

# **Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT)**

## **Policy and Procedures**

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# 1. Purpose

The purpose of this Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Policy and Procedures (“Policy”) is to establish a clear framework for preventing, detecting, and responding to risks associated with money laundering, terrorist financing, fraud, corruption, and other illicit financial activities within the operations and activities of the Regional Environmental Centre for the Caucasus (REC Caucasus).

This Policy aims to:

- Ensure that REC Caucasus conducts its operations with integrity, transparency, and accountability;
- Prevent the misuse of REC Caucasus funds, assets, projects, and partnerships for illegal or unethical purposes;
- Establish risk-based due diligence and screening procedures for partners, vendors, consultants, grantees, contractors, and beneficiaries;
- Ensure compliance with applicable national legislation, donor requirements, sanctions regimes, and international best practices;
- Protect REC Caucasus’ reputation, financial resources, and operational integrity.

# 2. Scope

This Policy applies to:

- All REC Caucasus employees;
- Management and governing bodies;
- Consultants and individual contractors;
- Suppliers, vendors, and service providers;
- Implementing partners and sub-grantees;
- Beneficiaries receiving financial support;
- Any individual or entity acting on behalf of REC Caucasus.

The Policy applies to all activities funded directly or indirectly by REC Caucasus, including grants, procurement, consultancy agreements, project implementation, partnership arrangements, and financial transactions.

# 3. Definitions

## Money Laundering

Money laundering refers to the process of concealing or disguising the origin of illegally obtained funds to make them appear legitimate.

Money laundering commonly involves three stages:

1. Placement - introducing illicit funds into the financial system;
2. Layering - concealing the source through complex transactions;
3. Integration - reintroducing funds into the legitimate economy.

## **Terrorist Financing**

Terrorist financing refers to the provision, collection, movement, or use of funds or assets intended to support terrorist acts, organizations, or individuals.

## **Beneficial Owner**

A beneficial owner is the natural person who ultimately owns, controls, or benefits from an organization, entity, or transaction.

## **Politically Exposed Person (PEP)**

A politically exposed person is an individual entrusted with a prominent public function, as well as their close associates or family members, who may present a higher corruption or financial crime risk.

## **Sanctions Lists**

Sanctions lists include national and international lists of restricted or prohibited individuals, organizations, and entities maintained by relevant authorities or international bodies.

# **4. Guiding Principles**

REC Caucasus applies a zero-tolerance approach toward money laundering, terrorist financing, fraud, corruption, and diversion of funds. The organization follows a risk-based approach to compliance, ensuring that controls and due diligence measures are proportionate to the level of risk involved. All financial and operational activities must be conducted with transparency, accountability, and proper documentation. REC Caucasus also commits to cooperating with competent authorities and donors where required and to protecting individuals who report concerns in good faith.

# **5. Governance and Responsibilities**

REC Caucasus maintains an organizational structure that supports accountability, transparency, oversight, and compliance with AML/CFT requirements across all operational and project activities.

The Executive Director has overall responsibility for ensuring implementation and oversight of this Policy across the organization. The Executive Director ensures that appropriate institutional controls, reporting mechanisms, and compliance measures are in place and functioning effectively.

The Fin-Admin Head is responsible for overseeing financial management and administrative control systems relevant to AML/CFT compliance. This includes supervision of financial transactions, financial documentation, payment verification processes, and coordination of financial control measures. The Fin-Admin Head also supports the identification and escalation of irregular or suspicious financial activities.

The Financial Officer and Procurement and Accounting Specialist are responsible for applying financial and procurement controls during day-to-day operations. Their responsibilities include reviewing supporting documentation, verifying payment information,

ensuring compliance with procurement procedures, maintaining financial records, and flagging unusual or inconsistent transactions.

The Internal Auditor provides independent oversight and may periodically review compliance with this Policy, internal control systems, procurement practices, and financial procedures. The Internal Auditor may also review reported concerns, identify control weaknesses, and recommend corrective measures.

Programme Managers, Project Coordinators, Project Associates, and other project personnel are responsible for monitoring project implementation and ensuring that project funds, grants, and operational resources are used only for approved and legitimate purposes. They are also responsible for applying due diligence procedures to partners, consultants, vendors, beneficiaries, and other third parties engaged under projects.

The Development Head, Partnerships Advisor, and Communications and Stakeholder Engagement Officer support organizational transparency, partnership integrity, and compliance with donor and stakeholder requirements. Where relevant, they may contribute to due diligence processes, reputational risk assessments, and partner screening.

The HR Officer supports staff awareness and organizational compliance by facilitating dissemination of this Policy and supporting AML/CFT-related training and awareness activities.

All employees, consultants, contractors, and other individuals acting on behalf of REC Caucasus are responsible for complying with this Policy, maintaining accurate records, exercising due diligence within their areas of responsibility, and reporting any suspicious activities, irregularities, or concerns.

