and airport facilities are overburdened by increasing traffic. As the World Bank has noted, the impact of public investment in infrastructure will depend on the institutional capacity to develop and implement effective projects.²⁹⁴ Furthermore, the development and implementation of high-level projects have faced considerable problems, such as the cancellation of development contracts for the Black Sea Anaklia port project.²⁹⁵

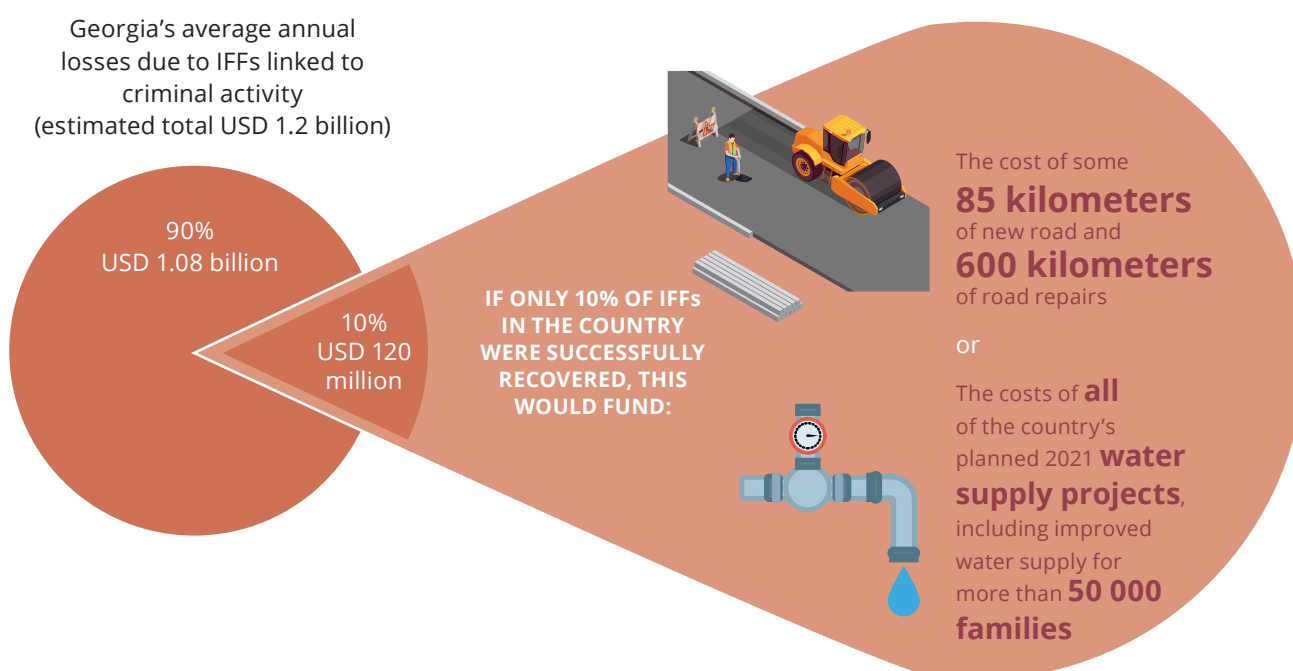
Sustainability and climate-smart development are key components of infrastructure development for Georgia. Georgia is highly vulnerable to climate change effects and natural disasters.²⁹⁶ Georgians remain concerned about environmental pollution, especially in Tbilisi.²⁹⁷ Climate

change can negatively impact the agriculture sector, which necessitates investment into climate-smart and targeted agricultural extension support.²⁹⁸

The World Bank supports the country's aspirations to serve as a regional hub for logistics, energy, trade, innovation, and tourism.²⁹⁹ The World Bank approved a 2020 project to additionally finance a regional and municipal infrastructure development project in Georgia.³⁰⁰ The project aims to improve the efficiency and reliability of municipality infrastructure systems. The 2020 draft budget increased the funding for the Ministry of Regional Development and Infrastructure of Georgia by GEL 72 million (USD 21 million). The main priorities for this increase include water supply and education infrastructure.³⁰¹ As of the drafting of this report, news reports had indicated that the 2021 budget would be GEL 2.37 billion; this had not yet been confirmed.³⁰²

Nevertheless, if Georgia were to prioritise the seizure and confiscation of only 10% of the estimated USD 1.2 billion in annual IFFs in the country, this would cover the cost of nearly half of the country's planned 2021 road infrastructure projects, which includes some 85 kilometres of new road and 600 kilometres of road repairs. Alternatively, such recovered assets would cover the cost of all of the country's planned 2021 water supply projects, including improved water supply for more than 50,000 families.