## **6. Risk-Based Approach**

REC Caucasus shall apply a risk-based approach to identify, assess, and mitigate AML/CFT risks.

Risk assessments may consider:

- Geographic risk;
- Sectoral and project-specific risk;
- Funding source risk;
- Partner and beneficiary risk;
- Transaction and payment risk;
- Procurement and contracting risk;
- Cash handling exposure;
- Reputational and political exposure.

Higher-risk transactions, entities, or activities shall be subject to enhanced due diligence and increased monitoring.

## **7. Due Diligence and Screening Procedures**

### **General Due Diligence**

REC Caucasus shall conduct appropriate due diligence before entering into financial or contractual relationships.

Due diligence measures may include:

- Verification of legal registration and identity;
- Verification of tax identification and banking information;
- Review of organizational ownership and governance structure;
- Verification of physical address and contact details;
- Review of references, experience, and reputation;
- Review of financial capacity and operational history;
- Review of litigation, sanctions, or adverse media.

### **Sanctions and Watchlist Screening**

REC Caucasus shall screen relevant individuals and entities against applicable sanctions and restricted-party lists, where feasible and appropriate.

Screening may include:

- United Nations sanctions lists;
- European Union sanctions lists;
- National restricted-party lists;
- Donor-specific exclusion lists;
- Other applicable international watchlists.

Entities or individuals appearing on sanctions or exclusion lists shall not receive funding, contracts, or payments.

### **Politically Exposed Persons (PEPs)**

Where a partner, contractor, consultant, or beneficiary is identified as a PEP or linked to a PEP, REC Caucasus shall:

- Conduct enhanced due diligence;
- Assess conflict of interest and reputational risks;
- Obtain additional approvals where necessary;
- Increase monitoring of related transactions.

### **Beneficial Ownership Verification**

Where applicable and proportionate, REC Caucasus may request disclosure of beneficial ownership information to identify the natural persons ultimately controlling or benefiting from an entity.

### **Enhanced Due Diligence**

Enhanced due diligence shall be applied in higher-risk situations, including but not limited to:

- High-value transactions;
- Operations in high-risk jurisdictions;

- Cash-intensive activities;
- New or unknown partners;
- Complex ownership structures;
- Unusual payment arrangements;
- PEP involvement.

Enhanced due diligence measures may include:

- Additional documentation requests;
- Independent verification of information;
- Senior management review and approval;
- Increased transaction monitoring;
- Additional reporting obligations.

## **8. Financial Controls**

REC Caucasus maintains financial management and internal control systems designed to prevent misuse of funds and ensure accountability. Financial controls include segregation of duties, multi-level approval procedures, approved budgets and spending limits, and the requirement for supporting documentation for all expenditures. Transactions should be conducted through official banking channels, while the use of cash payments should be minimized and subject to appropriate authorization.

The organization also applies procurement controls and competitive procedures, conducts periodic bank reconciliations, and maintains regular financial reporting and audit practices. Internal and external audits may be carried out to assess compliance with financial and AML/CFT requirements.

Payments shall only be made:

- For legitimate project or operational purposes;
- Against valid contracts, invoices, or supporting documents;
- To verified bank accounts held in the name of the contracting party unless exceptional circumstances are documented and approved.

## **9. Monitoring and Red Flags**

REC Caucasus personnel are expected to remain alert to indicators of suspicious or potentially illicit activity during project implementation, procurement, financial management, and partner engagement.

The Financial Officer and Procurement and Accounting Specialist are responsible for reviewing financial transactions, payment requests, procurement documentation, invoices, and supporting records for inconsistencies or unusual activity. They are expected to flag concerns related to unusual payment arrangements, incomplete documentation, inflated pricing, duplicate invoicing, or unexplained banking changes.

Programme Managers, Project Coordinators, Project Associates, and other project personnel are responsible for monitoring activities implemented under projects and grants. They should identify operational irregularities, inconsistencies between approved activities

and expenditures, lack of supporting evidence, or unusual behavior by contractors, consultants, vendors, beneficiaries, or implementing partners.

The Fin-Admin Head oversees the implementation of financial control measures and supports assessment of higher-risk transactions or activities. The Internal Auditor may periodically review transactions, procurement practices, financial controls, and operational procedures to identify weaknesses, irregularities, or potential compliance risks.

Potential red flags may include unusual cash transactions, incomplete or inconsistent documentation, requests for payments to unrelated third parties, refusal to provide ownership information, or transactions that do not align with the profile or activities of the entity involved. Other warning signs may include inflated pricing, duplicate invoicing, unusual urgency surrounding payments, unexplained changes in banking details, or links to sanctioned or high-risk entities.

Where concerns arise, staff shall report them through the reporting mechanisms outlined in this Policy.

## **10. Reporting Suspicious Activities**

All REC Caucasus personnel are required to promptly report suspected money laundering, terrorist financing, fraud, corruption, misuse of funds, conflicts of interest, or other suspicious activities identified during organizational operations or project implementation.

Programme Managers and Project Coordinators are responsible for ensuring that concerns identified during project implementation are documented and escalated appropriately. Financial and procurement-related concerns shall normally be reported to the Fin-Admin Head, Financial Officer, Procurement and Accounting Specialist, or Internal Auditor depending on the nature and severity of the issue.

The Internal Auditor may receive reports related to financial irregularities, procurement concerns, internal control weaknesses, or potential misconduct requiring independent review. Significant concerns involving organizational or reputational risk may be escalated to the Executive Director for further action and oversight.

Reports should contain sufficient detail to allow appropriate review, including relevant dates, individuals or entities involved, description of the concern, and supporting documentation where available.

All reports shall be handled confidentially to the extent possible. REC Caucasus shall make reasonable efforts to protect individuals who report concerns in good faith from retaliation or adverse treatment.

## **11. Investigation and Response Measures**

Where suspicious activities, irregularities, or compliance concerns are identified, REC Caucasus shall take appropriate and proportionate measures to assess and address the matter.

The Executive Director shall oversee significant investigations and ensure that appropriate corrective and risk mitigation measures are implemented. Depending on the nature of the

issue, the Executive Director may assign responsibilities to the Fin-Admin Head, Internal Auditor, Programme Managers, or other designated personnel.

The Fin-Admin Head is responsible for coordinating reviews related to financial management, payment processes, accounting records, and administrative controls. The Financial Officer and Procurement and Accounting Specialist may support investigations through verification of transactions, contracts, invoices, procurement files, and financial documentation.

The Internal Auditor may conduct independent reviews or assessments related to suspected irregularities, procurement concerns, misuse of funds, or weaknesses in internal control systems. Programme Managers and Project Coordinators may support investigations related to project implementation activities, beneficiary verification, field-level monitoring, and partner compliance.

REC Caucasus may undertake measures including requests for additional documentation or clarification, internal reviews of transactions and procurement processes, verification of supporting records, temporary suspension of payments or activities, enhanced monitoring, or targeted audits.

Where necessary, REC Caucasus may suspend or terminate agreements, recover misused funds, apply disciplinary measures in accordance with organizational procedures, or refer matters to competent national authorities or relevant donors.

All reviews, findings, and corrective actions shall be appropriately documented and retained in accordance with organizational record-keeping requirements.

## **12. Record Keeping**

REC Caucasus shall maintain records related to:

- Due diligence and screening;
- Procurement and contracting;
- Financial transactions;
- Approvals and authorizations;
- Monitoring activities;
- Reports and investigations.

Records shall be retained in accordance with applicable legal, contractual, donor, and organizational requirements.

## **13. Training and Awareness**

REC Caucasus shall promote awareness of AML/CFT obligations and risks.

Training activities may include:

- Employee induction training;
- Periodic refresher sessions;
- Specialized training for finance, procurement, and project staff;
- Awareness materials and guidance notes.

Training records shall be maintained where appropriate.

## **14. Confidentiality and Whistleblower Protection**

REC Caucusus shall make reasonable efforts to:

- Protect the confidentiality of reports and investigations;
- Prevent retaliation against individuals reporting concerns in good faith;
- Ensure fair and objective handling of allegations.

Knowingly false or malicious reports may be subject to disciplinary action.

## **15. Third-Party Compliance Expectations**

REC Caucusus may require partners, contractors, consultants, and grantees to:

- Comply with applicable AML/CFT obligations;
- Cooperate with due diligence and audit requirements;
- Maintain accurate records;
- Report suspected misuse of funds or prohibited activities;
- Permit monitoring and verification activities where contractually applicable.

Relevant clauses may be incorporated into contracts, grant agreements, and partnership arrangements.

## **16. Internal Review and Audit**

Compliance with this Policy may be reviewed through:

- Internal control assessments;
- Periodic management reviews;
- Internal audits;
- External audits;
- Donor verification and compliance reviews.

Corrective actions shall be implemented where deficiencies are identified.

## **17. Non-Compliance**

Failure to comply with this Policy may result in:

- Disciplinary action;
- Termination of employment or contracts;
- Suspension of partnerships or funding;
- Financial recovery measures;
- Referral to competent authorities.

## **18. Policy Review and Updates**

This Policy shall be reviewed periodically and updated as necessary to reflect:

- Changes in legal or donor requirements;
- Organizational developments;
- Emerging AML/CFT risks;
- Lessons learned from implementation.

## **19. Related Policies and Procedures**

This Policy should be read together with other relevant REC Caucasus policies and procedures, including:

- Financial Manual;
- Administrative Manual and its Procurement Procedures;
- Prohibited Practices Policy;
- Transparency Policy;
- Code of Conduct;
- Internal Audit Procedures and Guidelines
- Risk Management and Internal Control Policy.