How Recovered Assets Can Strengthen Infrastructure in Georgia



5. Conclusions and Recommendations



This study has examined the severe negative impact of IFFs and related crimes on Georgia, and has highlighted some of the sectoral needs that can be significantly addressed if the government prioritises the capture of IFFs and illicitly-obtained assets. Effective asset recovery policy is fundamental to mitigating and preventing future costs of IFFs on the country. In light of the above, this study provides the following recommendations to national authorities and other key stakeholders to help strengthen the effective and transparent recovery of illicitly-obtained assets, to inhibit IFFs and therefore to facilitate more accelerated development within the country.

1. Implement Mechanisms to Improve Efficiency in Seizure of Assets

Identify and implement mechanisms that improve efficiency in the seizure, confiscation, and transparent liquidation of illicitly-obtained assets. Identify and implement mechanisms to ensure the distribution of funds in a highly transparent manner to high-priority development needs. These needs should be identified in close cooperation with civil society organisations and through regular feedback from citizens.

2. Build Capacity for Law Enforcement Agencies, Prosecutors, and Judges to Effectively Investigate and Recover Illicit Assets

Build capacity of law enforcement agencies, prosecutors, and judges in the field of financial investigations to enhance their ability to recover illicit proceeds, and to ensure that the seizure and confiscation of illicitly-obtained assets become the norm rather than the exception.

3. Publish Clear and Unambiguous Policy Statements on IFFs and Asset Recovery

Publish clear and unambiguous statements and policies with respect to combating IFFs, money laundering, and revenue linked to organised criminal activity. Additionally, reiterate the prioritisation of the seizure and confiscation of assets linked to organised criminal activity (as well as corruption).

4. Establish a National Asset Recovery Office (ARO) to Facilitate the Tracing and Recovery as well as Management of Illicitly-Obtained Assets

Establish a national ARO to facilitate the tracing, freezing, seizure, confiscation, and management of illicitly-obtained

assets. Georgia has not yet established a permanent ARO.³⁰³ Consideration should be given to ensuring that a dedicated ARO, already the standard within the EU, should have under one roof officials with access to key databases that will allow for the tracing of assets of individuals (and business entities) suspected of being involved in income-generating criminal activity; this would include access to databases of, for example, the tax authority, vehicle registry, real property registry, business registry, criminal records database and public official asset declaration database. This would allow the ARO (or similar mechanism) to provide police and prosecutors with a comprehensive picture of someone's assets, as well as the assets held in the name of family members or business associates since those who launder assets typically do not place the title to their illicitly-obtained assets in their own name.

5. Lengthen Statute of Limitation of Tax Auditing

The current statute of limitation for tax auditing in Georgia is three years. Consideration should be given to increasing the statute of limitation, as this would allow for more successful prosecution of individuals who have committed tax fraud and can help lead to the recovery of assets related to such fraud.

6. Strengthen the Utilisation of Suspicious Transaction Reports within Banking System

Consideration should be given to implementing new policies and mechanisms to increase the utility of suspicious transaction reports sent to the FMS from commercial banks. The NBS in recent years has begun implementing more stringent supervision regarding suspicious transaction reports. This focus on stronger regulation of commercial banks should be continued and invested in further.

7. Strengthen Regulation over Remittance Services by Non-Bank Financial Institutions

While money remittance providers in the country do utilise tools (Refinity, Accuity and others) to address compliance, remittance services by non-bank financial institutions are one of the major means of laundering illicitly-obtained assets from abroad, especially assets generated from cyber fraud crimes.³⁰⁴ Although the FMS regularly conducts reviews of typologies and trends in money remittances, consideration should be given to supporting the country's efforts to maximise compliance control systems of non-bank financial institutions to reduce any misuse of such institutions for money laundering and financial crimes.

8. Establish the Use of Extended Confiscation as a Norm Within the Criminal Justice System

Establish the use of extended confiscation as the norm, not the exception, within the criminal and civil justice systems for cases where a serious crime has been committed. The streamlining of extended confiscation can generate more seizures of illicitly-obtained assets, increasing the total monetary value of recovered assets. Extended confiscation should allow a court that has convicted an individual for specific serious crimes to enter an order indicating that there would be a legal presumption, which the individual must rebut with evidence, that all income of that individual over a specific period (e.g., the previous five to ten years) is presumed to be illicitly obtained.

9. Establish the Use of Special Confiscation as a Norm Within the Criminal and Civil Justice Systems

Establish the use of special confiscation as the norm, not the exception, within the criminal and civil justice systems for cases where a serious crime has been committed. The streamlining of special confiscation can generate more seizures of illicitly-obtained assets, increasing the total monetary value of recovered assets.

10. Establish the Use of Confiscation of Equivalent Value as a Norm Within the Criminal Justice System

Establish the use of confiscation of equivalent value as the norm, not the exception, within the criminal justice system, particularly where the illicitly-obtained assets of a defendant cannot reasonably be located by the State or have been depleted by the defendant. This is consistent with the principle that crime should not pay and can act as a dissuasive mechanism against criminal activity.

11. Increase the Use of Plea Bargaining and the Settlement of Criminal Cases

Adopt where possible more agile mechanisms for the settlement of criminal cases, making the settlement contingent on the defendant returning assets reasonably believed by the State to be the product of serious crime in return for a proportionately lighter sentence and/or the provision of information regarding others involved in organised criminal activity or corruption. This is an important policy area as there are often heavy caseloads for prosecutors and the judiciary, slowing the asset recovery process down substantially. Consideration should

be given to not allow such a mechanism for principals in organised criminal syndicates or high-level officials involved in corruption.

12. Establish the Use of Civil Confiscation of Illicitly-Obtained Assets as a Common Practice within the Justice System

Strengthen non-penal civil confiscation mechanisms for the seizure and confiscation of assets. Criminal proceedings often take years to adjudicate, delaying the issue of final orders for the confiscation of assets linked to organised crime and corruption. While maintaining due process, the implementation of these mechanisms can help reduce the time to confiscate assets from a period of several years to a period of several months. A speedier process can help bolster public confidence in the judicial system and can help facilitate the funding of high-priority development needs, as well as funding for law enforcement.

13. Implement Policy to Enhance Cross-Border Law Enforcement and Judicial Coordination of Asset Recovery

Enhance cross-border law enforcement and judicial cooperation regarding the tracing, freezing and confiscation of illicitly-obtained assets. Enhanced and regular face-to-face dialogue with police and prosecutorial focal points in other key countries often produces more efficient and effective results in the tracing, freezing, seizure, confiscation, and recovery of assets linked to organised crime and corruption. Active participation in networks such as the CARIN has been shown to accelerate and resolve cross-border cases involving assets linked to organised crime and other corruption.

14. Harmonise Transnational Financial Intelligence Sharing

Invest in the harmonisation of intelligence with neighbouring countries and the EU as this can strengthen the efficiency and speed of transnational IFFs investigations. One potential action area for Georgia would be to examine its current criteria for the data collection on organised crime and IFFs and further align all criteria with EU standards.

15. Implement Policy to Identify and Mitigate Virtual Asset Risks

Although virtual currencies are not currently regulated, joint efforts of the FMS, National Bank of Georgia and

financial institutions have led to increased awareness of the problem. Banks now apply more restrictive risk-based approaches to those involved in cryptocurrency mining or trading. Nevertheless, with Georgia's increasing investment in its technology sector comes potential risk areas regarding virtual currency; consideration should be given to regularly reviewing virtual currency policies to identify and mitigate risks deriving from virtual assets and related technology. Consideration should be given to identifying a central regulatory authority for virtual currency.

Georgia may wish to consider bolstering international cooperation between law enforcement and the financial intelligence community to adopt and deploy regulation and oversight of virtual currencies. This can help prevent organised criminal networks and terrorist organisations from using virtual currency to finance their activities, and can also lead to the recovery of illicitly-obtained assets and the prosecution of illicit activities.

16. Increase Investment in Emerging Technologies Used to Combat IFFs

Invest more heavily in identifying and utilising emerging technologies that help identify and recover illicitly-obtained assets. A primary reason why illicit assets are increasingly difficult to trace, seize, and recover is due to the adaptable and complex nature of the technologies used in the laundering of illicit assets. Consequently, governments must take equal advantage of technology as a key tool in combating money laundering and recovering assets.

Investing proactively, and not reactively, in new technology can help mitigate and recover IFFs. It should be noted that Georgia has already used IT and electronic measures to effectively reduce corruption within its tax system.³⁰⁵

17. Increase the Use of Partnerships with Civil Society and Non-Traditional Partners

Prioritise the increased utilisation of partnerships with civil society organisations, NGOs, and non-traditional partners on asset recovery and crime prevention. Obtain regular feedback from civil society and citizens and increase dialogue among all sectors of society. Forming new partnerships with civil society organisations and other similar organisations can provide new and innovative approaches to the asset recovery process and can tap into platforms and systems for the monitoring and investigation of IFFs. Additionally, these organisations are often cognisant of operational weaknesses of government programming on crime prevention, corruption and asset recovery. These organisations can also provide important insight into country development needs, especially in disenfranchised communities, and provide a direct line of communication with citizens, something which would be of significant value to the government.

One example of such a partnership is Georgia's Coordination Council on combating human trafficking. This council is chaired by the Minister of Justice of Georgia and is composed of representatives of the relevant public bodies and representatives of local non-governmental and international organisations.³⁰⁶

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The United Nations Interregional Crime and Justice Research Institute (UNICRI) was established in 1968 pursuant to Economic and Social Council Resolution 1086 B (XXXIX) of 1965, which urged an expansion of the United Nations activities in crime prevention and criminal justice. The Institute is an autonomous institution and is governed by its Board of Trustees.

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