## **20. Approval and Entry into Force**

This Policy enters into force upon approval by REC Caucasus management and applies to all relevant operations and activities thereafter.

The Policy along with its annexes is approved and signed by REC Caucasus Executive Director



Sophiko Akhonadze

Executive Director

# Annex 1 - Example AML/CFT Due Diligence Checklist

The following information may be requested from partners, vendors, contractors, consultants, or grantees, depending on the level of risk:

1. Legal registration certificate;
2. Tax identification number;
3. Articles of incorporation or statutes;
4. Ownership and governance information;
5. Identification of key management personnel;
6. Bank account confirmation;
7. Copies of identification documents for authorized signatories;
8. References or prior project experience;
9. Financial statements or audit reports;
10. Declaration regarding sanctions and prohibited activities;
11. Conflict of interest declaration.

## **Annex 2 - Examples of AML/CFT Red Flags**

Financial, procurement, and implementation irregularities may indicate elevated AML/CFT risks. Examples include repeated cash payment requests, payments to unrelated or offshore accounts, inconsistent invoices, artificially split transactions, unusually high pricing, repeated awards to the same supplier without justification, lack of verifiable supplier information, reluctance to disclose ownership details, or pressure to accelerate payments without proper documentation.

Operational concerns may also arise where project activities significantly deviate from approved plans, expenditure documentation is weak, or partners fail to cooperate with monitoring and verification processes.

# Annex 3 - Documents Required for Participation in a Bid

## Annex 1.

**Updated** Business Registration Extract on entity (or entities if consortium) from the Registry of Entrepreneurs and Non-entrepreneurial (Non-commercial) Legal Entities issued by the National Agency of Public Registry (NAPR)  
[www.napr.gov.ge](http://www.napr.gov.ge)

## Annex 2.

The details of the bank account issued by a bidder's service bank operating in Georgia into which payments should be made [Bank Details of Account in National Currency]

## Annex 3.

Same or similar contracts successfully completed in the past x years and evidences of successful completion.

## Annex 4.

Official documents, notices, certificates, and/or contracts, etc. that prove x years of working experience and at least x years of working experience in the sphere on enterprise-level projects.

# Annex 4 - Declaration by the Bidder for the Participation in a Bid (Conflict of Interest, Fraud)

Date: dd/mm/yyyy

Dear Madam/Sir,

This cover letter and its attachments constitute the Technical Part and Financial Part of the application by me, which I am submitting in response to the tender with Reference Number *[reference number]* for procurement of the service contract *[name]* within the framework of the above-mentioned Project. This letter also serves as our company's Application Submission Form and I hereby make the following declarations:

- ..... is available and willing to work during the period required by the assignment which is the subject of the Terms of Reference;
- I declare that ..... is not in a situation of conflict of interest or unavailability;
- I will inform the REC Caucasus immediately if there is any change in the above circumstances at any stage during the selection procedure or during the implementation of the tasks;
- I fully recognize and acknowledge that, should I have made false declarations, committed substantial errors, irregularities or fraud, I shall be subject to exclusion from selection procedure and contract;
- I am aware that, for the purposes of safeguarding the financial interests of the REC Caucasus, ..... and my personal data may be transferred to REC Caucasus internal and/or external audit services.

Sincerely,

Name

Signature

# Annex 5 - Forms for References or Prior Project Experience

## Professional Experience of Service Provider

List of same or similar contracts successfully completed in the past x years and evidences of successful completion.

Description of the Contract	Date (year)	Place of completion	Total Cost In [currency]	Evidences of successful completion (e.g., Acts of Acceptance-Receipts and/or the Contracts). Documents shall be submitted as Annex 3

## Specific Professional Experience Service Provider

Name official documents, notices, certificates, contracts, etc. that prove that you have:

- x years of working experience;
- At least x years of working experience in the sphere on enterprise-level projects.

Description of the Document	Date (year)	Place	Evidence (e.g., official documents, notices, certificates, contracts). Documents shall be submitted as Annex 4

.....

Position  
Company Name

Date : .....

### Portfolio

*Please provide the portfolio of your previous work below*


# Annex 6 - Statement from the Bidder on the Adequacy of Pricing

In the event of a difference of 20% or more between the final price of the bid set by the bidder and the estimated cost of the purchase, the bidder is obliged to ensure at its own expense the adequacy of pricing, in particular, the possibility of performing the works provided for in the bid at the proposed price.

Adequacy of pricing should be confirmed on the basis of the conclusion issued by the "Levan Samkharauli National Bureau of Forensic Expertise" or another accredited person in the relevant field.

Sincerely,

Name

Signature

Place and date: .....

Stamp of the firm/company/organization